

CKX Lands Inc  
Form 10-Q  
November 09, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2009

.. **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)

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<b>Louisiana</b> (State or other jurisdiction of incorporation or organization)	<b>72-0144530</b> (I.R.S. Employer Identification No.)
<b>700 Pujo Street, Suite 200</b> <b>Lake Charles, LA</b> (Address of principal executive offices)	<b>70601</b> (Zip Code)
<b>(337) 493-2399</b> (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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>

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**

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**CKX Lands, Inc.**

**Form 10-Q**

**For the Quarter ended September 30, 2009**

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**Table of Contents****CKX Lands, Inc.****Part I Financial Information****Item 1. FINANCIAL STATEMENTS****CKX Lands, Inc.****Balance Sheets****September 30, 2009 and December 31, 2008**

	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,756,783	\$ 5,779,491
Accounts receivable	171,409	226,268
Securities held-to-maturity	720,000	
Prepaid expense and other assets	79,402	97,636
<b>Total Current Assets</b>	<b>5,727,594</b>	<b>6,103,395</b>
Securities available-for-sale	893,904	522,102
Securities held-to-maturity	240,000	
Property and Equipment:		
Building and equipment less accumulated depreciation of \$69,395 and \$65,084, respectively	17,611	11,216
Timber less accumulated depletion of \$533,496 and \$530,951, respectively	365,241	362,991
Land	2,821,300	2,821,300
<b>Total Property and Equipment, net</b>	<b>3,204,152</b>	<b>3,195,507</b>
<b>Total Assets</b>	<b>\$ 10,065,650</b>	<b>\$ 9,821,004</b>
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Trade payables and accrued expenses	60,357	43,961
Income tax payable - Deferred	2,040	32,344
<b>Total Current Liabilities</b>	<b>62,397</b>	<b>76,305</b>
Noncurrent Liabilities:		
Deferred income tax payable	181,818	181,818
<b>Total Liabilities</b>	<b>\$ 244,215</b>	<b>\$ 258,123</b>
Stockholders Equity:		

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Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued	72,256	72,256
Retained earnings	10,103,997	9,857,876
Accumulated other comprehensive income	20,698	8,265
Less cost of treasury stock (157,505 shares)	(375,516)	(375,516)
<b>Total stockholders' equity</b>	<b>9,821,435</b>	<b>9,562,881</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 10,065,650</b>	<b>\$ 9,821,004</b>

See accompanying Notes to Financial Statements.

**Table of Contents****CKX Lands, Inc.****Statements of Income****Three months and Nine months Ended September 30, 2009 and 2008**

	Quarter Ended September 30,		Nine months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Oil and gas	\$ 446,288	\$ 1,040,031	\$ 1,183,837	\$ 2,764,730
Agriculture	33,014	22,168	81,986	75,275
Timber	9,468	28,917	27,971	40,070
<b>Total revenues</b>	<b>488,770</b>	<b>1,091,116</b>	<b>1,293,794</b>	<b>2,880,075</b>
<b>Costs and Expenses:</b>				
Oil and gas production	37,210	79,878	104,703	226,012
Agriculture	1,986	2,844	4,563	5,168
Timber	33,159	6,629	52,636	22,066
General and administrative	102,838	83,364	288,179	309,205
Depreciation and depletion	2,048	4,397	5,926	12,602
<b>Total cost and expenses</b>	<b>177,241</b>	<b>177,112</b>	<b>456,007</b>	<b>575,053</b>
<b>Income from operations</b>	<b>311,529</b>	<b>914,004</b>	<b>837,787</b>	<b>2,305,022</b>
<b>Other Income / (Expense):</b>				
Interest income	6,629	22,211	15,370	103,996
Dividend income	4,863	7,167	16,565	29,369
Change in unrealized losses on securities available-for-sale		42,720	(23,920)	(23,920)
Gain/(Loss) on securities available-for-sale		(35,085)		(116,730)
Gain on sale of land and other assets			40,719	20,908
<b>Net other income / (expense)</b>	<b>11,492</b>	<b>37,013</b>	<b>48,734</b>	<b>13,623</b>
<b>Income before income taxes</b>	<b>323,021</b>	<b>951,017</b>	<b>886,521</b>	<b>2,318,645</b>
<b>Federal and state income taxes:</b>				
Current	97,246	264,368	271,068	633,690
Deferred	(763)	24,081	(38,592)	27,844
<b>Total income taxes</b>	<b>96,483</b>	<b>288,449</b>	<b>232,476</b>	<b>661,534</b>
<b>Net Income</b>	<b>\$ 226,538</b>	<b>\$ 662,568</b>	<b>\$ 654,045</b>	<b>\$ 1,657,111</b>
<b>Per Common Stock (1,942,495 shares):</b>				
<b>Net Income</b>	<b>\$ 0.12</b>	<b>\$ 0.34</b>	<b>\$ 0.34</b>	<b>\$ 0.85</b>

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Dividends	\$	0.07	\$	0.07	\$	0.21	\$	0.21
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See accompanying Notes to Financial Statements.

**Table of Contents****CKX Lands, Inc.****Statements of Changes in Stockholders' Equity****Nine months Ended September 30, 2009 and 2008****Nine months Ended September 30, 2009:**

	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Capital Stock Issued</b>	<b>Treasury Stock</b>
December 31, 2008 Balance		\$ 9,857,876	\$ 8,265	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 654,045	654,045			
Other comprehensive income:					
Change in unrealized net holding gains occurring during period, net of taxes of \$279	(1,919)				
Change in recognized unrealized loss on securities available for sale, net of taxes of \$9,568	14,352				
Other Comprehensive income, net of taxes	12,433		12,433		
Total comprehensive income	\$ 666,478				
Dividends		(407,924)			
September 30, 2009 Balance		\$ 10,103,997	\$ 20,698	\$ 72,256	\$ 375,516

**Nine months Ended September 30, 2008:**

	<b>Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Capital Stock Issued</b>	<b>Treasury Stock</b>
December 31, 2007 Balance		\$ 9,404,044	\$ 91,834	\$ 72,256	\$ 375,516
Comprehensive income:					
Net income	\$ 1,657,111	1,657,111			
Other comprehensive income:					
Change in unrealized net holding gains occurring during period, net of taxes of \$43,090	(64,635)				
Change in recognized unrealized loss on securities available for sale, net of taxes of \$9,568	14,352				



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Other Comprehensive income, net of taxes	(50,283)	(50,283)			
Total comprehensive income	\$ 1,606,828				
Dividends	(407,924)				
September 30, 2008 Balance	\$ 10,653,231	\$ 41,551	\$ 72,256	\$ 375,516	

See accompanying notes

**Table of Contents****CKX Lands, Inc.****Statements of Cash Flows****Nine months Ended September 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash Flows From Operating Activities:</b>		
Net Income	\$ 654,045	\$ 1,657,111
Less non-cash (income) expenses included in net income:		
Depreciation, depletion and amortization	5,926	12,602
Deferred income tax expense	(38,592)	27,844
Less non-operating activities:		
Realized loss on securities sold		116,730
Unrealized (gain) loss on securities	23,920	23,920
Gain from sale of land and other assets	(40,719)	(20,908)
Change in operating assets and liabilities:		
(Increase) decrease in current assets	73,093	(243,308)
Increase (decrease) in current liabilities	16,395	(618,371)
<b>Net cash provided from operating activities</b>	<b>694,068</b>	<b>955,620</b>
<b>Cash Flows From Investing Activities:</b>		
<b>Securities:</b>		
Sales proceeds	10,000	2,314,068
Purchases	(1,335,000)	
<b>Land, Equipment and Timber:</b>		
Sales proceeds	29,330	49,606
Purchases	(13,182)	(470,696)
<b>Net cash provided from (used in) investing activities</b>	<b>(1,308,852)</b>	<b>1,892,978</b>
<b>Cash Flows From Financing Activities:</b>		
Dividends paid, net of refunds	(407,924)	(1,184,921)
<b>Net cash used in financing activities</b>	<b>(407,924)</b>	<b>(1,184,921)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,022,708)</b>	<b>1,663,677</b>
<b>Cash and cash equivalents:</b>		
Beginning		
Ending	\$ 5,779,491	\$ 4,823,123
	4,756,783	6,486,800
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash payments for:</b>		
Interest	\$	\$
Income taxes	\$ 226,937	\$ 615,000

Supplemental schedule of non-cash investing and financing activities:

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Net change in recognized and unrecognized unrealized gains (losses) on available-for-sale securities	\$ 20,722	\$ (83,805)
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See accompanying Notes to Financial Statements.

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**CKX Lands, Inc.**

**Notes to Financial Statements**

**September 30, 2009**

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying interim balance sheets and related 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. 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, 2008.

**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 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, 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 the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Section 320-10-25, *Investments - Debt and Equity Securities, Overall, Recognition* . Under the provisions of this section, at the time of acquisition, management must classify investments in debt and equity securities into one of the following categories: held-to-maturity, available-for-sale, or trading. Each reporting period, management reassesses the appropriateness of the classification of investments.

A schedule of the Company's investment classifications can be found in Note 3.

Under the accounting policies provided for investments classified as available-for-sale, all such debt securities and equity securities that have a readily determinable fair value shall be measured at fair value on the balance sheet. Unrealized holding gains and losses on available-for-sale securities shall be excluded from earnings and reported 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.

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**CKX Lands, Inc.**

**Notes to Financial Statements (Continued)**

**September 30, 2009**

Each reporting period, in accordance with ASC Section 320-10-35, *Investments - Debt and Equity Securities, Overall, Subsequent Measurement*, management assesses whether investments classified as either available-for-sale or held-to-maturity are impaired. Impairment occurs when the fair value of a security declines below its cost basis. If management determines that an impairment is other-than-temporary, the impairment loss is recognized in earnings.

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, and maintenance and repairs are charged to income. 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. Timber cruises are expensed as incurred.

**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**

With the exception of those stated below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2009, as compared to the recent accounting pronouncements described in the Annual Report that are of material significance, or have potential material significance, to the Company.

In June 2009, the FASB issued guidance now codified as FASB ASC Topic 105, *Generally Accepted Accounting Principles* (ASC 105). ASC 105 establishes the FASB Codification as the source of generally accepted accounting principles (GAAP). All existing accounting standard documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of FASB ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009. Accordingly, the Company adopted this guidance on September 15, 2009. The adoption of this pronouncement did not have an impact on the Company's financial condition or results of operations, but did impact our reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

In May 2009, the FASB issued guidance now codified as ASC Topic 855, *Subsequent Events* (ASC 855). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It



**Table of Contents****CKX Lands, Inc.****Notes to Financial Statements (Continued)****September 30, 2009**

requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Effective April 1, 2009, the Company adopted this guidance. Accordingly, management has evaluated subsequent events through November 5, 2009, the date the financial statements were issued.

**Note 3. Securities:**

Securities available-for-sale are valued at fair value. The Company's estimated fair value of securities at September 30, 2009 and 2008 are as follows.

**September 30, 2009**

	<b>Cost Basis</b>	<b>Unrealized Gain/(Loss)</b>	<b>Fair Value</b>
Mutual Funds	\$ 375,000	\$	\$ 375,000
Common Stock	486,433	32,471	518,904
<b>Total</b>	<b>\$ 861,433</b>	<b>\$ 32,471</b>	<b>\$ 893,904</b>

**September 30, 2008**

	<b>Cost Basis</b>	<b>Unrealized Gain/(Loss)</b>	<b>Fair Value</b>
Common Stock	\$ 510,353	\$ 11,749	\$ 522,102

**Securities Available-for-Sale**

	<b>Fair Value Measurements Using</b>		
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
September 30, 2009	\$ 893,904	\$	\$
September 30, 2008	\$ 522,102	\$	\$

Securities held-to-maturity are carried at amortized cost. The Company's amortized cost of these debt securities at September 30, 2009 are as follows.

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	Amortized Cost	Current	Non-Current
Certificates of Deposit	\$ 960,000	\$ 720,000	\$ 240,000

### **Note 4. Net Income and Dividends per common stock:**

Net Income and Dividends per share of 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.



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**CKX Lands, Inc.**

**Notes to Financial Statements (Continued)**

**September 30, 2009**

**Note 6. Contingencies:**

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

**Table of Contents****CKX Lands, Inc.****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***Results of Operations**Revenue*

Revenue for the first nine months of 2009 was \$1,293,794 a decrease of \$1,586,281 or 55.1% over the same period in 2008. Oil and gas income decreased by \$1,580,893 compared to the same period in 2008. As illustrated in the schedule below, barrels and MCF produced as well as average price per barrel and per MCF were lower in 2009.

	2009	2008
Oil Income	\$ 623,549	\$ 1,697,502
Barrels produced	11,281	16,424
Average price per barrel	\$ 55.27	\$ 103.35
Gas income	\$ 342,109	\$ 979,990
MCF produced	61,831	97,891
Average price per MCF	\$ 5.53	\$ 10.01

The decrease in both oil and gas production was due to depletion in older fields exceeding new fields and new wells within existing fields. The decrease in average price per barrel and MCF is directly related to current energy market activity.

Total oil and gas cash receipts from the top 5 production companies for the nine months ended September 30, 2009 are as follows:

Production Company	Oil	Barrels	Gas	MCF
Swift Energy	\$ 341,436	5,387	\$ 89,810	12,511
Riceland Petroleum	60,532	1,116	92,470	20,889
Cox & Perkins	86,593	1,767	13,139	2,077
Kaiser-Francis Oil	37,877	750	43,772	7,237
Gulfmark Energy	51,451	1,023		
	\$ 577,889	10,043	\$ 239,191	42,714

*Costs and Expenses*

Total costs and expenses decreased by \$119,046 or 20.7% during the nine months ended September 30, 2009 over the same period in 2008. Oil and gas production costs decreased by \$121,309; the decrease is directly related to lower oil and gas revenues. Timber expenses increased by \$26,530 primarily due to a timber cruise mapping of substantially all timberlands. General and administrative expenses decreased by \$21,026 primarily due to prior year executive compensation and timing of accrued expenses.

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**CKX Lands, Inc.**

***Financial Condition***

Current assets including securities available-for-sale totaled \$6,621,498 and total liabilities equaled \$244,215 at September 30, 2009. 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, 2009. 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 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. Not applicable.**

**Item 4T. CONTROLS AND PROCEDURES**  
***Evaluation of Disclosure Controls and Procedures***

The Company maintains disclosure controls and procedures that are designed 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.

**Part II. Other Information**

**Item 1 5. Not Applicable**

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**CKX Lands, Inc.**

**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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**CKX Lands, Inc.**

**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 5, 2009

/s/ JOSEPH K. COOPER  
**Joseph K. Cooper**  
**President and Chief Executive Officer**

Date: November 5, 2009

/s/ BRIAN R. JONES  
**Brian R. Jones**  
**Treasurer and Chief Financial Officer**