

CKX LANDS, INC.
Form 10-Q
August 06, 2015
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 **June 30, 2015**

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 or organization)

72-0144530

(I.R.S. Employer
Identification No.)

**1508 Hodges Street
Lake Charles, LA**

70601

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(Address of principal executive offices)

(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 June 30, 2015

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Part I – Financial Information**Item 1. FINANCIAL STATEMENTS****CKX Lands, Inc.****Balance Sheets****June 30, 2015 and December 31, 2014****(Unaudited)**

| | 2015 | 2014 |
|---|---------------|---------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$5,241,929 | \$5,225,594 |
| 1031 trust account – restricted | 187,500 | -- |
| Certificates of deposit | 1,440,000 | 1,680,000 |
| Accounts receivable | 133,911 | 146,413 |
| Prepaid expense and other assets | 76,918 | 50,085 |
| Total current assets | 7,080,258 | 7,102,092 |
| Non-current Assets: | | |
| Certificates of deposit | 444,000 | 240,000 |
| Property and equipment: | | |
| Land | 4,943,864 | 4,957,135 |
| Timber less accumulated depletion of \$803,189 and \$803,189, respectively | 1,548,960 | 1,527,425 |
| Building and equipment less accumulated depreciation of \$90,432 and \$90,432, respectively | -- | -- |
| Total property and equipment, net | 6,492,824 | 6,484,560 |
| Total assets | \$ 14,017,082 | \$ 13,826,652 |

Liabilities and Stockholders' Equity

| | | |
|--|--------------|--------------|
| Current Liabilities: | | |
| Trade payables and accrued expenses | \$73,628 | \$61,237 |
| Income tax payable | 18,550 | -- |
| Total current liabilities | 92,178 | 61,237 |
| Non-current Liabilities: | | |
| Deferred income tax payable | 292,767 | 224,426 |
| Total liabilities | 384,945 | 285,663 |
| Stockholders' Equity: | | |
| Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued | 72,256 | 72,256 |
| Retained earnings | 13,935,397 | 13,844,249 |
| Less cost of treasury stock (157,505 shares) | (375,516) | (375,516) |
| Total stockholders' equity | 13,632,137 | 13,540,989 |
| Total liabilities and stockholders' equity | \$14,017,082 | \$13,826,652 |

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

CKX Lands, Inc.**Statements of Income****Quarter and Six Months Ended June 30, 2015 and 2014****(Unaudited)**

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|-----------------------------------|-------------|--------------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Oil and gas | \$242,300 | \$437,865 | \$472,522 | \$857,437 |
| Timber | -- | 15,089 | -- | 15,089 |
| Surface | 32,995 | 16,779 | 55,714 | 215,519 |
| Total revenues | 275,295 | 469,733 | 528,236 | 1,088,045 |
| Costs and Expenses: | | | | |
| Oil and gas production | 22,312 | 25,197 | 38,448 | 50,101 |
| Timber | 55 | 870 | 391 | 870 |
| Surface | 861 | 781 | 1,436 | 794 |
| General and administrative | 130,846 | 148,341 | 251,638 | 267,948 |
| Depreciation and depletion | -- | 13,813 | -- | 15,484 |
| Total cost and expenses | 154,074 | 189,002 | 291,913 | 335,197 |
| Income from operations | 121,221 | 280,731 | 236,323 | 752,848 |
| Other Income (Expense): | | | | |
| Interest income | 5,032 | 3,762 | 9,329 | 7,833 |
| Gain on sale of land | 170,854 | -- | 172,352 | -- |
| Net other income (expense) | 175,886 | 3,762 | 181,681 | 7,833 |
| Income before income taxes | 297,107 | 284,493 | 418,004 | 760,681 |
| Federal and State Income Taxes: | | | | |
| Current | 32,382 | 83,784 | 64,265 | 238,813 |
| Deferred | 68,341 | -- | 68,341 | -- |
| Total income taxes | 100,723 | 83,784 | 132,606 | 238,813 |
| Net Income | \$196,384 | \$200,709 | \$285,398 | \$521,868 |
| Per Common Stock (1,942,495 shares): | | | | |
| Net Income | \$0.10 | \$0.10 | \$0.15 | \$0.27 |
| Dividends | \$0.03 | \$0.07 | \$0.10 | \$0.14 |

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

CKX Lands, Inc.**Statements of Changes in Stockholders' Equity****Six Months Ended June 30, 2015 and 2014****(Unaudited)**Six Months Ended June 30, 2015:

| | Total | Retained Earnings | Capital Stock Issued | Treasury Stock |
|---------------------------|---------------|----------------------|----------------------------|-------------------|
| December 31, 2014 Balance | \$ 13,540,989 | \$ 13,844,249 | \$ 72,256 | \$ 375,516 |
| Net income | 285,398 | 285,398 | -- | -- |
| Dividends | (194,250) | (194,250) | -- | -- |
| June 30, 2015 Balance | \$ 13,632,137 | \$ 13,935,397 | \$ 72,256 | \$ 375,516 |

Six Months Ended June 30, 2014:

| | Total | Retained Earnings | Capital Stock Issued | Treasury Stock |
|---------------------------|---------------|----------------------|----------------------------|-------------------|
| December 31, 2013 Balance | \$ 12,788,600 | \$ 13,091,860 | \$ 72,256 | \$ 375,516 |
| Net income | 521,868 | 521,868 | -- | -- |
| Dividends | (271,949) | (271,949) | -- | -- |
| June 30, 2014 Balance | \$ 13,038,519 | \$ 13,341,779 | \$ 72,256 | \$ 375,516 |

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

CKX Lands, Inc.**Statements of Cash Flows****Six Months Ended June 30, 2015 and 2014****(Unaudited)**

| | 2015 | 2014 |
|--|-------------|-------------|
| Cash Flows From Operating Activities: | | |
| Net Income | \$285,398 | \$521,868 |
| Less non-cash (income) expenses included in net income: | | |
| Depreciation, depletion and amortization | -- | 15,484 |
| Deferred income tax expense | 68,341 | -- |
| Gain on sale of assets | (172,352) | -- |
| Change in operating assets and liabilities: | | |
| Increase in current assets | (14,331) | (43,975) |
| Increase (decrease) in current liabilities | 30,941 | (13,443) |
| Net cash provided from operating activities | 197,997 | 479,934 |
| Cash Flows From Investing Activities: | | |
| Certificates of deposit: | | |
| Maturity proceeds | 1,440,000 | 1,941,000 |
| Purchases | (1,404,000) | (1,910,000) |
| Land, timber, equipment and other assets: | | |
| Purchases | (21,535) | (417,280) |
| Sale proceeds | 185,623 | -- |
| Proceeds held in 1031 trust account | (187,500) | -- |
| Net cash provided from (used in) investing activities | 12,588 | (386,280) |
| Cash Flows From Financing Activities: | | |
| Dividends paid, net of reversion | (194,250) | (271,949) |
| Net cash used in financing activities | (194,250) | (271,949) |
| Net increase (decrease) in cash and cash equivalents | 16,335 | (178,295) |
| Cash and cash equivalents: | | |
| Beginning | 5,225,594 | 4,529,051 |
| Ending | \$5,241,929 | \$4,350,756 |
| <u>Supplemental disclosures of cash flow information:</u> | | |
| Cash payments for: | | |
| Interest | \$-- | \$-- |
| Income taxes | \$13,577 | \$276,000 |

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

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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, 2014. 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, 2014 and Form 10-Q for the quarter period ended June 30, 2014.

Note 2: Income Taxes

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in federal and state income tax returns for the tax years 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 3: Land Sale

During the second quarter of 2015, the Company sold its 1/6th interest in approximately 155 acres of land located in Jefferson Davis Parish for \$187,500 and reported a gain of \$170,853. 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. Due to the 1031 exchange, the gain of \$170,853 is deferred for income tax purposes. At June 30, 2015, the 1031 exchange has not been completed and \$187,500 in proceeds is held by an intermediary and restricted to use by the Company.

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

Results of Operations

Revenue

Comparison of Revenues for the six months ended June 30, 2015 and 2014 follows:

| | 2015 | 2014 | \$ Change | % Change |
|-------------|---------|-----------|-----------|-----------|
| Oil and Gas | 472,522 | 857,437 | (384,915) | (44.89)% |
| Timber | -- | 15,089 | (15,089) | (100.00)% |
| Surface | 55,714 | 215,519 | (159,805) | (74.15)% |
| Total | 528,236 | 1,088,045 | (559,809) | (51.45)% |

Oil and Gas

CKX leases its property to oil and gas operators and collects income through its land ownership in the form of oil and gas royalties and lease rentals and geophysical revenues. A breakdown of oil and gas revenues follows:

| | 2015 | 2014 | \$ Change | % Change |
|-----------------------|---------|---------|-----------|----------|
| Oil | 348,811 | 669,971 | (321,160) | (47.94)% |
| Gas | 113,999 | 101,035 | 12,964 | 12.83% |
| Lease and Geophysical | 9,712 | 86,431 | (76,719) | (88.76)% |
| Total | 472,522 | 857,437 | (384,915) | (44.89)% |

CKX received oil and/or gas revenues from 103 and 106 wells during the six months ended June 30, 2015 and 2014, respectively.

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

| | 2015 | 2014 |
|--|---------|----------|
| Net oil produced (Bbl) ⁽²⁾ | 6,220 | 6,048 |
| Average oil sales price (per Bbl) ^(1,2) | \$52.17 | \$100.48 |
| Net gas produced (MCF) | 31,731 | 19,387 |
| Average gas sales price (per MCF) ⁽¹⁾ | \$3.59 | \$5.21 |

Notes to above schedule:

⁽¹⁾ Before deduction of production and severance taxes.

⁽²⁾ Excludes plant products.

Oil and Gas revenues declined by \$384,915 from 2014 revenues. As indicated in the schedule above the decline was due to increased production not offsetting the declines in average sales prices for both oil and gas.

**Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
2. OF OPERATIONS (continued)**

Lease and geophysical revenues decreased \$76,719 from 2014 amounts. These revenues are dependent on oil and gas producers' activities, are not predictable and can vary significantly from year to year.

Management believes oil and gas activity is driven by the current and forecasted commodity prices, demand for oil and gas, and upstream and downstream industry activity. Based on available public information, management believes that oil and gas activity which includes oil and gas production as well as lease rentals and geophysical will continue to be depressed when compared to 2014 reported amounts.

During the first quarter of 2015, the Company marketed timber for sale and has found the demand for timber to be depressed. The Company will continue to market timber for sale during 2015 but acceptable offer prices will determine if a sale is made in 2015.

Surface revenue decreased due to several large right of way agreements being executed in 2014. As previously noted by management, pipeline, utility and other right of ways are not unusual to the Company; however agreements of the magnitude seen in 2014 are unusual. Surface revenues are not predictable and can vary significantly from year to year.

Costs and Expenses

Oil and gas production costs, primarily severance taxes, decreased by \$11,653 in 2015. With the reduction in oil and gas revenues, the decrease was expected.

General and administrative expenses decreased by \$16,310. Compensation expense and director fees decreased by \$21,300 and \$7,400, respectively, in 2015. Both compensation and director fees decreased due to the board meetings held immediately after the annual shareholder meeting and the first quarter meeting being held on the same day. Compensation was further reduced due to a non-recurring incentive paid in 2014. These decreases were offset by increases in legal fees (\$6,800), property management fees (\$3,737) and public company fees (\$2,500). The increase in legal fees related to a failed land acquisition, property management fees related to increased timber management activities and public company fees related to an increase in the annual NYSE fee.

Depreciation and depletion decreased by \$15,484 in 2015. With the reduction in timber revenues, the decrease was expected.

Other costs and expenses incurred for the six months ended June 30, 2015 were materially consistent with 2014 reported amounts.

Financial Condition

Current assets totaled \$7,080,258 and total liabilities equaled \$384,945 at June 30, 2015. Management believes available cash and certificates of deposit 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 of \$5,000,000.

The Company declared a three cents (\$0.03) per common share quarterly dividend during the quarter ended June 30, 2015. In assessing the amount of or if a quarterly dividend will be declared, the Board of Directors will review recent earnings, current liquidity, and other relevant information.

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 with mineral potential.

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

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 flows. These revenues come from wells operated by other companies which CKX Lands, Inc. owns a royalty interest. 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.

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

Date: August 6, 2015