

CKX LANDS, INC.
Form 10-Q
November 09, 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 **September 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

(State or other jurisdiction of incorporation or organization)

72-0144530

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

One Lakeside Plaza, 4th Floor

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.

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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** shares of common stock are issued and outstanding as of November 9, 2018

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PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CKX LANDS, INC.****BALANCE SHEETS**

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash	\$ 1,992,461	\$ 1,618,583
Restricted cash	-	33,821
Certificates of deposit	2,150,000	2,662,890
Accounts receivable	120,446	113,067
Prepaid expense and other assets	96,098	50,354
Total current assets	4,359,005	4,478,715
Long-term certificate of deposit	1,945,000	950,000
Property and equipment, net	9,218,338	9,295,022
Total assets	\$ 15,522,343	\$ 14,723,737
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables and accrued expenses	\$ 177,753	\$ 207,166
Income tax payable	-	13,346
Total current liabilities	177,753	220,512
Deferred income tax payable	187,664	187,664
Total liabilities	365,417	408,176
Stockholders' equity:		
Common stock, 3,000,000 authorized, no par value, 1,942,495 issued and outstanding as of September 30, 2018 and December 31, 2017	59,335	59,335
Retained earnings	15,097,591	14,256,226
Total stockholders' equity	15,156,926	14,315,561

Total liabilities and stockholders' equity	\$15,522,343	\$14,723,737
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The accompanying notes are an integral part of these unaudited financial statements.

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CKX LANDS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Oil and gas	\$178,640	\$132,348	\$464,895	\$465,710
Timber sales	56,929	-	411,936	8,966
Surface revenue	22,127	64,975	109,133	318,423
Surface revenue - related party	-	-	12,459	-
Total revenue	257,696	197,323	998,423	793,099
Costs, expenses and (gains):				
Oil and gas costs	18,435	13,668	48,378	46,717
Timber costs	15,212	2,776	50,591	8,883
Surface costs	10,717	12,429	25,220	37,277
General and administrative expense	136,366	116,234	402,674	366,467
Depreciation expense	1,050	234	1,517	701
Gain on sale of land and equipment	-	(28,561)	(881,654)	(31,452)
Total costs, expenses and (gains)	181,780	116,780	(353,274)	428,593
Income from operations	75,916	80,543	1,351,697	364,506
Other income - interest income	26,301	11,465	52,176	32,040
Income before income taxes	102,217	92,008	1,403,873	396,546
Federal and state income tax expense:				
Current	16,817	29,617	329,409	76,055
Deferred	-	11,093	-	11,093
Total income taxes	16,817	40,710	329,409	87,148
Net income	\$85,400	\$51,298	\$1,074,464	\$309,398
Per common stock, basic and diluted				
Net income	\$0.04	\$0.03	\$0.55	\$0.16
Dividends	\$0.00	\$0.00	\$0.12	\$0.10
Weighted average 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 CASH FLOWS****(Unaudited)**

	Nine Months Ended	
	September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$1,074,464	\$309,398
Less non-cash expenses included in net income:		
Depreciation, depletion and amortization expense	15,413	701
Deferred income tax expense	-	11,093
Gain on sale of land	(881,654)	(31,452)
Changes in operating assets and liabilities:		
Increase in current assets	(67,375)	(116,782)
Increase in current liabilities	(42,759)	103,887
Net cash provided by operating activities	98,089	276,845
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(3,145,000)	(2,412,890)
Proceeds from maturity of certificates of deposit	2,662,890	2,410,000
Purchases of fixed assets	(39,317)	(93,901)
Proceeds from the sale of fixed assets	996,494	35,474
Net cash provided by (used in) investing activities	475,067	(61,317)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(233,099)	(194,250)
Net cash used in financing activities	(233,099)	(194,250)
NET INCREASE IN CASH AND RESTRICTED CASH		
	340,057	21,278
Cash and restricted cash, beginning of the period	1,652,404	1,081,188
Cash and restricted cash, end of the period	\$1,992,461	\$1,102,466
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$-	\$-
Cash paid for income taxes	\$355,387	\$99,240

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

CKX LANDS, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

Note 1: Basis of Presentation and Recent Accounting Pronouncements

Basis of Presentation

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures have been omitted pursuant to such rules and regulations. In the opinion of management, the accompanying financial statements include normal recurring adjustments that are necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with our audited financial statements and notes thereto for the fiscal year ended December 31, 2017 included in our Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of results to be expected for the full fiscal year or any other periods.

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make a number of estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosures. Actual results may differ from these estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the 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. The Company adopted this guidance in the first quarter of 2018 applying the modified retrospective approach. The Company has completed its 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. The Company 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.

Note 2: Restricted Cash

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 were \$993,160, of which \$873,355 remained in restricted cash. In August 2018, the funds were received and therefore restricted cash was \$0 at September 30, 2018. Subsequent to the sale, identified properties for the purposes of the 1031 Exchange were deemed not acceptable after preliminary due diligence. The 1031 Exchange was not completed.

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

	September 30, 2018	December 31, 2017
Cash	\$1,992,461	\$1,618,583
Restricted cash	-	33,821
Total	\$1,992,461	\$1,652,404

Note 3: Certificates of Deposit

The Company has certificates of deposit for investment purposes. Certificates of deposit have maturities greater than three months when purchased, in amounts not greater than \$250,000. All certificates of deposit are held until maturity and recorded at cost which approximates fair value. Certificates of deposit mature through August of 2020. Certificates of deposit were \$2,150,000 and \$2,662,890 as of September 30, 2018 and December 31, 2017, respectively. Purchases of certificates of deposit were \$3,145,000 and \$2,412,890 for the nine months ended September 30, 2018 and 2017, respectively. Proceeds from the maturity of certificates of deposit were \$2,662,890 and \$2,410,000 for the nine months ended September 30, 2018 and 2017, respectively.

Note 4: Property and Equipment

Property and equipment consisted of the following:

	September 30, 2018	December 31, 2017
Land	\$7,051,412	\$7,147,100
Timber	2,213,777	2,119,180
Building and equipment	108,602	103,307
	9,373,791	9,369,587
Accumulated depreciation	(155,453)	(74,565)
Total	\$9,218,338	\$9,295,022

Depreciation, depletion and amortization expense was \$15,413 and \$701 for the nine months ended September 30, 2018 and 2017 respectively.

Note 5: Dividends

On March 22, 2018, the Company declared a dividend of \$0.12 cents per common share payable to shareholders of record as of April 5, 2018. Total dividends of \$233,099 were paid on April 12, 2018.

Note 6: Segment Reporting

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.

The tables below present financial information for the Company's three operating business segments:

Three		Nine	
Months		Months	
Ended		Ended	
September		September	
30,		30,	
2018	2017	2018	2017

Revenues: