

CKX Lands Inc
Form 10QSB
August 08, 2005
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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 June 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)

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Louisiana
(State or other jurisdiction of
incorporation or organization)

72-0144530
(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

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 June 30, 2005

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Part I. Financial Information

Item 1. Financial Statements

CKX Lands, Inc.

Balance Sheet

Assets

| | June 30, 2005 |
|--------------------------------------------------------------------|--------------------------|
| | <u> </u> |
| Current Assets | |
| Cash and cash equivalents | \$ 838,932 |
| Accounts receivables | 328,764 |
| Prepaid expense | 62,952 |
| Interest receivable | 11,303 |
| | <u> </u> |
| Total Current Assets | 1,241,951 |
| | <u> </u> |
| Securities Available for Sale | 2,810,502 |
| | <u> </u> |
| Property and Equipment (less accumulated depreciation of \$67,931) | 9,390 |
| Timber (less accumulated depletion of \$384,696) | 474,781 |
| Land | 3,891,376 |
| | <u> </u> |
| | 4,375,547 |
| | <u> </u> |
| | \$ 8,428,000 |
| | <u> </u> |

See accompanying notes

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CKX Lands, Inc.

Balance Sheet

Liabilities & Stockholders Equity

| | June 30, |
|----------------------------------------------------------------------------------|---------------------|
| | 2005 |
| | <u> </u> |
| Current Liabilities | |
| Trade payables and accrued expenses | \$ 34,102 |
| Dividend payable | 135,975 |
| Income taxes payable: | |
| Current | 13,759 |
| Deferred | 61,896 |
| | <u> </u> |
| Total Current Liabilities | 245,732 |
| | <u> </u> |
| Stockholders Equity | |
| Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued | \$ 72,256 |
| Retained earnings | 8,442,605 |
| Accumulated other comprehensive income | 42,923 |
| | <u> </u> |
| | 8,557,784 |
| Less cost of treasury stock (157,505 shares) | 375,516 |
| | <u> </u> |
| | 8,182,268 |
| | <u> </u> |
| | \$ 8,428,000 |
| | <u> </u> |

See accompanying notes

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

| | <u>Quarter Ended</u> <u>June 30, 2005</u> | <u>Quarter Ended</u> <u>June 30, 2004</u> | <u>Six Months Ended</u> <u>June 30, 2005</u> | <u>Six Months Ended</u> <u>June 30, 2004</u> |
|--------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Revenues: | | | | |
| Oil and gas | \$ 566,943 | \$ 540,348 | \$ 1,115,538 | \$ 994,424 |
| Agriculture | 27,289 | 24,994 | 85,785 | 98,655 |
| Timber | 43,736 | 49,743 | 46,728 | 49,743 |
| | <u>637,968</u> | <u>615,085</u> | <u>1,248,051</u> | <u>1,142,822</u> |
| Costs and expenses: | | | | |
| Oil and gas production | 23,103 | 32,562 | 66,585 | 67,421 |
| Agriculture | 827 | 1,016 | 1,244 | 2,548 |
| Timber | 4,822 | 6,914 | 15,110 | 8,613 |
| General and administrative | 103,205 | 76,641 | 207,929 | 182,551 |
| Depreciation and depletion | 5,226 | 3,755 | 6,785 | 5,596 |
| | <u>137,183</u> | <u>120,888</u> | <u>297,653</u> | <u>266,729</u> |
| Income from operations | <u>500,785</u> | <u>494,197</u> | <u>950,398</u> | <u>876,093</u> |
| Other income(expense): | | | | |
| Gain-Sale of land | | | | 1,426 |
| Interest income | 16,172 | 19,944 | 29,121 | 24,009 |
| Dividends on stock | 6,472 | 5,371 | 12,871 | 13,319 |
| Gain-Sale of Securities | | 86,458 | | 86,458 |
| | <u>22,644</u> | <u>111,773</u> | <u>41,922</u> | <u>125,212</u> |
| Income before income taxes | <u>523,429</u> | <u>605,970</u> | <u>992,390</u> | <u>1,001,305</u> |
| Federal and state income taxes: | | | | |
| Current | 161,669 | 193,877 | 303,862 | 314,167 |
| Deferred | | | | |
| | <u>161,669</u> | <u>193,877</u> | <u>303,862</u> | <u>314,167</u> |
| Net Income | <u>\$ 361,760</u> | <u>\$ 412,093</u> | <u>\$ 688,528</u> | <u>\$ 687,138</u> |
| Per common stock (2004; 1,942,495 shares; 2003; 1,952,294 shares) | | | | |
| | \$.19 | \$.21 | \$.35 | \$.35 |
| Dividends per share | \$.07 | \$.07 | \$.24 | \$.14 |

See accompanying notes

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

| | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|-------------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Cash Flows From Operating Activities | | |
| Net Income | \$ 688,528 | \$ 687,138 |
| Noncash (income) expenses included in net income: | | |
| Depreciation and depletion | 6,785 | 5,596 |
| (Gain) on sale of assets | | (87,884) |
| (Increase) decrease in current assets | (52,318) | (96,718) |
| Increase (decrease) in current liabilities | 35,489 | (135,158) |
| Net cash provided by operating activities | 678,484 | 372,974 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of land | | 5,454 |
| Purchase of available for sale securities | (580,697) | (1,060,770) |
| Sale of available for sale securities | | 1,840,342 |
| Purchase of property, equipment and timber | (6,834) | (9,719) |
| Net cash provided by (used in) investing activities | (587,531) | 775,307 |
| Cash Flows From Financing Activities | | |
| Dividends paid net of refunds | (466,426) | (259,835) |
| Net cash (used in) investing activities | (466,426) | (259,835) |
| Net increase (decrease) in cash and cash equivalents | (375,473) | 888,446 |
| Cash and cash equivalents: | | |
| Beginning | 1,214,405 | 527,219 |
| Ending | \$ 838,932 | \$ 1,415,665 |

See accompanying notes

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CKX Lands, Inc.

Statement of Changes in Stockholders' Equity

Six Months Ended June 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 | \$ 688,528 | 688,528 | | | |
| Other comprehensive income: | | | | | |
| Unrealized holdings loss occurring during period net of taxes of \$5,024 | (7,858) | | (7,858) | | |
| Total comprehensive income | <u>\$ 680,670</u> | | | | |
| Dividends | | (466,425) | | | |
| Balance, June 30, 2005 | | <u>\$ 8,442,605</u> | <u>\$ 42,923</u> | <u>\$ 72,256</u> | <u>\$ 375,516</u> |

See accompanying notes

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CKX Lands, Inc.

Notes to Financial Statements

June 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:

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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.

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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 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.

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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.

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

Results of Operations

Revenue

Revenue for the first six months of 2005 was \$1,248,051 an increase of \$105,229 or 9.2% over the first six months of 2004. Income for the quarter ended June 30, 2005 was \$637, 968 or 3.7% over the corresponding quarter in 2004. Revenues from agriculture and timber for the first six months of 2005 were down slightly from the first six months of 2004. Oil and gas income was up in 2005 over 2004 for both the first six months and the second quarter periods although the increase for the second quarter moderated somewhat

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Income from seismic permits and mineral leases during the first six months of 2005 were \$76,536 compared to \$21,956 for the same period in 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.

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| | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|--------------------------|-------------------------------------------|-------------------------------------------|
| Oil income | \$ 371,923 | \$ 443,695 |
| Barrels produced | 7,760.57 | 12,899.62 |
| Average price per barrel | \$ 47.92 | \$ 34.42 |
| Gas income | \$ 475,869 | \$ 298,315 |
| MCF produced | 62,494 | 45,653 |
| Average price per mcf | \$ 7.61 | \$ 6.53 |

Our barrels of oil produced declined by 3,850 barrels from the South Gordon Field and 1,647 barrels from the Vinton Field for the first six months of 2005 compared to the same period in 2004.

Our gas production increased by 23, 189 mcf from the Castor Creek Field and there were decreases from each of the other fields between 2005 and 2004. All wells in the Castor Creek Field were not on line for all of 2004.

Income from our remaining production decreased \$39,252 between 2004 and 2005 due to depletion.

Operating Expenses

The oil and gas production expense decrease was due entirely to severance taxes. General and administrative expenses increased by \$25,378 from 2004 to 2005. Property taxes accounted for \$24,859. Property taxes are billed in December of each year and prior to 2005 were expensed in December. Beginning in 2005 we started accruing the estimated property taxes.

Income

Net income after taxes for the quarter ended June 30, 2005 was \$50,333 or 12.2% less than the second quarter of 2004, even though income from operations was \$6,588 higher in 2005 than 2004. In the second quarter of 2004 the Company had \$86,458 gain from sale of securities. Net income after tax for the first six months of 2005 was \$1,390 higher in 2005 than in 2004, while income from operations was \$74,305 or 8.5% higher in 2005 than in 2004.

Financial Condition

Current assets plus securities available for sale totaled \$4,052,453 on June 30, 2005, compared with \$3,807,789 on December 31, 2004, and \$2,976,799 on June 30, 2004. Current liabilities, which were also total liabilities were \$245,732 on June 30, 2005, compared to \$215,267 on December 31, 2004, and \$66,837 on June 30, 2004.

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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.

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The Company declared the normal seven cents per common share during the quarter ended June 30, 2005. 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.

CKX Lands, Inc. along with other owners proposed to donate land to the Calcasieu Parish School Board for construction of new magnet schools. The construction of the schools was dependent on vote approval of a tax assessment. Voters rejected the proposal in July and it appears the schools and our donation are a dead issue.

CKX Lands, Inc. has small royalty interests in three proposed exploratory oil and gas wells as well as one exploratory well currently being drilled. The Company also has a small interest in a developmental well currently being drilled.

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 June 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.

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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

None

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: August 4, 2005

CKX Lands, Inc.

/s/ William D. Blake

William D. Blake
Vice-President and Treasurer
Chief Financial Officer

/s/ Arthur Hollins, III

Arthur Hollins, III
President and Chief Executive Officer