LITTLEFIELD CORP
Form 10QSB
August 21, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark one)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal quarter ended June 30, 2006

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file No. 0-24805

Littlefield Corporation
(Exact name of small business issuer as specified in its charter)

Delaware	74-2723809
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2501 North Lamar Blvd., Austin TX 78705
(Address of principal executive offices)

(512) 476-5141
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] NO [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES [ ] NO [X]

As of June 30, 2006, the Issuer had 10,833,334 shares of its Common Stock, par value $.001 per share outstanding.

Transitional Small Business Disclosure Format: YES [ ] NO [X]

Littlefield Corporation

FORM 10-QSB

For the quarter ended June 30, 2006

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Three Months Ended June 30,	2006	(R
REVENUES:		
Entertainment	$1,996,000	$1,

Hospitality	1,622,035	1,
Other	(3,186)	
TOTAL REVENUES	3,614,849	2,
DIRECT COSTS AND EXPENSES:		
Direct salaries and other compensation	758,204	
Rent and utilities	626,303	
Other direct operating costs	953,494	
Depreciation and amortization	165,975	
License expense	30,664	
Provision for doubtful accounts	0	
TOTAL COSTS AND EXPENSES	2,534,640	2,
GROSS MARGIN	1,080,209	
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and other compensation	142,596	
Legal and accounting fees	62,932	
Depreciation and amortization	26,247	
Compensation expense related to options	56,400	
Other general and administrative	128,454	
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	416,629	
OPERATING INCOME	663,580	(
OTHER INCOME AND EXPENSES:		
Interest and investment income	11,516	
Interest expense ($7,875 and $10,315 respectively to related parties)	(51,506)	
Gain (loss) on fixed asset sales	4,000	
Gain (loss) on sale of investments		
Gain settlement	0	
Other income and (expense)	125	
TOTAL OTHER INCOME AND EXPENSES	(35,865)	
NET INCOME BEFORE PROVISION FOR INCOME TAXES	627,715	
PROVISION FOR INCOME TAXES	15,774	
NET INCOME	611,941	
OTHER COMPREHENSIVE INCOME	0	
NET COMPREHENSIVE INCOME	611,941	

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Three Months Ended June 30,	2006	(R
EARNINGS (LOSS) PER SHARE:		
Basic earnings (loss) per share	$.057	
Diluted earnings (loss) per share	$.055	
Weighted average shares outstanding - basic	10,756,967	10,
Weighted average shares outstanding - diluted	11,048,517	10,

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Six Months Ended June 30,	2006	(R
REVENUES:		
Entertainment	$4,168,319	$3,
Hospitality	2,322,883	1,
Other	42,884	
TOTAL REVENUES	6,534,086	5,
DIRECT COSTS AND EXPENSES:		
Direct salaries and other compensation	1,326,722	1,
Rent and utilities	1,240,122	1,
Other direct operating costs	1,611,936	1,
Depreciation and amortization	329,592	
License expense	70,890	

Provision for doubtful accounts	0	
TOTAL COSTS AND EXPENSES	4,579,262	4,
GROSS MARGIN	1,954,824	1,
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and other compensation	290,450	
Legal and accounting fees	78,311	
Depreciation and amortization	50,643	
Compensation expense related to options	81,358	
Other general and administrative	239,657	
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	740,419	1,
OPERATING INCOME	1,214,405	
OTHER INCOME AND EXPENSES:		
Interest and investment income	43,968	
Interest expense ($15,753 and $23,815 respectively to related parties)	(108,365)	(
Gain (loss) on fixed asset sales	4,346	
Gain (loss) on sale of investments		
Gain on Settlement		
Other income and (expense)	37,527	
TOTAL OTHER INCOME AND EXPENSES	(22,524)	
NET INCOME BEFORE PROVISION FOR INCOME TAXES	1,191,881	
PROVISION FOR INCOME TAXES	30,774	
NET INCOME	1,161,107	
OTHER COMPREHENSIVE INCOME	0	
NET COMPREHENSIVE INCOME	$1,161,107	$

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Six Months Ended June 30,	2006	
		(R
EARNINGS (LOSS) PER SHARE:		

Basic earnings (loss) per share	$.109	
Diluted earnings (loss) per share	$.107	
Weighted average shares outstanding - basic	10,626,668	10,
Weighted average shares outstanding - diluted	10,843,946	10,

See notes to consolidated financial statements.

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Littlefield Corporation
CONSOLIDATED BALANCE SHEET (Unaudited)

ASSETS

	Jun
Current Assets:	
Cash and cash equivalents	
Accounts receivable, net of allowance for doubtful accounts of $84,108	
Equity Securities, available for sale	
Restricted Cash	
Other prepaid expenses and current assets	
Total Current Assets	
Property and Equipment - at cost, net of accumulated depreciation and amortization	
Other Assets:	
Goodwill	
Intangible assets, net	
Other non-current assets	
Total Other Assets	
TOTAL ASSETS	$

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:
Long term debt, current portion
Trade accounts payable

Legal Settlements - current portion	
Reserve for settlements	
Other current liabilities - related party	
Accrued expenses	
Total Current Liabilities	
Long-term Liabilities:	
Legal Settlements - net of current portion	
Long term debt, net of current portion	
Long term debt-related party	
Total Long-term Liabilities	
Total Liabilities	
Stockholders' Equity:	
Common stock, $.001 par value, (authorized 20,000,000 shares, issued 11,959,532 shares, outstanding 10,833,334 shares)	
Additional paid-in capital	
Treasury stock - 1,126,198 shares, at cost	
Accumulated Comprehensive Income	
Accumulated deficit	(
Total Stockholders' Equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Six Months Ended June 30,	2006	(R
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,161,107	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	380,235	
Gain on investment sales		
Stock-based compensation expense	81,358	
Gain on Exercise of Deferred Compensation		
Increase (decrease) in cash flows as a result of changes in asset and liability account balances:		
Accounts receivable	146,051	(

Other assets and licenses	(41,980)	
Trade accounts payable	(358,443)	
Accrued expenses and other current liabilities	(241,101)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,127,227	1,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment expenditures	(175,727)	(
Purchase of Intangibles		
Proceeds from sale of equity securities		
Proceeds from collection of Note Receivable	1,184,214	
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	1,008,487	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(65,668)	
Payments on notes payable	(374,704)	(
Proceeds from options exercised	158,000	
Collection of Subscriptions	46,000	
NET CASH (USED) IN FINANCING ACTIVITIES	(236,372)	(
NET INCREASE IN CASH	1,899,342	
CASH AT BEGINNING OF PERIOD	618,972	
CASH AT END OF PERIOD	$2,518,314	$1,

See notes to consolidated financial statements.

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Littlefield Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Six Months Ended June 30,	2006	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments:		
Interest	$96,718	$
Income taxes	$0	

Non-cash transactions:

Acquisition of property, equipment and intangibles in exchange for notes payable	$0
Issuance of treasury stock for deferred compensation and 401K plan	$24,403

See notes to consolidated financial statements.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION.

The unaudited consolidated financial statements include the accounts of Littlefield Corporation and its wholly owned subsidiaries (the "Company"). The financial statements contained herein are unaudited and, in the opinion of management, contain all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenue and expenses during the reported period. Actual results could differ from these estimates. Where appropriate, items within the consolidated condensed financial statements have been reclassified to maintain consistency and comparability for all periods presented.

The operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. Except for historical information contained herein, certain matters set forth in this report are forward looking statements that are subject to substantial risks and uncertainties, including the impact of government regulation and taxation, customer attendance and spending, competition, and general economic conditions, among others. This Quarterly Report on Form 10-QSB contains "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company's management. When used in this report, the words "anticipate," believe," "estimate," "expect," and "intend" and words or phrases of similar import, as they relate to the company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the company with the Securities and Exchange Commission, based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The company does not intend to update these forward-looking statements.

NOTE 2 - RESTATEMENT.

In July 2006, we identified certain errors that had resulted in misstatements of previously reported stock option expenses. In July 2006 management and the Audit Committee of the Board of Directors concluded that we would amend our previously filed Form 10-Q for the quarter ended March 31, 2006 to correct our reported stock option expenses. In August 2006 management and the Audit Committee of the Board of Directors concluded that we would also amend our previously filed 2005 Form 10-KSB to correct our reported stock options expenses. Accordingly, our financial statements for 2005 and the first quarter of 2006 in our original filings should no longer be relied upon. Management and the Chairman of the Audit Committee also discussed these matters with our independent registered public accountants.

The following table sets forth the effects of restatements made to correct the error in our reported Q1 2006 stock option expenses for a modification to certain stock option agreements in 2005.

NOTE 2 - RESTATEMENT (Continued).

	FOR THE QUARTER ENDED June 30,	
Consolidated Statement of Operations	2005 Restated	2005 Previously Reported
Compensation Expense	$47,000	$0
Total General and Administrative	727,270	680,270
Operating Income	(167,054)	(120,054)
Net Income Before Taxes	434,299	481,299
Net Income	427,459	474,459
Net Comprehensive Income	$427,425	$474,425
Basic Earnings Per Share	$0.041	$0.055
Diluted Earnings Per Share	$0.041	$0.054

Wtd Avg Shares Outstanding - Basic	10,333,151	8,550,509
Wtd Avg Shares Outstanding - Diluted	10,413,769	8,858,009

Consolidated Statement of Operations	FOR THE SIX MONTHS ENDED June 30, 2005 Restated	2005 Previously Reported
Compensation Expense	$66,750	$0
Total General and Administrative	1,130,988	1,064,238
Operating Income	(6,403)	60,347
Net Income Before Taxes	556,842	623,592
Net Income	535,002	601,752
Net Comprehensive Income	$535,761	602,511
Basic Earnings Per Share	$0.052	$0.071
Diluted Earnings Per Share	$0.052	$0.068
Wtd Avg Shares Outstanding - Basic	10,263,810	8,481,168
Wtd Avg Shares Outstanding - Diluted	10,843,946	8,788,668

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 3 - PROPERTY AND EQUIPMENT.

Property and equipment at June 30, 2006 consists of the following:

Land	$778,826
Buildings	3,207,889
Leasehold improvements	3,867,274
Rental inventory and bingo equipment	1,779,786
Equipment, furniture and fixtures	2,393,670
Automobiles	406,037
	12,433,482
Less: Accumulated depreciation and amortization	(6,279,926)
Property and equipment, net	$6,153,556

Total depreciation expense, for owned and leased assets, charged to operations for the six months ended June 30, 2006 and 2005 was approximately $369,000 and $475,000 respectively.

NOTE 4 - GOODWILL & OTHER INTANGIBLE ASSETS.

Goodwill at June 30, 2006 consists of the following:

	Gross Carrying Amount	Accumulated Amortization	Tota
Goodwill	$6,704,907	$(1,799,796)	$4,905,111

	Entertainment	Hospitality	
Balance at December 31, 2005	$4,533,727	$371,384	$4,905,111
Goodwill acquired in the Quarter	-0-	-0-	-0
Impairment losses	-0-	-0-	-0
Balance at June 30, 2006	$4,533,727	$371,384	$4,905,111

Intangible assets at June 30, 2006 consists of the following:

	Gross Carrying Amount	Accumulated Amortization	Tota
Intangible Assets with Indefinite Lives:			
Bingo licenses	$589,720	$(51,974)	$537,746
Intangible Assets with Finite Lives:			
Covenants not to compete	$297,500	$(193,801)	$103,699
Intangible Assets, Net of Accumulated Amortization			$641,445

Amortization expense charged to operations for the six months ended June 30, 2006 and 2005 was approximately $11,000 and $15,000 respectively.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 5 - SHAREHOLDERS' EQUITY.

At June 30, 2006 the Company holds 1,126,198 treasury shares at an average purchase cost of $1.27.

NOTE 6 - SHARE BASED PAYMENTS.

Effective January 1, 2006, the Company adopted FASB Statement of Financial Accounting Standards No. 123R (Revised 2004), Share-Based Payment, which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on the provisions of SFAS 123 issued in 1995. We have adopted this statement using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, but leaves prior periods unchanged.

The Company recorded approximately $81,000 in compensation expense in the period ended June 30, 2006 related to options issued under its stock-based incentive compensation plans. This includes expense related to both options issued in the current year and options issued in prior years for which the requisite service period for those options includes the current year. The fair value of these options was calculated using the Black-Scholes options pricing model. Information related to the assumptions used in this model is set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. For options issued in 2006, the following assumptions were used: dividend yield of 10%, expected volatility of 68%, risk free interest rates of 5.0% and an expected life of 7 years.

NOTE 7 - PRO FORMA INFORMATION UNDER SFAS 123 FOR PERIODS PRIOR TO 2006.

The following table represents the effect on net income and earnings per share as if the Company had applied the fair-value recognition provisions of SFAS 123 to all of its share-based compensation awards for the quarter ending June 30, 2005:

	Three Months Ende June 30, 2005 (Restated)
Net Income - as reported	$ 427,459
Stock-based compensation included in reported net income, net of related tax effects	47,000
Total stock-based compensation expense determined under the Fair Value Based method, net of related tax effects	(81,342)
Net Income - pro forma	$ 393,117
Earnings Per Share	
Basic - as reported	$ 0.041
Basic - pro-forma	$ 0.038
Diluted - as reported	$ 0.041
Diluted - pro-forma	$ 0.038

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 8 - EARNINGS (LOSS) PER SHARE.

A reconciliation of basic to diluted earnings per share is as follows:

Six months ended June 30,	2006 Basic	2006 Diluted	2005 (Restated) Basic
Numerator:			
Net income (loss)	$1,161,107	$1,161,107	$535,002
Denominator:			
Weighted average shares outstanding	10,626,668	10,626,668	10,263,810
Effect of dilutive securities:			
Preferred stock	---	---	---
Stock options and warrants	---	217,278	---
Weighted average shares outstanding	10,626,668	10,843,946	10,263,810
Earnings (loss) per share	$.109	$.107	$.052

NOTE 9 - COMPREHENSIVE INCOME.

The Company has adopted Financial Accounting Standards Board Statement No. 130, Reporting Comprehensive Income. Statement No. 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement has no impact on net income or shareholders' equity. Statement No. 130 requires unrealized gains or losses to be included in other comprehensive income.

The components of comprehensive income for the quarters ended June 30, 2006 and 2005, are as follows:

	2006	2005

		(Restated)
Net income	$1,161,107	$535,002
Other comprehensive income		
Net unrealized gain	$0	$759
Total comprehensive income	$1,161,107	$535,761

NOTE 10 - INCOME TAXES.

The Company recorded approximately $31,000 and $22,000 of state income tax expense, respectively, for the six months ended June 30, 2006 and 2005. The Company does not expect to incur material federal income tax charges until the depletion of its accumulated federal income tax loss carry-forwards, which totaled approximately $6,800,000 at December 31, 2005.

NOTE 11 - RELATED PARTY TRANSACTIONS.

In August 2001, the Company acquired Word of Mouth Custom Catering. In conjunction with this purchase, the Company issued two promissory notes payable in the amount of $200,000 each to the two sellers (related parties), as partial consideration for this purchase, and entered into three-year employment agreements with the sellers. In November 2003, the relationship with one of the sellers changed from that of an employee to an independent contractor on a consulting basis, in August of 2004 the agreement terminated with the remaining employee as per the original agreement. The terms of the notes did not change. These notes payable at an annual rate of 8.0% and a maturity date of August 2005. These obligations were paid in full in August 2005. For the six months ended June 30, 2006 and 2005, the Company recognized $0 and $3,000, respectively, of interest expense related to these obligations.

The President and CEO of the Company had personally guaranteed $300,000 of a note payable to a third party lender, in the original total amount of $540,000. The note was paid in full in May 2005.

The Company accrued a total of $61,275 in loan guaranty fees to its President in 2002. This amount has been added to his bonus amount accrued in 2002 in the amount of $300,000, plus accrued interest and is presented on the balance sheet as a long term liability - related party. For the six months ended June 30, 2006 and 2005, the Company recognized $12,088 and $13,950 respectively, of interest expense related to these obligations.

The Company purchased the President's office furniture and antiques for a total price of $105,650 in July 2002. This amount was set up on a note payable with interest only payments for 4 years at 6.75% with the principal amount due in July 2006 as a balloon payment. In 2006, the note was revised with interest only payments for 5 years at 6.75% with the principal amount due in July 2010. Interest paid on this note for the six months ended June 30, 2006 and 2005 was $3,565 and $3,565 respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES.

Generally speaking, the Securities and Exchange Commission guidelines require a company to report any pending legal and/or regulatory proceedings that involves a claim for damages in excess of ten percent (10%) of its current assets. The litigation and proceedings discussed below do not necessarily meet this threshold, but are included in the interest of full disclosure. In general, the Company will vigorously defend itself against all claims to the fullest extent possible:

Pondella Hall for Hire, Inc., d/b/a Eight Hundred v. American Bingo and Gaming, Case No.: 97-2750, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida.

800438 Ontario Ltd v. American Bingo and Gaming Corporation, Case No.: 99-1161, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida.

These two related cases arise from a transaction carried out by a predecessor, American Bingo & Gaming Corporation ("American Bingo"), in July 1995, when American Bingo bought three Florida bingo centers from two corporations owed and controlled by Phillip Furtney. More specifically, American Bingo purchased the assets of Pondella Hall for Hire and Fountains Bingo from Pondella Hall for Hire, Inc., and the stock of Bingo Trail from 800438 Ontario Ltd. American Bingo paid the Furtney controlled entities over $450,000 at the time of purchase and agreed to pay additional compensation of $450,000 over a period of twenty-four months and transfer stock in American Bingo having a value of an additional $450,000. Several months after the acquisition of the three halls, the Florida Attorney General's office obtained an indictment and brought a civil proceeding related to two of the three halls for alleged gambling related offenses. This investigation had been ongoing at, and for some time prior to, the acquisition of the halls, but had not been disclosed to American Bingo by the sellers. As a result of these legal proceedings, and the very real threat of additional legal proceedings against the American Bingo and its officers, the halls were closed and sold to third parties. Additionally, American Bingo settled the litigation brought by the Florida Attorney General by pleading to misdemeanor sales tax violations, paying substantial fines, and agreeing to terms which precluded American Bingo from business in the state of Florida. (This prohibition has since been lifted as a result of further negotiations with the State of Florida.)

NOTE 12 - COMMITMENTS AND CONTINGENCIES.

American Bingo did not pay the remaining amounts under the acquisition contracts since they believed the sellers breached the contracts and committed fraud by failing to disclose the ongoing investigation by the Florida Attorney General's office. Pondella filed a two count Complaint against American Bingo in the Circuit Court for Manatee County, alleging breach of contract and common law conversion. At the same time, 800438 Ontario also filed a similar Complaint against American Bingo for breach of contract. American Bingo answered both Complaints by denying the essential allegations. Additionally, American Bingo brought Counterclaims against Pondella and 800438 for fraud, negligent misrepresentation, breach of warranties, contractual indemnity, breach of guaranty, deceptive and unfair trade practices, and violation of Chapter 517 of the Florida Statutes. American Bingo also brought claims against Furtney for his role. However, Furtney, a Canadian citizen and resident of Canada and Mexico, would not accept service of American Bingo's Complaints and American Bingo was unable to obtain service of its Complaints on Furtney. The Complaints against Furtney were dismissed before trial due to lack of service.

A jury trial on all claims, except American Bingo's claims against Furtney, was conducted in January 2005. The Jury found for Pondella and 800438 Ontario on all their claims and against American Bingo on their claims against Pondella and 800438 Ontario. Following trial, the Judge granted American Bingo's motion for a directed verdict on Pondella's claim for conversion. The principal amount of Pondella's judgment is $410,000 and with interest and attorney's fees totals $802,039. The principal amount of 800438 Ontario's judgment is $450,000 and with interest and attorney's fees totals $808,996. The Company has appealed these judgments to the Florida Second District Court of Appeal and intends to vigorously pursue its rights on appeal. Additionally, the Company has bonded off both judgments, which precludes any efforts to collect on the judgments during the appeal. The range of potential loss on these two cases is between zero and the amount of the judgments, plus accrued interest. The company accrued a total of $1,610,000 on its financial statements related to these matters, $1,500,000 on the 2004 financial statements and $110,000 on its 2005 financial statements.

Littlefield Corporation f/k/a/ American Bingo and Gaming v. Philip Furtney, Case No.: 2001 CA 4000, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida. As set forth in the previous section, the Company also brought claims against Philip Furtney related to his failure to disclose the existence of the investigation of the Florida Attorney General regarding the bingo halls acquired by American Bingo from the Furtney controlled entities. These claims were dismissed from the original litigation based upon the Company's inability to serve the Complaints on Furtney, a foreign resident, when he refused to voluntarily accept service of the Complaints. This dismissal did not decide or relate to the merits of the claims against Furtney. The Company refiled the Complaints against Furtney in separate litigation and was finally successful in serving Furtney when he appeared in Florida for trial of the Pondella/800438 Ontario cases in January 2005. The Company intends to vigorously pursue its claims against Furtney. The case against Furtney is in discovery and the Company has a trial date of December 11, 2006.

Lenrich Associates LLC v. Littlefield Corporation, et al; Civil Action No. 00-CP-10-4742, South Carolina Court of Common Pleas, County of Charleston. Lenrich Associates brought this action against the Company based on a commercial lease guaranty that was signed by the Company. The tenant on the lease was Concessions Corp., a subsidiary of the Company and had been used as the location of the "Lucky II" facility, which was closed in early 2000. The lease expired in February 2003. Because rental payments under the lease were in arrears, Lenrich Associates sought to enforce the guaranty against the Company. The Company's liability under the guaranty was capped at the lesser of two years of fixed and additional rent or the amount of fixed and additional rent corresponding to the time period mandated by South Carolina law. A settlement agreement had been reached for $147,500, which has been accrued for by the Company in June 2002. However, the plaintiff withdrew their support of the settlement agreement shortly thereafter. Effective January 1, 2006 a settlement was reached between the two parties in which Littlefield will pay a sum of $500,000. The Company accrued for the remaining balance of approximately $353,000 in the 2005 financial statements. A payment was made in one lump sum payment of $250,000 on January 3, 2006 and additional payment have been made in the amount of $10,000 a month and will continue for the next 25 months, final payment to be made January 5, 2008.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 12 - COMMITMENTS AND CONTINGENCIES.

Littlefield Corp. v. Dye, Civil Action No. 2002-cp-08-478. The Company filed an action on March 6, 2002, in Berkeley County, South Carolina for collection on a note signed by Danny C. Dye. The note, which was executed on December 10, 1998, was in the amount of $80,000. The Company alleges that Dye still owes $58,481 toward the principle balance, plus $19,257 in accrued interest through December 31, 2002. On January 14, 2003, Mr. Dye amended his answer to assert counterclaims against the Company for fraudulent breach of contract and violation of the South Carolina Payment of Wages Act based on allegations that the Company failed to pay Dye amounts due under an employment contract. Mr. Dye has alleged that the Company owes him $375,000 in unpaid salary and is seeking treble damages under the Payment of Wages Act for a total amount of $1,250,000 in damages. The Company believes that the counterclaims are without merit and the Company plans to contest them vigorously.

Collins Entertainment Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, and American Bingo and Gaming Corp.; American Bingo and Gaming Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, Civil Action No. 97-CP-10-4685, South Carolina Court of Common Pleas, Charleston County. On October 9, 1997, Collins Entertainment, Inc., filed a lawsuit alleging the Defendants had engaged in civil conspiracy and tortiously interfered with the Plaintiff's contract, violating the South Carolina Unfair Trade Practices Act. The Plaintiff sought actual damages in excess of $350,000 and an unspecified amount of punitive damages. The Company believed this lawsuit was completely without merit; however, a judgment was issued on February 12, 2001 in favor of the plaintiff. Damages of $157,000 were awarded in addition to punitive damages of $1,570,000. The Company appealed this decision with the South Carolina appellate court, and the judgment was affirmed. The Company applied for a re-hearing with the appellate court, which threw out their original opinion. However, their new opinion also reaffirmed the judgment. The Company filed an appeal with the South Carolina Supreme Court. The appeal has been heard and in April 2006, the judgment was returned in favor of the plaintiff. The Company has filed a petition with the Supreme Court requesting reconsideration of the court's decision. The decision on the petition is pending. The potential outcomes in this matter fall within a range of $0 in the event of a full and final reversal of the judgment to the full judgment amount plus accrued simple interest of 12% from the date of judgment plus court costs. The company has accrued $1,570,000 on its financial statements related to this matter. The actual damages of $157,000 were paid in 2001.

The South Carolina Supreme Court held oral argument on whether the trial court and the South Carolina Court of Appeals committed error in holding that plaintiff was a "lost volume seller." The Company asked the South Carolina Supreme Court to reject the lost volume seller doctrine entirely or to determine that the plaintiff is not a lost volume seller as a matter of law in this case. Alternatively, if the South Carolina Supreme Court chose to adopt the lost volume seller doctrine and not rule on its express application as a matter of law, the Company requested that the court vacate the judgment and remand the case to the trial ourt for a new trial on the application of the doctrine and, consequently, the amount of damages. In a split decision, the South Carolina Supreme Court affirmed the decision of the Court of Appeals on April 10, 2006. The Company filed a petition with the court requesting reconsideration of the court's decision. This petition was denied. The Company continues to explore all options in the case, including a further appeal to the United States Supreme Court, to address constitutional challenges to the punitive damages awarded in this case that the South Carolina Supreme Court declined to address.

Amy Ramon and Jessica Searsy v. Clark C. Lilly, Littlefield Corporation, Managed Care Center for Addictive and Other Disorders, Inc., South Plains Volunteer Services, Inc., Marion Moss Enterprises, Inc., Alcoholic Service Knocks for Women, Inc. and Lubbock Area Addictive Services. Cause No. 2006-535,397 in the 237th District Court of Lubbock County, Texas. This case involves claims brought by two bingo employees of various charities which operate from a bingo hall leased to the charities by Littlefield Corporation. The plaintiffs claim that the bingo hall manager sexually harassed them and terminated them in violation of their rights under nondiscrimination provisions of the Texas Labor Code and also assert various tort claims against Littlefield under state law including claims for negligent supervision and retention of the alleged harasser. Plaintiffs allege that Littlefield was their employer and the employer of the accused harasser. Discovery has just begun in this case. Littlefield intends to vigorously defend this case because the plaintiffs and the alleged harasser were not its employees.

Christina Caudle v. Clark C. Lilly, Littlefield Corporation, Managed Care Center for Addictive and Other Disorders, Inc., South Plains Volunteer Services, Inc., Marion Moss Enterprises, Inc., Alcoholic Service Knocks for Women, Inc. and Lubbock Area Addictive Services. Cause No. 2006-535,400 in the 99th District Court of Lubbock County, Texas. This case involves claims brought by a bingo employee of various charities which operate from a bingo hall leased to the charities by Littlefield Corporation.

NOTE 12 - COMMITMENTS AND CONTINGENCIES.

The plaintiff claims that the bingo hall manager sexually harassed her and terminated them in violation of their rights under nondiscrimination provisions of the Texas Labor Code and also asserts various tort claims against Littlefield under state law including claims for negligent hiring and retention of the alleged harasser. Plaintiff alleges that Littlefield was her employer and the employer of the accused harasser. Discovery has just begun in this case. Littlefield intends to vigorously defend this case because the plaintiff and the alleged harasser were not its employees.

Courtney A. Bigham v. Clark C. Lilly, Littlefield Corporation, Managed Care Center for Addictive and Other Disorders, Inc., South Plains Volunteer Services, Inc., Marion Moss Enterprises, Inc., Alcoholic Service Knocks for Women, Inc. and Lubbock Area.

Addictive Services. Cause No. 2006-535,453 in the 99th District Court of Lubbock County, Texas. This case involves claims brought by a bingo employee of various charities which operate from a bingo hall leased to the charities by Littlefield Corporation. The plaintiff claims that the bingo hall manager sexually harassed her and terminated them in violation of their rights under nondiscrimination provisions of the Texas Labor Code and also asserts various tort claims against Littlefield under state law including claims for negligent hiring and retention of the alleged harasser. Plaintiff alleges that Littlefield was her employer and the employer of the accused harasser. Discovery has just begun in this case. Littlefield intends to vigorously defend this case because the plaintiff and the alleged harasser were not its employees.

Regina Butler v. Clark C. Lilly, Littlefield Corporation, Managed Care Center for Addictive and Other Disorders, Inc., South Plains Volunteer Services, Inc., Marion Moss Enterprises, Inc., Alcoholic Service Knocks for Women, Inc. and Lubbock Area Addictive Services. Cause No. 2006-535,470 in the 72th District Court of Lubbock County, Texas. This case involves claims brought by a bingo employee of various charities which operate from a bingo hall leased to the charities by Littlefield Corporation. The plaintiff claims that the bingo hall manager sexually harassed her and terminated them in violation of their rights under nondiscrimination provisions of the Texas Labor Code and also asserts various tort claims against Littlefield under state law including claims for negligent hiring and retention of the alleged harasser. Plaintiff also asserts claims for retaliatory discharge, negligent supervision, intentional infliction of emotional distress, slander & libel. Plaintiff alleges that Littlefield was her employer and the employer of the accused harasser. Discovery has just begun in this case. Littlefield intends to vigorously defend this case because the plaintiff and the alleged harasser were not its employees.

NOTE 13 - SEGMENTS.

The Company's Chief Operating Decision Maker ("CODM"), the President and CEO, evaluates performance and allocates resources based on a measure of segment profit or loss from operations.

The Company has identified two operating segments based on the different nature of the services and legislative monitoring and, in general, the type of customers for those services in the current year and two in the prior year. The entertainment segment encompasses bingo center services provided to charitable organizations in South Carolina, Texas and Alabama. The Hospitality segment is the tent rental business (acquired November 2000) and the party rental and catering businesses in Austin, Texas, which were acquired in July and August of 2001.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2006

NOTE 13 - SEGMENTS (Continued).

A summary of the segment financial information reported to the CODM is as follows:

June 30, 2006

	Entertainment	Hospitality	Adjustment	Consolidated
Revenue	$4,168,000	$2,323,000	$43,000	$6,534,000
Depreciation and Amortization	207,000	123,000	50,000	380,000
Segment profit (loss)	1,941,000	(11,000)	(769,000)	1,161,000
Segment Assets	24,193,000	1,462,000	(9,021,000)	16,634,000

June 30, 2005 (Restated)

	Entertainment	Hospitality	Adjustment	Consolidated
Revenue	$3,492,000	$1,938,000	$57,000	$5,487,000
Depreciation and Amortization	256,000	187,000	47,000	490,000
Segment profit (loss)	1,180,000	(195,000)	(450,000)	535,000
Segment Assets	22,942,000	1,495,000	(9,390,000)	15,047,000

The adjustments represent other income, depreciation and amortization related to corporate assets, corporate losses, corporate assets and corporate capital expenditures to reconcile segment balances to consolidated balances.

NOTE 14 -- SUBSEQUENT EVENTS.

July 2006 - Troy D. Zinn, Chief Financial Officer resigned his position within the Company.
July 2006 - Richard S. Chilinski hired as the Chief Financial Officer for the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Company was formed in 1994 as a Delaware corporation to consummate the acquisition of charitable bingo centers and video gaming operations, and completed the initial public offering in December of 1994. We operate primarily through wholly owned subsidiaries in Texas, Alabama and South Carolina.

The statements in this Quarterly Report on Form 10-QSB relating to matters that are not historical facts, including, but not limited to statements found in this "Management Discussion and Analysis of Financial Condition and Results of Operations", are forward-looking statements that involve a number of risks and uncertainties. Factors that could cause actual future results to differ materially from those expressed in such forward-looking statements include, but are not limited to the impact of government regulation and taxation, customer attendance, spending, competition, general economic conditions, and other risks and uncertainties as discussed in this Quarterly Report and the 2005 Annual report on Form 10-KSB.

On July 21, 2006, we announced that we would restate our unaudited financial statements for the first quarter of 2006 to correct an error in accounting for share based compensation in that quarter. The amended Form 10-QSB/A for the quarter ended March 31, 2006, is being filed on the same day as this Form 10-QSB for the quarter ended June 30, 2006. This 10-QSB for the second quarter of 2006 contains all financial adjustments and is based on the restated financial statements for the first quarter of 2006.

On August 14, 2006, we announced that we would restate our financial statements for the year ended December 31, 2005. This 2005 restatement also relates to the proper recording of expenses related to share based compensation. References in this 10-QSB to our operations, assets, liabilities and cash flows for the second quarter of 2005 and the full year 2005 include revisions to financial information for the period ended December 31, 2005. We expect to file the amended Form 10-KSB/A containing restated financial statements for the year ended December 31, 2005, within the next ten days.

We intend to grow our business through acquisitions and the selective start up of charitable bingo halls in markets in which we currently operate and other attractive markets.

Results of Operations

We incurred a net profit of approximately $1,161,000 for the first six months of 2006, which equated to a basic and fully diluted earnings per share of $0.109 and $0.107 respectively, which represented an improvement of approximately $626,000 over our net profit of $535,000 for the first six months of 2005, which was $0.052 per basic and $0.052 fully diluted share. The weighted average number of basic Common Stock shares outstanding totaled 10,626,668 in the first six months of 2006 as compared to 10,263,810 in the first six months of 2005.

Revenues

	2006	2005 (Restated)	Change	% Change
Total Revenues	$ 6,534,000	$ 5,487,000	$ 1,047,000	19%
Entertainment	4,168,000	3,492,000	676,000	19%
Texas	2,421,000	1,947,000	474,000	24%
South Carolina	901,000	751,000	150,000	20%
Alabama	846,000	794,000	52,000	7%
Hospitality	$ 2,323,000	$ 1,938,000	$ 385,000	20%

Revenues for the Company increased 19% over the same period in 2005 with both the Entertainment and the Hospitality divisions contributing. Entertainment accounted for 64% of total revenues compared with 64% of total revenues in 2005. By state Entertainment revenues break down for Texas, South Carolina and Alabama as 58%, 22%, and 20% respectively compared to 55%, 22% and 23% in the first six months of 2005. Hospitality accounted for 36% of total revenues for the six months, compared to 35% of total revenues in 2005.

Net Income

	2006	2005 Restated	Change
Total Net Income	$ 1,161,000	$ 535,000	$ 626,000
Entertainment	1,941,000	1,180,000	761,000
Hospitality	$ (11,000)	$ (195,000)	$ 184,000

The Company realized net income in the first six months of 2006 of $1,161,000 compared to a net income of $535,000 for the same period in 2005. The Entertainment division improved by 65% while the Hospitality division decreased their loss. These increases can be attributed to improved revenues and management's concentration on cost savings throughout the organization.

Costs and Expenses

Rent and utilities were up approximately $158,000 or 15% in the first six months of 2006 as compared to the same period in 2005. This increase is largely related to a greater number of facilities in 2006 than were present in the same period of 2005. The remainder of the rent increase is a result of the annual increases in rent and higher utility costs. Other direct operating costs were up 12% in the first quarter of 2006 as compared to the same period in 2005. This is related to higher costs of goods sold, higher property taxes, and higher repairs and maintenance at our facilities than occurred in the first six months of 2005. License expense was up 164%, a result of the timing of the payment on licenses and a change from accruing license expense into a prepaid asset account and simply expensing when it is submitted.

Depreciation and amortization expense totaled approximately $380,000 ($330,000 Direct plus $50,000 G&A) in the first six months of 2006, a decrease of about $110,000 from the first six months of 2005. The decrease is largely a result of the disposition of assets in late 2005.

General and administrative expenses, excluding related depreciation expense and stock based compensation expense totaled approximately $608,000 in the first six months of 2006, compared to approximately $1,017,000 in 2005, a decrease of about $409,000, all relating to higher legal expenses in 2005. For compensation expense related to options, see Note 6, Share Based Payments.

Other income and expense was an expense of approximately $23,000 for the first six months of 2006, compared to other income of approximately $563,000 for the first six months of 2005. The income in 2005 was mainly from a gain on settlement on a note receivable. The remaining expenses were interest expenses. Interest expense was down approximately $26,000 compared to the first six months in 2005. This was a result of lower debt in the first six months of 2006.

Liquidity and Capital Resources

Cash and cash equivalents at June 30, 2006, totaled approximately $2,518,000 and represented approximately 15% of total assets of approximately $16,634,000. Cash provided from operating activities for the six months ended June 30, 2006, totaled approximately $1,127,000 compared to cash provided of $1,099,000 during the same period of 2005, an increase of approximately $28,000. Cash flows provided by operating activities in the first six months of 2006 were increased by the net income of approximately $1,161,000, non-cash depreciation expense of approximately $380,000, increased by stock based compensation of approximately $81,000 and offset by results of change in asset and liability accounts of approximately $495,000.

Net cash provided in investing activities totaled approximately $1,008,000 for the six months ended June 30, 2006, compared to net cash provided of approximately $729,000 in the six months ended June 30, 2005. In the first six months, cash was used in the amount of approximately $176,000 for the purchase of capital assets and offset by the collection of a note receivable in the amount of approximately $1,184,000. In the same six month period of 2005 cash was used for the purchase of capital assets of about $163,000.

Cash used by financing activities in the first six months of 2006 totaled approximately $236,000, as compared to net cash used in financing activities in the first six months of 2005 of approximately $921,000. In the six months ended June 30, 2006, approximately $441,000 of cash was used to pay down the normal principle payments on both capital leases and notes payable, increased by $46,000 from the collection of a subscription receivable and approximately $158,000 from the exercising of stock options by employees.

Current assets totaled approximately $4,727,000 at June 30, 2006, leaving the Company with working capital of approximately $236,000 and a current ratio of 1.05 to 1. Legal reserves totaling $3,320,000 ($3,200,000 legal reserves + $120,000 legal settlements) are included in current liabilities, of which $1,610,000, related to the Pondella Hall case discussed in Note 12 to the unaudited financial statements, is not expected to be paid, if at all, for one to two years. The remaining reserved amount of $1,570,000 relates to the Collins Entertainment judgment discussed in Note 11 to the unaudited financial statements and $20,000 of accrued for other. The $120,000 legal settlement represents the current portion of the Lenrich settlement discussed in Note 12 of the unaudited financial statements.

At June 30, 2006, we had approximately $16,634,000 in total assets with total liabilities of approximately $7,009,000 and approximately $9,625,000 of shareholders equity. Total assets include approximately $2,518,000 in cash, $1,291,000 of other current assets and net account receivables and $918,000 of restricted cash, $6,154,000 of property and equipment, $5,547,000 of intangible assets, and $207,000 of other assets. Total liabilities primarily consist of accounts payable of approximately $67,000, notes and capital lease obligations of approximately $2,524,000 and accrued liabilities, other current liabilities-related party and legal settlements and reserves of $4,418,000.

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Item 3. Controls and Procedures

The Company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Disclosure controls and procedures are designed with the objective of ensuring that (i) information required to be disclosed in the

Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) the information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

After the close of the second fiscal quarter covered by this Report, the Company's management and board of directors determined that it was necessary to restate the financial results for the first quarter of 2006 because of errors in accounting for share based compensation in the first quarter, which occurred in connection with the Company's accounting for stock option expense under Statement of Financial Accounting Standards No. 123R, "Share Based Compensation," which the Company adopted in the first quarter of 2006. Because of the required amendment to our financial statements made after the close of the second fiscal quarter, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 3006, our disclosure controls and procedures were not effective due to the fact that we had failed to correctly account for share based compensation expense.

The restated financial statements for the first quarter are contained in Amendment No. 1 to the Company's report on Form 10-QSB/A for the period ended March 31, 2006, which has been filed with the SEC, August 21, 2006, the same day as the filing of this Form 10-QSB for the period ended June 30, 2006. Net Income in Q1 2006 was increased by approximately $341,000 as a result of a correction in the accounting for stock options. The Company had originally booked expenses of approximately $365,000 related to the stock options and upon discovery of the error, management and the Board of Directors made the decision to restate the 10-QSB for the first quarter of 2006.

We have taken steps to improve our internal control over financial reporting during and after the second fiscal quarter of 2006, including hiring of an outside consultant to advise management on the proper accounting for stock options, strengthening the formal process of documenting changes to options issued, and requiring two officers to verify the documentation of the changes or exercising of stock options. Other than the changes described in this paragraph, there have been no other changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including the Chief Executive Officer and Chief Financial Officer, believe that, with the changes described in the preceding paragraph, our disclosure controls and procedures are effective, as of the date of filing this quarterly report on Form 10-QSB, to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of material pending legal proceedings, see Note 12 to the unaudited Consolidated Financial Statements included in Part I hereof, which Note 12 is incorporated herein by reference.

Item 6. Exhibits

31.1 Rule 31a-14(a) / 15d-14(a) Certifications

32.1 Section 1350 Certifications

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Littlefield Corporation

August 21, 2006

By:

/s/ JEFFREY L MINCH

Jeffrey L. Minch
President and Chief Executive Officer

/s/ TROY D. ZINN

Troy D. Zinn
Secretary and Treasurer
(Chief Financial Officer)