

CKX LANDS, INC.  
Form 10-Q  
August 03, 2018

**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, 2018**

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

Commission File Number **1-31905**

**CKX Lands, Inc.**

(Exact name of registrant as specified in its charter)

**Louisiana**

**72-0144530**

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(State or other jurisdiction of incorporation or organization)

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

**1508 Hodges Street**

**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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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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, 2018**

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**Part I – Financial Information****Item 1. FINANCIAL STATEMENTS****CKX Lands, Inc.****Balance Sheets****June 30, 2018 and December 31, 2017****(Unaudited)**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current Assets		
Cash	\$795,332	\$1,618,583
Cash-Restricted	873,355	33,821
Certificates of deposit	2,140,000	2,662,890
Accounts receivable	93,177	113,067
Prepaid expense and other assets	114,495	50,354
Total current assets	4,016,359	4,478,715
Non-current Assets		
Certificate of deposit	2,185,000	950,000
Property and equipment:		
Land	7,051,412	7,147,100
Timber	2,134,230	2,119,180
Building and equipment less accumulated depreciation of \$74,601 and \$74,565, respectively	33,746	28,742
Total property and equipment, net	9,219,388	9,295,022
Total assets	\$15,420,747	\$14,723,737
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities		
Trade payables and accrued expenses	\$140,735	\$207,166
Income tax payable	20,821	13,346
Total current liabilities	161,556	220,512
Non-current Liabilities		
Deferred income tax payable	187,664	187,664
Total liabilities	349,220	408,176
Stockholders' Equity	59,335	59,335

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Common stock, no par value: 3,000,000 shares authorized; 1,942,495 and 1,942,495 shares issued, respectively

Retained earnings	<i>15,012,192</i>	<i>14,256,226</i>
Total stockholders' equity	<i>15,071,527</i>	<i>14,315,561</i>
Total liabilities and stockholders' equity	<i>\$15,420,747</i>	<i>\$14,723,737</i>

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

## CKX Lands, Inc.

## Statements of Income

## Quarters and Six Months Ended June 30, 2018 and 2017

(Unaudited)

	Quarter Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Oil and gas	\$161,678	\$151,693	\$286,255	\$333,362
Timber	176,559	8,966	355,008	8,966
Surface	52,493	198,013	87,006	215,115
Surface – related party	3,303	38,333	12,459	38,333
Total revenues	394,033	397,005	740,728	595,776
Costs, Expenses and (Gains):				
Oil and gas	13,287	20,083	29,943	33,049
Timber	14,784	6,107	35,378	6,107
Surface	7,513	15,237	14,503	24,848
General and administrative	133,748	100,590	266,309	250,233
Depreciation	234	233	467	467
Gain on sale of land and equipment	(3,334 )	--	(881,654 )	(2,891 )
Total cost, expenses and (gains)	166,232	142,250	(535,054 )	311,813
Income from operations	227,801	254,755	1,275,782	283,963
Other Income:				
Interest income	12,954	10,363	25,876	20,575
Net other income	12,954	10,363	25,876	20,575
Income before income taxes	240,755	265,118	1,301,658	304,538
Federal and State Income Taxes:				
Current	89,051	51,638	312,593	46,438
Deferred	--	--	--	--
Total income taxes	89,051	51,638	312,593	46,438
Net Income	\$151,704	\$213,480	\$989,065	\$258,100
Per Common Stock, basic and diluted				
Net Income	\$0.08	\$0.11	\$0.51	\$0.13
Dividends	\$0.00	\$0.00	\$0.12	\$0.10
Weighted Average Common Shares Outstanding, basic and diluted	1,942,495	1,942,495	1,942,495	1,942,495

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



**CKX Lands, Inc.****Statements of Changes in Stockholders' Equity****Six Months Ended June 30, 2018 and 2017****(Unaudited)**

	Total	Retained Earnings	Capital Stock Issued
<u>Six Months Ending June 30, 2018</u>			
December 31, 2017 Balance	\$ 14,315,561	\$ 14,256,226	\$ 59,335
Net income	989,065	989,065	--
Dividends declared	(233,099 )	(233,099 )	--
June 30, 2018 Balance	\$ 15,071,527	\$ 15,012,192	\$ 59,335
<u>Six Months Ending June 30, 2017</u>			
December 31, 2016 Balance	\$ 13,986,948	\$ 13,927,613	\$ 59,335
Net income	258,100	258,100	--
Dividends declared	(194,250 )	(194,250 )	--
June 30, 2017 Balance	\$ 14,050,798	\$ 13,991,463	\$ 59,335

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

**CKX Lands, Inc.****Statements of Cash Flows****Six Months Ended June 30, 2018 and 2017****(Unaudited)**

	<b>2018</b>	<b>2017</b>
Cash Flows Provided From Operating Activities:		
Net Income	\$ 989,065	\$ 258,100
Less non-cash and non-operating (income) expenses included in net income:		
Depreciation, depletion and amortization	15,180	467
Gain on sale of land and equipment	(881,654 )	(2,891 )
Change in operating assets and liabilities:		
Increase in current assets	(58,503 )	(104,871 )
Increase in current liabilities	(58,956 )	11,278
Net cash provided from operating activities	5,132	162,083
Cash Flows Provided From (Used In) Investing Activities:		
Certificates of deposit:		
Purchases	(2,905,000)	(1,212,890)
Maturity proceeds	2,192,890	1,690,000
Land, equipment, and other assets:		
Purchases	(10,371 )	--
Sales proceeds	996,494	3,390
Timber:		
Purchases	(29,763 )	(11,040 )
Net cash provided from investing activities	244,250	469,460
Cash Flows Used In Financing Activities:		
Dividends paid	(233,099 )	(194,250 )
Net cash used in financing activities	(233,099 )	(194,250 )
Net increase in cash and cash-restricted	16,283	437,293
Cash and cash-restricted:		
Beginning	1,652,404	1,081,188
Ending	\$ 1,668,687	\$ 1,518,481

Supplemental disclosures of cash flow information:

Cash payments for:

Interest	\$--	\$--
Income taxes	\$ 308,387	\$ 55,000

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



**CKX Lands, Inc.**

**Notes to Financial Statements**

**June 30, 2018**

**(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, 2017*. 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. Certain amounts have been reclassified to conform to the current period’s presentation, including oil and gas, timber, and surface, from general and administrative costs and expenses on the statements of income.

In *May 2014*, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes most current revenue recognition guidance, including industry-specific guidance. Subsequently, the FASB has issued updates which provide additional implementation guidance. The new guidance requires companies to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. We adopted this guidance in the *first* quarter of *2018* applying the modified retrospective approach. We have completed our review of all revenue sources in scope for the new standard, and stumpage agreements are within this scope. In accordance with the new standard, the basis for determining revenue and expenses allocable to stumpage agreements (timber revenue) was *not* modified. There was *no* net cumulative effect adjustment for this change as of *January 1, 2018*.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, which provides guidance requiring companies to report net cash provided or used by operating, investing and financing activities and the net effect of those flows on the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents during the period. The statement of cash flows shall report that information in a manner that reconciles beginning and ending totals of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The companies shall also disclose information about the nature of the restrictions on restricted cash and restricted cash equivalents. We adopted this guidance in the first quarter of 2018. In accordance with the new standard, no modification to our presentation for restricted cash was made.

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, 2017* and Form 10-Q for the quarterly period ended *June 30, 2018*.

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 that remain subject to examination, generally 3 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. Company Operations

The Company's operations are classified into *three* principal operating segments that are all located in the United States: oil and gas, timber and surface. The Company's reportable business segments are strategic business units that offer income from different products. They are managed separately due to the unique aspects of each area.

**CKX Lands, Inc.****Notes to Financial Statements***June 30, 2018***(Unaudited)**

Following is a summary of segmented operations information for the *six* months ended *June 30, 2018* and *2017*, respectively:

	2018	2017
Revenues		
Oil and Gas	\$286,255	\$333,362
Timber	355,008	8,966
Surface	99,465	253,448
Total	740,728	595,776
Cost and Expenses		
Oil and Gas	29,943	33,049
Timber	35,378	6,107
Surface	14,506	24,848
Total	79,824	64,004
Income from Operations		
Oil and Gas	256,312	300,313
Timber	319,630	2,859
Surface	84,962	228,600
Total	660,904	531,772
Other Income (Expense) before Income Taxes	328,161	(273,672 )
Income before Income Taxes	989,065	258,100
Identifiable Assets, net of accumulated depreciation and depletion		
Oil and Gas	--	--
Timber	2,134,230	2,119,180
Surface	--	--
General Corporate Assets	13,286,517	12,604,557
Total	15,420,747	14,723,737
Capital Expenditures		
Oil and Gas	--	--
Timber	29,763	11,040
Surface	--	--
General Corporate Assets	10,371	--
Total	40,134	11,040

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Depreciation and Depletion		
Oil and Gas	--	--
Timber	14,713	--
Surface	--	--
General Corporate Assets	467	467
Total	\$15,180	\$467

There are *no* intersegment sales reported in the accompanying income statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the Company's Form 10-K for the year ended *December 31, 2017*. The Company evaluates performance based on income or loss from operations before income taxes excluding any nonrecurring gains and losses on securities held available-for-sale. Income before income tax represents net revenues less costs and expenses less other income and expenses of a general corporate nature. Identifiable assets by segment are those assets used solely in the Company's operations within that segment.

**CKX Lands, Inc.****Notes to Financial Statements*****June 30, 2018*****(Unaudited)**

## Note 3. Company Operations (continued)

Revenue from customers representing 5% or more of total revenue for the *six* months ended *June 30, 2018* and *2017*, respectively are:

Count	2018	2017
1	\$250,334	\$179,292
2	77,137	80,210
3	73,110	54,154
4	47,567	42,513
5	38,333	38,333

## Note 4. Cash – Restricted

During the *first* quarter of *2018*, the company closed on the sale of *four* parcels of land all of which were structured as a “deferred exchange using a qualified intermediary” pursuant to Paragraph *1031* of the Internal Revenue Code (*1031* Exchange) for income tax purposes. The net proceeds from these transactions of \$993,160 of which \$873,355 remained in the Cash-Restricted amount at *June 30, 2018*. Subsequent to *March 31, 2018*, identified properties for the purposes of the *1031* Exchange were deemed *not* acceptable after preliminary due diligence. The *1031* Exchange will *not* be completed. The related tax expense on the gain from these sales has been accrued at *June 30, 2018*.

The following table provides a reconciliation of cash and cash-restricted reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows.

June 30,  
2018



Cash	\$795,332
Cash-restricted	873,355
Cash and cash-restricted	\$1,668,687

Note 5. Dividend Declaration

On *March 22, 2018*, the Company declared a dividend of *twelve (\$0.12)* cents per common share payable to shareholders of record date as of *April 5, 2018* and payment date of *April 12, 2018*.

Note 6. Related Party Transactions

On *April 17, 2017*, the Company entered into an option to lease agreement (“OTL”) with Stream Wetlands Services, LLC (“Stream”). Under the terms of the OTL, Stream paid the Company \$38,333 during the quarter ended *March 31, 2018* for an extension of an exclusive right to evaluate and market certain lands owned by the Company to their client for beneficial use purposes to compensate for wetlands impact through *February 28, 2019*. Stream *may* extend the OTL for up to *two (2)* successive periods of *twelve (12)* months. If Stream is chosen to perform their client’s project, the Company has agreed to put forth its best efforts to negotiate and enter into a mutually acceptable lease form. Due to the uncertainty of the contract award and project scope, we are unable to estimate the potential financial benefit, if any, to the Company. William Gray Stream, a prior Company Director, is the president of Stream Wetlands Services, LLC.

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

**Results of Operations**

**Revenue**

Comparison of Revenues for the three months ended June 30, 2018 and 2017 follows:

	2018	2017	\$ Change	% Change
Oil and Gas	286,255	333,362	(47,107 )	(14.13 )%
Timber	355,008	8,966	346,042	3,859.49%
Surface	99,465	253,448	(153,983)	(60.76 )%
Total	740,728	595,776	144,952	24.33 %

**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:

	2018	2017	\$ Change	% Change
Oil	230,249	245,441	(15,192)	(6.19 )%
Gas	51,520	80,254	(28,734)	(35.80 )%
Lease and Geophysical	4,486	7,667	(3,181 )	(41.49 )%
Total	286,255	333,362	(47,107)	(14.13 )%

CKX received oil and/or gas revenues from 87 and 95 wells during the three-month period ended June 30, 2018 and 2017, respectively.

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

	2018	2017
Net oil produced (Bbl) <sup>(2)</sup>	3,247	4,305
Average oil sales price (per Bbl) <sup>(1,2)</sup>	\$63.18	\$50.40
Net gas produced (MCF)	15,248	23,746
Average gas sales price (per MCF) <sup>(1)</sup>	\$3.38	\$3.38

Notes to above schedule:

(1) Before deduction of production costs and severance taxes.

(2) Excludes plant products.

Oil and Gas revenues decreased by \$43,926 from 2017 revenues. As indicated from the schedule above the net decrease was due to increases in the average price per barrel and decreases in barrels of oil produced, MCF of gas produced, and the average price per MCF.

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

Lease and geophysical revenues were \$4,486 in 2018 and \$7,667 in 2017 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 will be comparable to 2017 annual reported amounts.

During the first six months of 2018, the Company received \$355,008 in timber revenues. In 2017, the Company received 8,966 in timber revenues. We believe the increase in revenues is due to our continued marketing of our timber and securing stumpage agreements over the last couple of years and dryer weather. We believe the market will continue to be challenging during 2018.

Surface revenue decreased \$153,983 from 2017 revenues primarily due to no revenue related to pipeline right of way agreements were received in 2018. As previously noted by management, pipeline, utility and other right of ways are not unusual to the Company however, these types of revenue are not predictable and can vary significantly from year to year.

**Costs and Expenses**

Timber costs increased by \$29,271 in 2018 due to the increased timbers revenue occurring in the first six months of 2018.

Surface costs decreased by \$10,345 in 2018 due to lower repair and maintenance cost and no legal contract review.

General and administrative expenses increased by \$16,076 primarily due to increased officer salaries for land disposition administration, increased transfer agent fees and public company fees, increased general and administrative expenses and decreases in legal fees related to SEC reporting and director fees.

## **Financial Condition**

Current assets totaled \$4,016,359 and current liabilities equaled \$161,556 at June 30, 2018.

In the opinion of management, cash and cash equivalents, and certificates of deposit are adequate for projected operations and possible land acquisitions.

The Company declared and paid twelve cents per common share dividend during the quarter ended March 31, 2018. During the first quarter of each future calendar year, the Company anticipates determining if a dividend will be declared. In determining whether a dividend will be declared, the board of directors will take into account the Company's prior fiscal year's cash flows from operations and current economic conditions among other information deemed relevant.

## **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.

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

The Company's business and operations are subject to certain risks and uncertainties, including:

**Reliance upon Oil and Gas Discoveries**

The Company's most significant risk is its reliance upon others to perform exploration and development for oil and gas on its land. Future income is dependent on others finding new production on the Company's land to replace present production as it is depleted. Oil and gas prices as well as new technology will affect the possibility of new discoveries.

**Commodity Prices**

Most of the Company's operating income comes from the sale of commodities produced from its lands: oil and gas, and timber. Fluctuations in these commodity prices will directly impact net income.

**Natural Disasters**

The Company has approximately 10,612 net acres of timberland (pine and hardwood) in various stages of growth or age classes. A typical pine timber stand will be harvested after 30 to 35 years of growth with some thinning occurring during this time. A hardwood stand will be harvested after 45 to 50 years of growth. A natural disaster can have a material adverse effect on timber growth, reducing its value. Natural disasters could include a hurricane, tornado, high winds, heavy rains and flooding, and/or fire cause by lightning.

**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 quarterly period ended June 30, 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.

10.1 Agreement to Purchase and Sell Real Estate of approximately 880 acres in Calcasieu Parish, Louisiana effective May 11, 2016 is incorporated by reference to Form 10-Q filed August 8, 2016.

10.2 Agreement to Purchase and Sell Real Estate of commercial real estate in Sulphur, Louisiana effective July 13, 2017 is incorporated by reference to Form 10-Q filed August 3, 2017.

31 Certification of 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.

Date: August 2, 2018

*/s/ Lee Boyer*  
Lee Boyer  
President