

CKX LANDS, INC.  
Form 10-Q  
August 10, 2012

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 June 30, 2012

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.)

700 Pujon Street, Suite 200  
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.

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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

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CKX Lands, Inc.  
Form 10-Q  
For the Quarter ended June 30, 2012

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## Part I – Financial Information

## Item 1. FINANCIAL STATEMENTS

CKX Lands, Inc.  
Balance Sheets  
June 30, 2012 and December 31, 2011  
(Unaudited)

|   | 2012         | 2011         |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| <b>Current Assets:</b>  |              |              |
| Cash and cash equivalents   | \$4,628,568  | \$4,124,908  |
| 1031 trust account  | 159,003      | --           |
| Certificates of deposit   | 501,384      | 495,625      |
| Accounts receivable   | 219,774      | 276,217      |
| Prepaid expense and other assets  | 109,060      | 20,828       |
| Total current assets  | 5,617,789    | 4,917,578    |
| Securities available for sale   | --           | --           |
| Certificates of deposit   | 480,000      | 480,000      |
| <b>Property and equipment:</b>  |              |              |
| Building and equipment less accumulated depreciation of \$74,162 and \$70,818, respectively | 16,270       | 19,614       |
| Timber less accumulated depletion of \$691,823 and \$691,436, respectively                  | 1,150,522    | 1,146,743    |
| Land  | 4,396,034    | 4,431,034    |
| Total property and equipment, net   | 5,562,826    | 5,597,391    |
| Total assets  | \$11,660,615 | \$10,994,969 |
| <b>Liabilities and Stockholders' Equity</b>   |              |              |
| <b>Current Liabilities:</b>   |              |              |
| Trade payables and accrued expenses   | \$54,435     | \$58,662     |
| <b>Income tax payable:</b>  |              |              |
| Current   | --           | 87,419       |
| Deferred  | 3,976        | 5,153        |
| Total current liabilities   | 58,411       | 151,234      |
| Deferred income tax payable   | 181,818      | 181,818      |
| Total liabilities   | 240,229      | 333,052      |
| <b>Stockholders' Equity:</b>  |              |              |
| Common stock, no par value: 3,000,000 shares authorized; 2,100,000 shares issued            | 72,256       | 72,256       |
| Retained earnings   | 11,723,646   | 10,965,177   |
| Accumulated other comprehensive income  | --           | --           |
| Less cost of treasury stock (157,505 shares)  | (375,516 )   | (375,516 )   |
| Total stockholders' equity  | 11,420,386   | 10,661,917   |
| Total liabilities and stockholders' equity  | \$11,660,615 | \$10,994,969 |

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



CKX Lands, Inc.  
 Statements of Income and Comprehensive Income  
 Quarter and Six Months Ended June 30, 2012 and 2011  
 (Unaudited)

|  | Quarter Ended June 30, |            | Six Months Ended June 30, |           |
|--|------------------------|------------|---------------------------|-----------|
|  | 2012                   | 2011       | 2012                      | 2011      |
| <b>Revenues:</b>   |                        |            |                           |           |
| Oil and gas  | \$520,682              | \$ 338,834 | \$1,425,324               | \$634,613 |
| Agriculture  | 284,510                | 16,738     | 310,043                   | 24,464    |
| Timber   | 70                     | --         | 5,005                     | 3,439     |
| Total revenues   | 805,262                | 355,572    | 1,740,372                 | 662,516   |
| <b>Costs and Expenses:</b>   |                        |            |                           |           |
| Oil and gas production   | 57,939                 | 28,256     | 122,979                   | 51,244    |
| Agriculture  | 1,047                  | 2,455      | 1,854                     | 2,962     |
| Timber   | 6,057                  | 4,986      | 14,226                    | 14,637    |
| General and administrative   | 115,493                | 128,187    | 216,969                   | 219,843   |
| Depreciation and depletion   | 1,615                  | 738        | 3,731                     | 21,298    |
| Total cost and expenses  | 182,151                | 164,622    | 359,759                   | 309,984   |
| Income from operations   | 623,111                | 190,950    | 1,380,613                 | 352,532   |
| <b>Other Income / (Expense):</b>   |                        |            |                           |           |
| Interest income  | 4,706                  | 10,276     | 5,244                     | 20,469    |
| Dividend income  | 55                     | 4,664      | 55                        | 9,527     |
| Gain on sale of land and other assets  | --                     | --         | 124,000                   | 306       |
| Net other income / (expense)   | 4,761                  | 14,940     | 129,299                   | 30,302    |
| Income before income taxes   | 627,872                | 205,890    | 1,509,912                 | 382,834   |
| <b>Federal and state income taxes:</b>   |                        |            |                           |           |
| Current  | 255,026                | 54,537     | 485,325                   | 99,531    |
| Deferred   | (45,800 )              | (12,575 )  | (5,831 )                  | (12,427 ) |
| Total income taxes   | 209,226                | 41,962     | 479,494                   | 87,104    |
| Net Income   | 418,646                | 163,928    | 1,030,418                 | 295,730   |
| <b>Other Comprehensive Income, Net of Taxes:</b>   |                        |            |                           |           |
| Change in unrealized net holding gains occurring during period, net of taxes of \$1,813 and \$2,321, respectively for 2011 | --                     | 2,718      | --                        | 3,481     |
| Other comprehensive income   | --                     | 2,718      | --                        | 3,481     |
| Comprehensive Income   | \$418,646              | \$ 166,646 | \$1,030,418               | \$299,211 |
| <b>Per Common Stock (1,942,495 shares):</b>  |                        |            |                           |           |
| Net Income   | \$0.22                 | \$ 0.08    | \$0.53                    | \$0.15    |
| Dividends  | \$0.07                 | \$ 0.07    | \$0.14                    | \$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, 2012 and 2011  
 (Unaudited)

Six Months Ended June 30, 2012:

|                            | Total         | Retained Earnings | Accumulated Other Comprehensive Income | Capital Stock Issued | Treasury Stock |
|----------------------------|---------------|-------------------|--|----------------------|----------------|
| December 31, 2011 Balance  | \$ 10,661,917 | \$ 10,965,177     | \$ --                                  | \$ 72,256            | \$ 375,516     |
| Net income                 | 1,030,418     | 1,030,418         | --                                     | --                   | --             |
| Other comprehensive income | --            | --                | --                                     | --                   | --             |
| Dividends                  | (271,949 )    | (271,949 )        | --                                     | --                   | --             |
| June 30, 2012 Balance      | \$ 11,420,386 | \$ 11,723,646     | \$ --                                  | \$ 72,256            | \$ 375,516     |

Six Months Ended June 30, 2011:

|                            | Total         | Retained Earnings | Accumulated Other Comprehensive Income | Capital Stock Issued | Treasury Stock |
|----------------------------|---------------|-------------------|--|----------------------|----------------|
| December 31, 2010 Balance  | \$ 10,246,245 | \$ 10,543,924     | \$ 5,581                               | \$ 72,256            | \$ 375,516     |
| Net income                 | 295,730       | 295,730           | --                                     | --                   | --             |
| Other comprehensive income | 3,481         | --                | 3,481                                  | --                   | --             |
| Dividends                  | (271,949 )    | (271,949 )        | --                                     | --                   | --             |
| Dividend reversion         | 13,375        | 13,375            | --                                     | --                   | --             |
| June 30, 2011 Balance      | \$ 10,286,882 | \$ 10,581,080     | \$ 9,062                               | \$ 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, 2012 and 2011  
 (Unaudited)

|  | 2012       | 2011       |
|--|------------|------------|
| <b>Cash Flows From Operating Activities:</b>   |            |            |
| Net Income   | 1,030,418  | 295,730    |
| <b>Less non-cash (income) expenses included in net income:</b>                                       |            |            |
| Depreciation, depletion and amortization   | 3,731      | 21,298     |
| Deferred income tax expense  | (5,831 )   | (12,427 )  |
| <b>Less non-operating activities:</b>  |            |            |
| Gain from sale of land and other assets  | (124,000 ) | (306 )     |
| <b>Change in operating assets and liabilities:</b>   |            |            |
| Increase in current assets   | (27,135 )  | (88,587 )  |
| Decrease in current liabilities  | (91,646 )  | (9,290 )   |
| Net cash provided from operating activities  | 785,537    | 206,418    |
| <b>Cash Flows From Investing Activities:</b>   |            |            |
| <b>Certificates of deposit:</b>  |            |            |
| Maturity proceeds  | 255,625    | --         |
| Purchases  | (261,384 ) | (5,625 )   |
| <b>Securities:</b>   |            |            |
| Purchases  | --         | (9,470 )   |
| <b>Land, timber, equipment and other assets:</b>   |            |            |
| Sales proceeds   | 159,000    | 167        |
| Purchases  | (4,166 )   | (532,944 ) |
| Proceeds held in 1031 trust account  | (159,003 ) | --         |
| Net cash used in investing activities  | (9,928 )   | (547,872 ) |
| <b>Cash Flows From Financing Activities:</b>   |            |            |
| Dividends paid, net of reversion   | (271,949 ) | (258,574 ) |
| Net cash used in financing activities  | (271,949 ) | (258,574 ) |
| Net increase (decrease) in cash and cash equivalents   | 503,660    | (600,028 ) |
| <b>Cash and cash equivalents:</b>  |            |            |
| Beginning  | 4,124,908  | 5,182,316  |
| Ending   | 4,628,568  | 4,582,288  |
| <b>Supplemental disclosures of cash flow information:</b>  |            |            |
| <b>Cash payments for:</b>  |            |            |
| Interest   | --         | --         |
| Income taxes   | 606,641    | 112,160    |
| <b>Supplemental schedule of non-cash investing and financing activities:</b>                         |            |            |
| Net change in recognized and unrecognized unrealized gains (losses) on available-for-sale securities | --         | 5,802      |

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





CKX Lands, Inc.  
Notes to Financial Statements  
June 30, 2012  
(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, 2011. 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, 2011 and Form 10-Q for the quarterly period ended June 30, 2011.

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 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: Disclosures about Fair Value:

Securities available for sale and certificate of deposits (securities held to maturity) are valued at fair value. The Company’s estimated fair values of securities are as follows.

|                            | June 30, 2012     |                           |                |                           |                |                           |
|----------------------------|-------------------|---------------------------|----------------|---------------------------|----------------|---------------------------|
|                            | Current           |                           | Non-Current    |                           | Total          |                           |
|                            | Fair Value        | Unrealized<br>Gain/(Loss) | Fair Value     | Unrealized<br>Gain/(Loss) | Fair Value     | Unrealized<br>Gain/(Loss) |
| Certificate of<br>Deposits | \$ 501,384        | --                        | 480,000        | --                        | 981,384        | --                        |
| Mutual Funds               | --                | --                        | --             | --                        | --             | --                        |
| E q u i t y<br>Securities  | --                | --                        | --             | --                        | --             | --                        |
| <b>Total</b>               | <b>\$ 501,384</b> | <b>--</b>                 | <b>480,000</b> | <b>--</b>                 | <b>981,384</b> | <b>--</b>                 |
|                            | June 30, 2011     |                           |                |                           |                |                           |
|                            | Current           |                           | Non-Current    |                           | Total          |                           |
|                            | Fair Value        | Unrealized<br>Gain/(Loss) | Fair Value     | Unrealized<br>Gain/(Loss) | Fair Value     | Unrealized<br>Gain/(Loss) |

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|                |            |    |         |        |           |        |    |
|----------------|------------|----|---------|--------|-----------|--------|----|
| Certificate of |            |    |         |        |           |        |    |
| Deposits       | \$ 495,625 | -- | --      | --     | 495,625   | --     | -- |
| Mutual Funds   | --         | -- | 799,044 | 13,078 | 799,044   | 13,078 | -- |
| E q u i t y    |            |    |         |        |           |        |    |
| Securities     | --         | -- | --      | --     | --        | --     | -- |
| Total          | \$ 495,625 | -- | 799,044 | 13,078 | 1,294,669 | 13,078 | -- |

CKX Lands, Inc.  
Notes to Financial Statements  
June 30, 2012  
(Unaudited)

Fair value measurements disclosure for securities is as follows.

|                        | June 30, 2012<br>Quoted Prices<br>in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------|--|---|--|
| Certificate of Deposit | \$ 981,384   | --  | --   |
| Mutual Funds           | --   | --  | --   |
| Equity Securities      | \$ --  | --  | --   |

  

|                        | June 30, 2011<br>Quoted Prices<br>in<br>Active Markets<br>for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------|--|---|--|
| Certificate of Deposit | \$ 495,625   | --  | --   |
| Mutual Funds           | 799,044  | --  | --   |
| Equity Securities      | \$ --  | --  | --   |

Note 4: 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 ending December 31, 2008 through 2011 that remain subject to examination. 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 5: 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 six months of 2012 increased by \$1,077,856 from the revenues for the first six months of 2011 to \$1,740,372.

Oil and gas revenues increased by \$790,711 to \$1,425,324 in 2012. Oil and gas revenues consists of royalty, lease rental and geophysical revenue. Royalty revenue increased by \$767,816 and lease rentals decreased by \$6,970 from 2011. Geophysical revenues increased by \$29,864 from 2011.

Gas production increased by 10,203 MCF, and the average gas sales price per MCF decreased by 26.80% resulting in a decrease in gas revenue of \$5,944. Revenue from oil production increased by \$684,365, due to an increase of 9.17% in the average barrel sales price and a increase in production of approximately 5,924 barrels. Revenues from plant products increased by \$89,395 from 2011 revenues.

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

|  | Six Months<br>Ended<br>06/30/12 | Six Months<br>Ended<br>06/30/11 |
|--|---------------------------------|---------------------------------|
| Net gas produced (MCF)                 | 42,868                          | 32,665                          |
| Average gas sales price (per MCF)(1)   | \$ 3.47                         | \$ 4.74                         |
| Net oil produced (Bbl)(2)              | 9,988                           | 4,064                           |
| Average oil sales price (per Bbl)(1,2) | \$ 109.22                       | \$ 100.05                       |

Notes to above schedule:

(1) Before deduction of production and severance taxes.

(2) Excludes plant products.

Timber revenue increased from \$3,439 to \$5,005 in 2012. Generally, timber prices have been depressed for the last several years and the Company has elected to only harvest timber for internal maintenance programs for age class timber and storm protection measures.

Agriculture revenue increased from \$24,464 to \$310,042 in 2012, primarily due to a pipeline right of way fee.

Costs and Expenses

Oil and gas production costs, primarily severance taxes, increased by \$71,735 in 2012 due to increased oil and gas revenues.

Other costs and expenses incurred for the six months ended December 31, 2012 were generally flat from 2011 reported amounts.



### Financial Condition

Current assets less restricted cash and non-current certificates of deposit totaled \$5,938,786 and total liabilities equaled \$240,229 at June 30, 2012. 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.

The Company declared and paid another seven cents per common share during the quarter ended June 30, 2012. 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 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the Company's management, including the CEO and CFO, 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-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.

- 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: August 9, 2012

/s/ Joseph K. Cooper  
Joseph K. Cooper  
President and Chief Executive Officer

Date: August 9, 2012

/s/ Brian R. Jones  
Brian R. Jones  
Treasurer and Chief Financial Officer