CKX Lands Inc
Form 10-Q
August 11, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
Commission file number 1-31905

CKX LANDS, INC.

(Exact name of registrant 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)	**(Zip Code)**

(337) 310-0547

(Registrant s telephone number)

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

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**

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CKX Lands, Inc.

Form 10-Q

For the Quarter Ended June 30, 2008

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Part I. Financial Information

Item 1. Financial Statements

CKX Lands, Inc.

Balance Sheets

June 30, 2008 and December 31, 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,906,873	$ 1,624,970
1031 trust account Restricted		3,198,153
Certificate of deposit	1,052,270	1,052,270
Accounts receivable	483,712	333,921
Prepaid expense and other assets	114,214	14,469
Total Current Assets	6,557,069	6,223,783
Securities Available for Sale	633,596	2,030,309
Property and Equipment:		
Building and equipment		
less accumulated depreciation of $66,137 and $67,349, respectively	12,406	9,362
Timber		
less accumulated depletion of $451,753 and $426,254, respectively	366,765	400,102
Land	2,655,187	2,361,998
Total Property and Equipment, net	3,034,358	2,771,462
Total Assets	$ 10,225,023	$ 11,025,554
LIABILITIES & STOCKHOLDERS EQUITY		
Current Liabilities:		
Trade payables and accrued expenses	77,654	51,469
Dividends payable		912,973
Income tax payable:		
Current		590,384
Deferred	80,168	96,292
Total Current Liabilities	157,822	1,651,118
Noncurrent Liabilities:		
Deferred income tax payable	181,818	181,818
Stockholders Equity:		
Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	72,256	72,256
Retained earnings	10,126,639	9,404,044
Accumulated other comprehensive income	62,004	91,834
Less cost of treasury stock (157,505 shares)	(375,516)	(375,516)

Total Stockholders Equity	9,885,383	9,192,618
Total Liabilities and Stockholders Equity	$ 10,225,023	$ 11,025,554

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CKX Lands, Inc.

Statements of Income

Quarter and Six Months ending June 30, 2008 and 2007

	Quarter Ending June 30, 2008	Quarter Ending June 30, 2007	Six Months Ending June 30, 2008	Six Months Ending June 30, 2007
Revenues:				
Oil and gas	$ 930,659	$ 767,842	$ 1,724,699	$ 1,371,156
Agriculture	20,520	34,564	53,108	101,730
Timber	10,515		11,152	33,634
Total revenues	961,694	802,406	1,788,959	1,506,520
Costs and Expenses:				
Oil and gas production	79,470	61,944	146,135	115,849
Agriculture	1,628	25,027	2,323	30,667
Timber	5,277	8,571	15,437	9,220
General and administrative	82,801	95,504	225,840	220,728
Depreciation and depletion	6,789	1,678	8,205	9,284
Total cost and expenses	175,965	192,724	397,940	385,748
Income from operations	785,729	609,682	1,391,019	1,120,772
Other Income / (Expense):				
Interest income	20,610	24,774	81,785	49,574
Dividend income	13,318	8,514	22,202	16,983
Unrealized loss on securities available for sale	14,348		(66,640)	
Gain / (loss) on sale of securities available for sale	(81,644)	(1,378)	(81,644)	(3,446)
Gain on sale of assets	19,754	302,008	20,908	302,008
Net other income / (expense)	(13,615)	333,918	(23,390)	365,119
Income before income taxes	772,114	943,600	1,367,629	1,485,891
Federal and state income taxes:				
Current	201,447	198,154	369,322	367,597
Deferred	68,142	120,491	3,763	120,491
Total income taxes	269,589	318,645	373,085	488,088
Net Income	$ 502,525	$ 624,955	$ 994,544	$ 997,803
Per Common Stock (1,942,495 outstanding shares):				
Net Income	$ 0.26	$ 0.32	$ 0.51	$ 0.51
Dividends	$ 0.07	$ 0.07	$ 0.14	$ 0.14

See accompanying notes

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CKX Lands, Inc.

Statements of Changes in Stockholders Equity

Six Months ending June 30, 2008 and 2007

Six Months Ended June 30, 2008:

	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock Issued	Treasury Stock
December 31, 2007 Balance		$ 9,404,044	$ 91,834	$ 72,256	$ 375,516
Comprehensive income:					
Net income	$ 994,544	994,544			
Other comprehensive income:					
Change in unrealized net holdings gains occurring during period, net of taxes of $46,542	(69,814)				
Change in recognized unrealized loss on securities available for sale, net of taxes of $26,656	39,984				
Other Comprehensive income, net of taxes	(29,830)		(29,830)		
Total comprehensive income	$ 964,715				
Dividends		(271,949)			
June 30, 2008 Balance		$ 10,126,639	$ 62,004	$ 72,256	$ 375,516

Six Months Ended June 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	$ 997,803	997,803			
Other comprehensive income:					
Unrealized net holdings gains occurring during period net of taxes of $6,075	10,408				
Less: reclassification adjustment for net losses included in net income, net of taxes of $1,159	(1,738)				
Other Comprehensive income, net of taxes	12,146		12,146		
Total comprehensive income	$ 1,009,949				
Dividends		(271,950)			

June 30, 2007 Balance	$ 8,620,860	$ 144,339	$ 72,256	$ 375,516

See accompanying notes

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CKX Lands, Inc.

Statements of Cash Flows

Six Months ending June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Net income	$ 994,544	$ 997,803
Adjusted for non-cash (income) expenses included in net income:		
Depreciation, depletion and amortization	8,205	9,284
Deferred income tax expense	3,763	120,491
Adjusted for non-operating activities:		
Unrealized loss of securities available for sale	66,640	3,446
Realized loss of securities sold	81,644	
(Gain) from sale of land	(20,908)	(302,008)
Change in operating assets and liabilities:		
(Increase) decrease in current assets	(207,581)	7,698
Increase (decrease) in current liabilities	(626,043)	(13,234)
Net cash provided from operating activities	300,264	823,480
Cash Flows From Investing Activities:		
Purchased of land, property and/or equipment	(291,503)	(6,949)
Proceeds from certificate of deposits maturities		1,511,713
Purchase of certificate of deposit		(1,025,204)
Available for sale securities:		
Proceeds	1,218,600	1,496,102
Purchases		(487,870)
Proceeds released from 1031 trust account		
Proceeds from the sale of equipment and timber	41,310	
Net cash provided from investing activities	968,407	1,487,792
Cash Flows From Financing Activities		
Dividends paid	(1,184,921)	(2,214,445)
Net cash used in financing activities	(1,184,921)	(2,214,445)
Net increase in cash and cash equivalents	83,750	96,827
Cash and cash equivalents:		
Beginning	4,823,123	1,084,993
Ending	$ 4,906,873	$ 1,181,820

See accompanying notes

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CKX Lands, Inc.

Notes to Financial Statements

June 30, 2008

(Unaudited)

Note 1. Basis of Presentation

In the opinion of management, the accompanying balance sheet and related interim statements of income, 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-Q 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-K for the fiscal year ended December 31, 2007.

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 raising timber and agriculture.

Significant accounting polices:

Cash and equivalents:

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, money market fund accounts 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 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

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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.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS 157 which did not have an impact on our financial statements.

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Note 3. Securities Available for Sale

Fair value measurements disclosure for securities available for sale follows:

		Fair Value Measurements at Reporting Date Using		
Description	**6/30/2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities Available for Sale	$ 633,596	$ 633,596		
Total	$ 633,596	$ 633,596		

Note 4. 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 5. 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.

In July 2006, the FASB issued FIN 48 Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies that a tax position must be more likely than not of being sustained before being recognized in the financial statements. As required, we adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have a material impact on our financial statements.

Note 6. 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 six months of 2008 was $1,788,959, an increase of $282,439 or 18.7% over the first six months of 2007. Oil and gas revenue exceeded 2007 by $353,543.

Oil and gas revenue, excluding seismic fees and lease bonus and rental revenue, increased by $326,941 over 2007. As illustrated in the schedule below, barrels and MCF produced decreased and the average price per barrel and MCF increased in 2008.

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Oil Income	$ 1,062,221	$ 713,587
Barrels produced	10,468	11,744
Average price per barrel	$ 101.47	$ 60.76
Gas income	$ 616,564	$ 638,257
MCF produced	67,237	78,463
Average price per MCF	$ 9.17	$ 8.13

The decrease in both oil and gas production was due to new fields and new wells within existing fields not offsetting 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 six months ended June 30, 2008 are as follows:

Production Company	Oil	Barrels	Gas	MCF
Swift Energy	$ 206,058	1,909	$ 51,192	5,720
Cox & Perkins	223,878	2,262	29,657	2,874
Mayne & Mertz	131,083	1,275	111,959	11,465
Riceland Petroleum	100,516	1,006	116,697	11,994
Gulfmark Energy	94,454	897		
	$ 755,989	7,349	$ 309,505	32,053

Costs and Expenses

Total costs and expenses increased by $12,192 or 3.2% during the six months ended June 30, 2008 over the same period in 2007. Oil and gas production costs increased by $30,286, this increase is directly related to the increase in oil and gas revenues. Agriculture costs decreased by $28,344 during 2008 which is directly attributable to the sale of approximately 3,495 acres of primarily farm land in late 2007 (see Exhibit 10). General and administrative expenses increased by $5,112 due to increases in the annual exchange fees and additional employee compensation related to the current year executive transition.

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Financial Condition

Current assets plus securities available for sale totaled $7,190,666 and total liabilities equaled $339,640 at June 30, 2008. 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 June 30, 2008. 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 revenue. Assuming that the average price per barrel and MCF had remained at 2007 average prices, the Company s revenue would have decreased by approximately $496,000 for the six months ended June 30, 2008. All of these revenues come from wells operated by other companies from properties belonging to CKX Lands, Inc. Consequently, these revenues will fluctuate due to changes in oil and gas prices and changes in the operations of the other companies.

Item 3. Quantitative and Qualitative Disclosure About Market Risk Not Applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designated to ensure that information required to be disclosed in the Company s Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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-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 Joseph K. Cooper, 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 filed herewith.

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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.

	CKX Lands, Inc.
Date: August 7, 2008	/s/ Joseph K. Cooper Joseph K. Cooper President and Chief Executive Officer
Date: August 7, 2008	/s/ Brian R. Jones Brian R. Jones Treasurer and Chief Financial Officer