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LITTLEFIELD CORP
Form 10-K
March 31, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008 Commission File No. 0-24805

LITTLEFIELD CORPORATION
(Exact name of registrant as specified in its charter)

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

2501 N. Lamar Blvd.
Austin, Texas 78701
(Address of principal executive offices)
Registrant's telephone number: 512-476-5141

Securities registered pursuant to Section 12(b) of the Act:
None

Securities to be registered pursuant to Section 12(g) of the Act:
Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer,
as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and
will not be contained, to the best of registrant's knowledge, in definitive
proxy or information statements incorporated by reference in Part III of this
Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer,
an accelerated filer, a non-accelerated filer or a smaller reporting company.
See the definitions of "large accelerated filer", "accelerated filer" and
"smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of voting and non-voting common equity held by
non-affiliates of the registrant at the close of business on March 4, 2009, was

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\$2,150,986 based upon the last sales price reported for such date on the OTC Bulletin Board.

At the close of business on March 4, 2009 registrant had outstanding 16,754,901 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant for its Annual Meeting of Stockholders to be held on May 20, 2009 (the "Proxy Statement").

This report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements appear in a number of places in this Report and include all statements regarding the intent, belief or current expectations of the Company, its directors or its officers, with respect to, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; and (iv) the declaration and payment of dividends. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein and those factors discussed in detail in the Company's filings with the Securities and Exchange Commission.

PART I

ITEM I: BUSINESS

Littlefield Corporation develops, owns and operates charitable bingo halls, and owns and operates an event rental company. In our Entertainment division, we operate 37 charitable bingo halls in Texas, Alabama, Florida and South Carolina. We also own and operate Littlefield Hospitality in Austin, Texas. The Hospitality division consists of Premiere Tents and Events, a party and tent rental company. We were incorporated in Delaware in 1994.

CURRENT YEAR EVENTS:

During 2008, the Company devoted time and resources related to the growth and expansion into targeted geographic areas and continued efforts to resolve certain legal matters.

The Company operated at approximately breakeven excluding the significant unfavorable impact on earnings of fourth quarter charges associated with a write-down of the carrying value of goodwill and other assets in addition to certain contract termination costs, renovations, re-openings and the start-up of new halls in Texas, stock-based compensation and ongoing legal expenses. In light of actual financial performance, changed economic conditions and certain specific underperforming bingo hall closures the Company wrote-down the carrying value of goodwill and other assets. In addition the Company recorded certain contract termination costs associated with certain underperforming bingo hall closures.

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Growth and expansion

During 2008, nine (9) Texas halls were affected by re-openings (Abilene - 2), mergers (Odessa - 2) or start-ups (San Angelo - 2, Corpus Christi - 1, El Paso -1 and McAllen -1). These activities had a measurable unfavorable impact on earnings of \$1,811,000. As a result of the national economic downturn, start-ups in El Paso and McAllen, Texas were suspended.

In December 2007, the Company had announced it executed a definitive agreement to acquire a Florida bingo hall. The acquisition of the bingo hall in Pensacola, Florida was completed with an effective date of January 1, 2008.

In March 2008, the Company completed a private placement of 5,190,568 shares of common stock for \$7,000,000.

In April 2008, the Company sold its catering unit to strategically focus on its Entertainment segment and recorded a gain on the sale of approximately \$474,000.

In July 2008, we completed the acquisition of 6 halls in South Carolina for \$1,800,000; this amount was reduced to \$1,500,000 when the note was paid in full in January 2009. The anticipated early payoff of \$500,000 is shown as a current liability as of December 31, 2008.

Asset impairments and contract termination costs

As a result of its annual asset impairment review the Company wrote-down goodwill and certain assets and recorded contract termination costs associated with hall closures; these special charges totaled approximately \$2,390,000.

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Legal matters

Also during 2008, the Company continued efforts to resolve certain legal matters:

The Company resolved a Notice of Opportunity to Show Compliance ("Notice") from the Texas Lottery Commission's Charitable Bingo Division ("Division"). The Company vigorously defended itself and the Division sent two separate letters one to Texas Charities, Inc. in connection with an "extension of credit issue" and one to Ambler Bingo, Inc. in connection with an "bingo equipment issue" indicating that no further administrative action would be taken.

Early in 2009 and largely through continuing efforts during 2008, the Company resolved two cases with the South Carolina Department of Revenue: South Carolina Department of Revenue v. Littlefield Corporation, Midlands Promotions, Inc., Low Country Promotions, Inc., and Gamecock Promotions, Inc., 05-ALJ-17-0413-CC and Littlefield Corporation, Gamecock Promotions Inc., Palmetto Upstate Promotions Inc., and Midlands Promotions Inc. v. South Carolina Department of Revenue, 07-ALJ-17-623-CC. In these cases, the Department of Revenue sought to revoke all bingo promoter licenses held by the Company's South Carolina subsidiaries and sought a \$5,000 penalty and the denial of six additional promoters licenses, related to the Company's planned South Carolina acquisition.

The Company and its subsidiaries vigorously defended the revocation proceeding and the right to hold the additional licenses for which the subsidiaries applied and asserted that Littlefield Corporation is not the holder of these promoter licenses, but rather that its lawfully formed subsidiaries are separate corporations that each hold a lawful number of the promoter licenses. A final agreement was reached within which the subsidiaries, without a fine or penalty,

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will continue as bingo promoters and for a period of two years the Company and its subsidiaries are to provide the Department with certain quarterly and annual information pertaining to its subsidiaries. In March 2009, both matters were dismissed, with prejudice by an Administrative Law Judge.

All of the legal matters are discussed more thoroughly in Item 3 - "Legal Proceedings" and in "Notes to Consolidated Financial Statements" of Item 8.

PRINCIPAL BUSINESS AND MARKETS

We currently have two distinct and separate business segments.

1. "Littlefield Entertainment" owns and operates 37 charitable bingo halls. Of these 37 bingo halls, seventeen (17) are in Texas (Austin-1, Abilene-1, Amarillo-3, Corpus Christi-1, McAllen-3, Lubbock-3, Odessa-1, Midland-1, San Angelo-2 and San Antonio-1), three (3) are in Alabama (Montgomery-2 and Mobile-1), sixteen (16) are in South Carolina (Charleston-5, Georgetown-1, Goose Creek-2, Walterboro-1, Conway-1, Aiken-1, Greer-2, Columbia metro-3) and one (1) is in Florida. The total segment comprised approximately 79% of our total revenues in 2008 versus 77% in 2007.
2. "Littlefield Hospitality" consists of Austin Tents and Events which was acquired in November 2000 and Premiere Party Rental which was acquired in July of 2001. Austin Tents and Events and Premiere Party Rental were subsequently combined and are now called Premiere Tents and Events. Revenues in our Hospitality division comprised 20% of total revenues in 2008 compared to 22% in 2007. The Word of Mouth Custom Catering unit was sold in April 2008.

LITTLEFIELD ENTERTAINMENT. Our main business is the management of charitable bingo halls. We might be called a "commercial lessor", "charitable bingo lessor", "bingo conductor" or "bingo promoter" depending upon the jurisdiction in which we are operating.

A new charity bingo hall is created when we contract with a real estate landlord, through a long-term real estate lease, to rent premises suitable for a bingo hall. We engage in market, demographic and location research in order to ensure the suitability of a specific site for the development of a new bingo hall. We then develop the physical plant for a bingo hall based upon our expertise; and, attract the requisite number of charities for the use of the premises and the services provided to support the charities' conduct of bingo operations.

When we invest in a new start up bingo hall, we anticipate recovering our entire investment (usually \$100,000 to \$400,000) within one to two years after the attainment of a stable and predictable operating environment (typically 6-12 months after the initiation of operations with a full contingent of charities). In addition to starting up new charitable bingo halls, we may acquire other companies that also engage in the management of charitable bingo halls. We anticipate an immediate going in return of 25-35% on our entire investment and the ability to sustain that level of performance for a ten (10) year period, absent only regulatory or environmental changes beyond our ability to predict or control.

In 2008, we acquired a hall in Florida; during the first year the hall

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generated a return on investment of approximately 59%.

In the past five years in Texas, we have purchased El Bingo Grande Bingo Hall, Bingo Idea, Bingo Barn and Strike It Rich in San Angelo. Of these, Bingo Idea and Bingo Barn were purchased with the knowledge that we would not attain these goals, as these were strategic purchases that allowed us to take advantage of our market presence. The El Bingo Grande Hall purchase has produced a cumulative 101% return since 2002. The returns were as follows: 2002 - a 6% return during the first five months, 2003 - 16%, 2004 - 16%, 2005 - 15%, 2006 - 17%, 2007 - 17% and in 2008 a 15% return.

In October 2005, we acquired the bingo operations of Strike It Rich Bingo in San Angelo, TX. This was an ongoing bingo hall, but one that was not operating at its potential. Since late 2005, additional investments totaling approximately \$1 million have been made including adding another hall in the vicinity. San Angelo has produced a cumulative 53% return since late 2005 including these additional investments. In the three months of 2005 that we operated the hall, it generated a 5% return, 2006 - 44%, 2007 - 29% and in 2008 a 19% return.

In 2008, our charitable bingo halls raised approximately \$3,900,000 in charitable funding for those charities that operate in our bingo halls. We helped raise \$340,000 for charities in South Carolina, \$590,000 for charities in Alabama, \$50,000 in Florida and \$2,920,000 for charities in Texas. Since 2001 our company has helped raise over \$28 million for charity.

Competition: The charitable bingo market is a fragmented market, often with operators who are individuals or partnerships, with no one dominant competitor. Competition also includes charitable organizations. From region to region there may be a dominant player in their immediate markets, but we are the only publicly traded bingo promoter with more than just a regional presence.

Our unit of competition is an individual bingo hall. Competition is further subdivided by the time of day or night that a bingo hall operates. A bingo hall could generally be a daytime hall, a nighttime hall or a late night hall. In certain jurisdictions, we would like to operate at all three times. An individual bingo hall competes within a trade area of approximately fifteen (15) miles against other bingo halls operating at the same time. Within a larger market (e.g. Charleston, South Carolina) the presence of a number of bingo halls may not give rise to significant competition. In general, we believe that approximately one to one and a half percent (1-1.5%) of the population in a city of more than 100,000 are meaningful and consistent bingo players.

The principal methods of competition used, once an ideal location is obtained, include providing clean, safe and attractive facilities, creating customer loyalty through various marketing efforts, and other promotional programs to stimulate interest in not only playing the game of bingo, but in frequenting our bingo locations specifically. Our combined industry knowledge also gives us a competitive advantage when negotiating with the various charities to use our facilities for their operations. Direct advertising is not permitted under the local bingo regulations by the promoter's organizations in some jurisdictions and is permitted in others.

Regulation: In 2008, we operated in Texas, Alabama, Florida and South Carolina, and each state regulates bingo operations differently.

In Texas, the Texas Lottery Commission regulates bingo and its rules are uniform throughout the State. In general, a bingo hall can contain up to seven (7) charities and can operate seven (7) days per week and conduct as many as fourteen (14) bingo sessions per week.

In South Carolina, the South Carolina Department of Revenue is the principal

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regulator for bingo. Its rules are uniform throughout the State. In general, a bingo hall can contain a single charity and can only operate five (5) sessions per week with a Class B license or every day with a Class C license. In general, a Class C hall is permitted to play more often, but is required to pay out less money than a Class B hall.

In Alabama, bingo can only be played in counties that have a "local bill" authorizing bingo that has been passed by the state legislature. The local county sheriff is the principal regulator of bingo and regulations vary from county to county. In general, a bingo hall can contain up to ten (10) charities and can operate seven (7) days per week and conduct up to twenty-one (21) bingo sessions per week.

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In Florida, charitable bingo is authorized by the Florida Statutes. The local state attorney or county sheriff is the principal regulator of bingo.

LITTLEFIELD HOSPITALITY:

In the last quarter of 2000, we began a diversification of our businesses with the acquisition of Austin Tents and Events and with the purchase of Premiere Party Rental which combined are named Premier Tents and Events. In addition we purchased Word of Mouth Custom Catering in the summer of 2001, this unit was subsequently sold in April 2008. Over the last three years, Premiere Tents and Events had average revenue of approximately \$2,500,000 per year and operated in the central Texas area in and around Austin, Texas. The unit engaged in the party rental business, and installation of tents for events, parties, weddings, festivals, etc. as well as a small amount of event planning.

Competition: The party rental, tent installation, and event coordination market is very fragmented, especially in the local Austin area. There are numerous party rental companies in the Austin area. The keys to success in the hospitality industry are to maintain quality-trained labor and to strive for consistency and excellence in customer service. The hospitality industry has a tradition of being fragmented and our combined acquisitions of Austin Tents and Events and Premiere Party Rental provide a competitive edge in the Austin marketplace.

Regulation: There is no special regulation for this type of business, other than normal business taxes (sales & use, Texas Alcohol and Beverage Commission, franchise, property, etc.) and employment issues. Permits are often needed for certain site locations. We comply with all regulatory issues.

EMPLOYEES:

As of the report date, we had approximately eighty (80) employees and six (6) directors, of which one is a full time employee. Of the current employment level, thirty five (35) are with Littlefield Entertainment, thirty-three (33) are with Littlefield Hospitality and twelve (12) are at corporate headquarters in Austin, Texas. Littlefield Entertainment consists of sixteen (16) full time employees and nineteen (19) part time employees. Littlefield Hospitality consists of thirty-two (32) full time employees and one part time employee.

ITEM IB - UNRESOLVED STAFF COMMENTS

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None

ITEM 2 - PROPERTIES

Our principal executive offices, which we own, are located at 2501 North Lamar Boulevard, Austin, Texas 78705. We lease space for the majority of our bingo operations in Texas, Alabama, South Carolina and Florida and in turn sublease the bingo centers to various charities. Some of our leases require real estate taxes, insurance, common area maintenance and repair expenses to be paid in addition to rent. We own three bingo centers. We believe the condition of our leased and owned properties is good. No single property, leased or owned, amounts to 10% or more of our total assets.

State	City	Location Purpose	Location Name
Alabama	Mobile	Bingo Hall	Bingo Haven
	Montgomery	Bingo Hall	Winners
	Montgomery	Bingo Hall	Good Times
South Carolina	Charleston	(2) Bingo Halls (B&C)	Beacon
	Charleston	(2) Bingo Halls (B&C)	Lucky I
	Charleston	(1) Bingo Halls (C)	Shipwatch
	Columbia metro	(3) Bingo Halls	Mr. Bingo, American, Westside
	Georgetown	Bingo Hall	By George! Bingo
	Greer	(2) Bingo Halls	Mr. Bingo
	Walterboro	Bingo Hall	Coverall Bingo
	Conway	Bingo Hall	Mill Pond Bingo
	Aiken	Bingo Hall	Tally Ho! Bingo
	Goose Creek	(2) Bingo Halls	Galley Hall, B&L
Texas	Abilene	Bingo Hall	Ambler Bingo
	Amarillo	Bingo Hall	Hi-Plains Bingo
	Amarillo	Bingo Hall	Goldstar II Bingo
	Amarillo	Bingo Hall	Grandview
	Austin	Corporate Headquarters	Corporate Hdqtrs
	Austin	Bingo Hall	American Paradise
	Corpus Christi	Bingo Hall	Crosstown Bingo
	Lubbock	Bingo Hall	Lucky Bingo
	Lubbock	Bingo Hall	Goldstar I Bingo
	Lubbock	Bingo Hall	Parkway Bingo
	McAllen	Bingo Hall	Americana I
	McAllen/San Juan	Bingo Hall	Triple City Bingo
	McAllen	Bingo Hall	El Bingo Grande
	Midland	Bingo Hall	Bingo Barn
	Odessa	Bingo Hall	Strike It Rich
	Austin	Warehouse	Premiere Party Rental
	San Antonio	Bingo Hall	Blanco Bingo
San Angelo	Bingo Hall	Strike It Rich	
San Angelo	Bingo Hall	Let It Ride	
Florida	Pensacola	Bingo Hall	Town & Country

In addition, the Company has three non-operating halls in Texas.

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ITEM 3 - LEGAL PROCEEDINGS

The information required by this item is incorporated by reference to Note 13 to the Consolidated Financial Statements set forth on pages F-24 to F-26 hereof.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the stockholders during the fourth quarter of the fiscal year covered by this report.

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PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded on the OTC Bulletin Board under the symbol "LTFD". The following table shows the range of reported high and low closing prices for our common stock for the periods indicated as reported on a daily basis by the OTC Bulletin Board.

2008:	High	Low	2007:	High	Low
First Quarter	\$1.50	\$1.18	First Quarter	\$1.22	\$0.81
Second Quarter	\$1.18	\$0.90	Second Quarter	\$1.27	\$1.01
Third Quarter	\$1.03	\$0.75	Third Quarter	\$1.40	\$1.11
Fourth Quarter	\$0.98	\$0.22	Fourth Quarter	\$1.50	\$1.26

Security Holders

As of March 4, 2009, our common stock was held by approximately 688 beneficial shareholders.

Dividends

We have not paid, and currently have no intention to pay, any cash dividends on our common stock.

Securities Authorized For Issuance Under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (c)
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Equity compensation plans

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approved by security holders	445,410	0.53
Equity compensation plans not approved by security holders	NA	NA
Total	445,410	0.53

Forfeited options become available for future issuance under the Company's equity compensation plans.

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ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our Company was formed in 1994 as a Delaware corporation to consummate the acquisition of charitable bingo centers and other legal gaming operations, and completed an initial public offering in December of 1994. We operate primarily through wholly owned subsidiaries in Texas, Alabama, South Carolina and Florida and have two operating segments - Littlefield Entertainment and Littlefield Hospitality. 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.

The statements in this Annual Report on Form 10-K 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 Annual Report.

Results of Operations

During 2008, the Company operated at approximately breakeven excluding the significant unfavorable impact on earnings of fourth quarter charges associated with a write-down of the carrying value of goodwill and other assets in addition to certain contract termination costs, renovations, re-openings and the start-up of new halls in Texas, stock-based compensation and ongoing legal expenses. The goodwill impairment stems from the Company's normal annual review of goodwill and other intangible assets in light of actual financial performance and changed economic conditions and certain specific underperforming bingo hall closures. The contract termination costs are associated with certain underperforming bingo hall closures.

Full year 2008 earnings include the effect of approximately \$4,732,000 of notable items: a net gain of \$441,000 from the sale and results of the catering business sold in April 2008, \$2,390,000 from goodwill impairments and contract termination costs, \$1,811,000 of expense from renovating, reopening and start-up of halls in Texas, \$588,000 of legal expenses and \$384,000 of non-cash expenses

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for stock-based compensation. The legal expenses mainly include costs from our expansion plans and operations in South Carolina, Florida and Texas and our litigation with Furtney seeking recovery of prior settlements and other damages.

Full year 2007 earnings included the effects of approximately \$656,000 of notable items: \$39,000 of catering unit gross profit, \$217,000 of expense from renovating and reopening halls in Texas, \$421,000 of legal expenses and \$57,000 of non-cash expenses for stock-based compensation. The legal expenses mainly include costs from our expansion plans and operations in South Carolina, Florida, Arkansas and Texas, settlement of a frivolous claim in Texas and our litigation with Furtney seeking recovery of prior settlements and other damages.

Revenues

The following table sets forth the Company's revenues by segment for the twelve months ended December 31, 2008 and 2007, adjusted for the sale of the catering business unit at the beginning of the second quarter of 2008:

	2008	2007	\$ Change	% Change
	-----	-----	-----	-----
Total Revenues	\$11,222,000	\$13,429,000	\$ (2,207,000)	(16%)
Less: Catering	497,000	2,365,000	(1,868,000)	(79%)
Adjusted revenue	10,725,000	11,064,000	(339,000)	(3%)
Entertainment	8,494,000	8,526,000	(32,000)	(0%)
Texas	5,099,000	5,372,000	(273,000)	(5%)
South Carolina	1,667,000	1,715,000	(48,000)	(3%)
Alabama / Florida	1,728,000	1,439,000	289,000	20%
Hospitality	2,137,000	2,489,000	(352,000)	(14%)
Other	\$ 94,000	\$ 49,000	\$ 45,000	NM

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During the twelve months of 2008, total adjusted revenues for the Company decreased 3% from 2007 with the decline attributed to the Hospitality segment. Entertainment revenue held steady with the prior year as acquisitions in South Carolina and Florida offset the unfavorable effect on revenue of hall renovations and re-openings in Texas. Absent the effects of the strategic investments to strengthen the long-term position in certain markets by renovating then reopening and merging certain halls in Texas, the underlying performance of the Texas portfolio was stable. The Entertainment segment accounted for 79% of total adjusted revenues compared with 77% of total adjusted revenues in 2007. By state, Entertainment revenues for Texas, South Carolina and Alabama / Florida were 60%, 20% and 20% of total Entertainment revenue respectively compared to 60%, 19% and 21% in 2007. The increase in Alabama / Florida mainly represented the purchase of a new Florida hall in January 2008. Hospitality revenue decreased 14% from the prior year reflecting lower revenue from a major customer whose development project ended and lower event activity. Hospitality accounted for 20% of total adjusted revenues in 2008, compared to 22% of total adjusted revenues in 2007. Other revenue includes other ancillary services and miscellaneous revenue not reported as segment revenue.

Gross profit and Costs and Expenses

The table below summarizes the Company's gross profit by segment for the twelve

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months ended December 31, 2008 and 2007, adjusted for the sale of the catering business unit at the beginning of the second quarter 2008:

	2008	2007	\$ Change	% Change
	-----	-----	-----	-----
Total Gross Profit	\$1,132,000	\$3,357,000	\$(2,225,000)	(66%)
Less: Catering gross profit (loss)	(33,000)	39,000	(72,000)	NM
Adjusted gross profit	1,165,000	3,318,000	(2,153,000)	(65%)
Entertainment	1,403,000	3,491,000	(2,088,000)	(60%)
Hospitality	(345,000)	(222,000)	(123,000)	(55%)
Other	\$ 107,000	\$ 49,000	\$ 58,000	NM

The decrease in adjusted gross profit was mainly attributed to the 2008 effects of: (1) renovations, re-openings and start-ups of several halls in Texas in the amount of \$1,811,000, (2) additional staff and travel related expenses for these start-up activities and (3) lower hospitality revenue.

The year-to-date direct costs and expenses for 2008 and 2007, adjusted for the sale of the catering business, are set forth in the following table:

	2008	2007	\$ Change	%
	-----	-----	-----	-----
Adjusted Revenue	\$10,725,000	\$11,064,000	\$ (339,000)	
Adjusted direct costs and expenses				
Direct salaries and other compensation	2,131,000	1,925,000	206,000	
Rent and utilities	2,932,000	2,498,000	434,000	
Other direct operating costs	3,523,000	2,599,000	924,000	
Depreciation and amortization	894,000	634,000	260,000	
License expense	80,000	90,000	(10,000)	
Total adjusted costs and expenses	9,560,000	7,746,000	1,814,000	
Adjusted Gross profit	\$ 1,165,000	\$ 3,318,000	\$(2,153,000)	

Adjusted cost of services increased 23% over the comparable twelve-month prior year period mainly as a result of the costs associated with renovations, re-openings and start-ups of new bingo centers and increased rent associated with the acquisition of seven halls; six in South Carolina and one in Florida and the start-up of new halls in Texas. This, in conjunction with lower revenues, resulted in a decline of gross profit percent (gross profit as a percent of sales) to 11% from 30% in 2007.

Direct salaries and other compensation were 11% above the prior year. The increase mainly represented increased staffing, travel and other expenses related to the renovations and start-ups of bingo halls.

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Rent and utilities in 2008 were up approximately 17% over 2007, which largely reflected the addition of our new halls in South Carolina, Florida, Corpus Christi and El Paso Texas. In 2008 and 2007, we did not recognize lease costs on a straight-line basis as provided in SFAS 13, paragraph 15 and FTB 85-3. Instead, lease costs were recognized based on payments made or accrued during each month. If the Company had recognized lease expense on a straight-line basis in 2008 and 2007, total lease costs would not have materially changed the Company's financial results. In general, the Company enters into long term leases underlying its operations. At the same time, the Company generally enters into agreements which are renewed annually with its customers. This permits the Company to adjust its customer agreements in response to general price increases and limits the effect of lease escalation clauses. Generally, the Company's leases require payments of rent and a pro-rata share of real estate maintenance, taxes and insurance.

Other direct operating costs in 2008 were up 36% over the prior year, mainly due to costs such as advertising, promotions and development expenses of the new halls and those re-opened after major renovations.

Depreciation and amortization expense totaled approximately \$1,020,000 (\$894,000 Cost of Services plus \$126,000 G&A) versus \$751,000 (\$634,000 Cost of Services plus \$117,000 G&A) in 2007. The increase was mainly attributed to capital spending on new halls and renovations.

General and administrative expenses, excluding related depreciation expense, the noted legal fees and stock-based compensation totaled approximately \$2,057,000 in 2008, compared to approximately \$2,059,000 in 2007.

Other income and expense was a net expense of approximately \$206,000 for 2008, compared to a net expense of approximately \$347,000 in 2007. The difference mainly stems from lower interest expense from the refinancing of legal settlements and certain notes payable and lower interest rates.

Our income tax expense for 2008 was approximately \$105,000 compared to \$79,000 in 2007, all of which is related to the expected effective tax rate for state income taxes. The increase reflects a new higher margins tax in Texas. As of December 31, 2008, the Company had a net operating loss available for carryover on its federal income taxes of approximately \$9,200,000.

Net Income (Loss)

During 2008, we realized a net loss of approximately \$4,252,000; (\$0.27) per basic share and (\$0.27) per fully diluted share. Net income for 2007 was approximately \$300,000; \$0.03 per basic share and \$0.03 per fully diluted share. The weighted average number of basic Common Stock shares outstanding totaled 15,499,981 in 2008 compared to 11,228,255 in 2007. The increase in shares outstanding mainly represents the sale of 5,190,568 shares of common stock on March 27, 2008.

Full year 2008 earnings include the effect of approximately \$4,732,000 of notable items: a net gain of \$441,000 from the sale and results of the catering business sold in April 2008, \$2,390,000 from goodwill impairments and contract termination costs, \$1,811,000 of expense from renovating, reopening and start-up of halls in Texas, \$588,000 of legal expenses and \$384,000 of non-cash expenses for stock-based compensation, mainly related to terms of an employment agreement. The legal expenses mainly include costs from our expansion plans and operations in South Carolina, Florida and Texas and our litigation with Furtney seeking recovery of prior settlements and other damages.

Full year 2007 earnings included the effects of approximately \$656,000 of notable items: \$39,000 of catering unit gross profit, \$217,000 of expense from

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renovating and reopening halls in Texas, \$421,000 of legal expenses and \$57,000 of non-cash expenses for stock-based compensation. The legal expenses mainly include costs from our expansion plans and operations in South Carolina, Florida, Arkansas and Texas, settlement of a frivolous claim in Texas and our litigation with Furtney seeking recovery of prior settlements and other damages.

Adjusted for the noted items above, the adjusted net income during the twelve months of 2008 was approximately \$480,000 and basic earnings per share were \$0.03 per share in 2008 versus an adjusted net income of \$956,000 and basic earnings per share of \$0.09 last year.

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Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2008, totaled approximately \$4,426,000 and represented 23% of total assets of approximately \$19,526,000. Current assets totaled approximately \$5,343,000 at December 31, 2008. Current liabilities totaled \$3,076,000. Working capital was approximately \$2,266,000 with a current ratio of 1.7 to 1.

The Company has notes and legal settlement payables coming due in the next twenty four months amounting to \$1,013,000 in 2009 and \$385,000 in 2010. The 2009 notes payable maturity includes \$500,000 to payoff early the remaining amount payable on the purchase price of the South Carolina acquisition to realize a \$300,000 discount on the purchase price. The amount was paid in early January 2009 and reduced the purchase price to \$1.5 million.

Debt/Lease Schedule	12 Months 2009	24 Months 2010	36 Months 2011	48 Months 2012	60 Months 2013	Th
Notes Payable	\$ 749,786	\$ 264,588	\$ 2,079,014	\$ 544,308	\$ 46,325	\$
Legal Settlements	\$ 262,748	\$ 120,742	---	---	---	
Operating Leases	\$ 2,282,741	\$ 2,142,294	\$ 1,984,512	\$ 1,423,910	\$ 968,795	\$ 1
Total Obligations	\$ 3,295,275	\$ 2,527,624	\$ 4,063,526	\$ 1,968,218	\$ 1,015,120	\$ 1

Cash used by operating activities for 2008 totaled approximately \$997,000 compared to cash provided of \$1,920,000 during 2007. Cash flows from operating activities in 2008 were decreased by a net loss of approximately \$4,252,000 and increased by non-cash depreciation expense of approximately \$1,032,000, goodwill impairment and contract termination costs of \$2,390,000 and stock-based compensation of approximately \$385,000. In addition, cash flow from operations was reduced by the gain on disposals of \$473,000 mainly from the sale of the catering unit and other net changes in asset and liability accounts of approximately \$79,000. Cash flows provided by operating activities in 2007 were increased by net income of approximately \$300,000, non-cash depreciation expense of approximately \$792,000, stock-based compensation of approximately \$57,000, and other net changes in asset and liability accounts of approximately \$771,000 mainly from improved receivables management.

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Net cash used in investing activities totaled approximately \$3,144,000 for 2008, compared to net cash used in investing activities of approximately \$1,718,000 for 2007. In 2008, cash was used in the amount of approximately \$1,800,000 for acquisitions of which \$500,000 was financed by a seller note payable, and \$2,479,000 for the purchase of capital assets mainly related to the Company's renovations and start-ups and additional licenses purchased for future expansion; these expenditures were partially offset by \$635,000 mainly from the sale of fixed assets, including the sale of the catering unit. In 2007, cash was used in the amount of approximately \$1,648,000 for the purchase of capital assets mainly related to the Company's hall renovations. In 2007, the Company also purchased additional licenses for future expansion.

Cash provided by financing activities in 2008 totaled approximately \$6,601,000, compared to net cash used in financing activities in 2007 of approximately \$786,000. In 2008 approximately \$7,000,000 was provided by the sale of stock and \$34,000 from options exercised; this was partially offset by \$433,000 of cash used for the payment of notes, related party and legal settlements payable. In 2007 approximately \$1,739,000 of cash was used for the payment of notes, related party and legal settlements payable. This was partially offset by \$953,000 of funding received by refinancing certain loans and proceeds from the sale of common stock and options exercised.

At December 31, 2008, we had approximately \$19,526,000 in total assets with total liabilities of approximately \$6,436,000 and approximately \$13,090,000 of shareholders' equity. Total assets include approximately \$4,426,000 in cash, \$917,000 of other current assets and net account receivables, \$7,978,000 of net property and equipment, \$5,958,000 of intangible assets, and \$247,000 of other assets. Total liabilities primarily consist of accounts payable of approximately \$316,000, and notes payable obligations of approximately \$3,917,000, legal settlement obligations of \$383,000 and accrued and related-party liabilities of \$1,748,000 and \$72,000, respectively.

In 2009, we plan to continue to use our cash generated from operations to make leasehold improvements and renovations in certain bingo operations. We also plan to use advantageous combinations of bank financing, seller financing, treasury stock, and cash on hand for new bingo hall acquisitions when favorable terms can be obtained.

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Financial Risk Management

Off-Balance Sheet Arrangements. We have no off-balance sheet debt.

Market Risk. In the normal course of business, we employ established procedures to manage our exposure to changes in the market value of our investments. There were no significant investments in marketable securities at December 31, 2008 or 2007. The Company holds its funds in cash and certificates of deposit generally insured by the FDIC with uninsured amounts setting off loans payable.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement.

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This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, SFAS 157 is amended by Financial Statement Position ("FSP") FAS 157-1, Application of FASB Statement 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which excludes from the scope of this provision arrangements accounted for under SFAS 13, Accounting for Leases. SFAS 157 is also amended by FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We adopted SFAS 157 on January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The partial adoption of SFAS 157 did not have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115. This standard permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. This statement is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 on January 1, 2008, as required. The adoption of SFAS 159 did not have a significant impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS 141(R), Business Combinations--a replacement of FASB Statement No. 141, which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. We are currently evaluating the requirements of SFAS 141(R) and have not yet determined the impact on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, Business Combinations, and other U.S. generally accepted accounting principles. The provisions of FSP FAS 142-3 are effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We are currently evaluating the requirements of FSP FAS 142-3 and have not yet determined the impact on our consolidated financial statements.

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Response to this item is included in "Item 7 - Management's Discussion and Analysis of Financial Conditions and Results of Operations - Market Risk" above.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated by reference to the Consolidated Financial Statements set forth on pages F-1 to F-29 hereof.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no disagreements with accountants on accounting and financial disclosure.

ITEM 9A - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls

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.

Based upon their evaluation, our management including the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15 d - 15(e) under the Securities Exchange Act) are effective, as of the end of the period covered by this report on Form 10-K, 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.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a

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material effect on the financial statements.

Management assessed our internal control over financial reporting as of December 31, 2008, which was the end of our fiscal year. Management based its assessment on criteria established in the SEC Commission's Guidance Regarding Management's Report on Internal Control Over Financial Reporting Under Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The guidance sets forth an approach by which management can conduct a top-down, risk-based evaluation of internal control over financial reporting. Management's assessment included an evaluation of risks to reliable financial reporting, whether controls exist to address those risks and evaluated evidence about the operation of the controls included in the evaluation based on its assessment of risk.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

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This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Littlefield Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

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ITEM 9B - OTHER INFORMATION

None

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PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on May 20, 2009, which proxy statement will be filed with the Securities and Exchange Commission no later than April 24, 2009, is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on May 20, 2009, which proxy statement will be filed with the Securities and Exchange Commission no later than April 24, 2009, is incorporated herein by reference.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND

RELATED STOCKHOLDER MATTERS

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on May 20, 2009, which proxy statement will be filed with the Securities and Exchange Commission no later than April 24, 2009, is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR

INDEPENDENCE

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on May 20, 2009, which proxy statement will be filed with the Securities and Exchange Commission no later than April 24, 2009, is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed to the Company by Padgett Stratemann & Co. LLP for the audit of Littlefield Corporation and Subsidiaries' annual financial statements included in the Form 10-K and for the review of the financial statements included in its quarterly reports on Form 10-Q for the fiscal years ended

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December 31, 2008 and 2007 totaled \$68,000 and \$60,000 respectively. In addition, \$39,335 was incurred in 2008 for other services mainly in conjunction with acquisition related activity. In 2007, \$9,775 was incurred for other services.

Tax Fees

The aggregate fees billed to the Company by Padgett Stratemann & Co. LLP for services rendered to the Company during the fiscal years ended December 31, 2008 and 2007 for tax compliance, tax research or tax planning was \$44,395 and \$30,393 respectively.

It is the audit committee's policy to pre-approve all services provided by Padgett Stratemann & Co. LLP. All services provided by Padgett Stratemann & Co. LLP during the years ended December 31, 2008 and 2007 were pre-approved by the audit committee.

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PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed with Report

1. Financial Statements.

Report of Padgett Stratemann & Co. LLP	F-2
Consolidated Balance Sheet	F-3
Consolidated Statements of Operations	F-4 - F-5
Consolidated Statements of Stockholders' Equity	F-6
Consolidated Statements of Cash Flows	F-7 - F-8
Notes to Consolidated Financial Statements	F-9 - F-29

2. Financial Statement Schedules.

None

3. Exhibits.

Exhibit Description

- 3.1 Certificate of Incorporation of the Company dated September 8, 1994, as amended October 17, 1994, and further amended July 31, 1997 and August 13, 1998, and September 22, 1999 (incorporated by reference to Exhibit 3.1 of the Quarterly Report on Form 10-QSB filed by the Company on November 15, 1999, for the quarter ended September 30, 1999).
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 of the Quarterly Report on Form 10-QSB filed by the Company on November 15, 1999, for the quarter ended September 30, 1999).
- 10.1* 2002 Stock Option Plan (incorporated by reference to Exhibit of the Definitive Proxy Statement Schedule 14A, filed with the SEC on March 22, 2002).

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- 10.2* 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit of the Definitive Proxy Statement Schedule 14A, filed with the SEC on March 22, 2002).
 - 10.3* 2009 Employment Agreement.
 - 22.1 Subsidiaries of the Company
 - 31.1 Certification Pursuant to Rules 13a-14(a)
 - 32.1 Certification Pursuant to 18 U.S.C. 1350
- * Denotes a management contract or compensatory plan or arrangement.

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SIGNATURES

In accordance with Section 13 or 15(d) 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.

Dated: March 31, 2009

LITTLEFIELD CORPORATION

(Registrant)

By: /s/ Jeffrey L. Minch

Jeffrey L. Minch
President and CEO

By: /s/ Richard S. Chilinski

Richard S. Chilinski
Chief Financial Officer

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Jeffrey L. Minch ----- Jeffrey L. Minch	President and Chief Executive Officer, Director	March 31, 2009
/s/ Carlton Williams ----- Carlton Williams	Chairman of the Board	March 31, 2009
/s/ Charles Gillman ----- Charles Gillman	Director	March 31, 2009

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/s/ Lanny Chiu

Lanny Chiu Director March 31, 2009

/s/ Alfred Stanley

Alfred Stanley Director March 31, 2009

/s/ Michael Wilfley

Michael Wilfley Director March 31, 2009

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LITTLEFIELD CORPORATION & SUBSIDIARIES

DECEMBER 31, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2
FINANCIAL STATEMENTS:	
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2008 and 2007	F-4 - F-5
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2008 and 2007	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007	F-7 - F-8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-9 - F-29

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
of Littlefield Corporation

We have audited the accompanying consolidated balance sheets of Littlefield Corporation (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2008. These consolidated financial statements are the

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responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Littlefield Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Padgett Stratemann & Co. LLP

Austin, Texas

March 26, 2009

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Littlefield Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		

Current Assets:		
Cash and cash equivalents	\$ 4,425,724	\$ 4,425,724
Accounts receivable, net of allowance for doubtful accounts of \$109,286 and \$126,309 in 2008 and 2007, respectively	687,495	687,495
Other current assets	227,566	227,566
Note Receivable	1,932	1,932
	-----	-----
Total Current Assets	5,342,717	5,342,717
	-----	-----

Property and Equipment - at cost, net of accumulated depreciation and

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amortization	7,978,414	
Other Assets:		
Goodwill	5,055,534	
Intangible assets, net	902,449	
Other non-current assets	246,961	
	-----	-----
Total Other Assets	6,204,944	
	-----	-----
TOTAL ASSETS	\$ 19,526,075	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current Liabilities:		
Long term debt, current portion	\$ 749,786	\$
Long term debt, legal settlements, current portion	262,748	
Trade accounts payable	316,156	
Accrued expenses	1,747,700	
	-----	-----
Total Current Liabilities	3,076,390	
	-----	-----
Long-term Liabilities:		
Long term debt, net of current portion	3,166,515	
Long term debt, legal settlements	120,742	
Other liabilities, related party	72,000	
	-----	-----
Total Long-term Liabilities	3,359,257	
	-----	-----
Total Liabilities	6,435,647	
	-----	-----
Stockholders' Equity:		
Common stock, \$0.001 par value, (authorized 40,000,000 shares, issued 17,534,707 and 12,344,139 shares, outstanding 16,754,901 and 11,444,060 shares)	17,535	
Additional paid-in-capital	30,683,264	
Treasury stock - 779,806 and 900,079 shares, at cost	(993,891)	
Accumulated deficit	(16,616,480)	
	-----	-----
Total Stockholders' Equity	13,090,428	
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 19,526,075	\$
	=====	=====

See notes to consolidated financial statements

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Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS

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	Years Ended Dec	
	2008	
	-----	-----
REVENUES:		
Entertainment	\$ 8,493,899	\$
Hospitality	2,633,763	
Other	94,236	
	-----	-----
TOTAL REVENUES	11,221,898	
	-----	-----
DIRECT COSTS AND EXPENSES:		
Direct salaries and other compensation	2,431,706	
Rent and utilities	2,969,080	
Other direct operating costs	3,702,888	
Depreciation and amortization	905,815	
License expense	80,175	
	-----	-----
TOTAL COSTS AND EXPENSES	10,089,664	
	-----	-----
GROSS MARGIN	1,132,234	
GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and other compensation	1,303,163	
Legal and accounting fees	618,165	
Depreciation and amortization	125,945	
Share-based compensation expense	384,646	
Other general and administrative	723,693	
	-----	-----
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	3,155,612	
GAIN (LOSS) ON DISPOSITION OF FIXED ASSETS	473,217	
ASSET IMPAIRMENTS AND CONTRACT TERMINATION COSTS	(2,390,322)	
	-----	-----
OPERATING INCOME (LOSS)	(3,940,483)	
OTHER INCOME AND EXPENSES:		
Interest and investment income	117,326	
Interest expense	(323,591)	
Other income (expense)	---	
	-----	-----
TOTAL OTHER INCOME AND EXPENSES	(206,265)	
INCOME (LOSS) BEFORE INCOME TAXES	(4,146,748)	
PROVISION FOR INCOME TAXES	105,351	
	-----	-----
NET INCOME (LOSS)	(4,252,099)	
OTHER COMPREHENSIVE INCOME (LOSS), Net of Tax of \$0 and \$0	---	
	-----	-----
NET COMPREHENSIVE INCOME (LOSS)	(\$ 4,252,099)	\$
	=====	=====

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See notes to consolidated financial statements

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Littlefield Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

	Years Ended Decem	
	2008	2007
	-----	-----
EARNINGS PER SHARE:		
Basic earnings (loss) per share	(\$ 0.27)	\$ 0.27
	=====	=====
Diluted earnings (loss) per share	(\$ 0.27)	\$ 0.27
	=====	=====
Weighted average shares outstanding - basic	15,499,981	15,499,981
Weighted average shares outstanding - diluted	15,499,981	15,499,981

See notes to consolidated financial statements

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Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Description	-Common Shares	Stock- Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit
-----	-----	-----	-----	-----	-----
Balance at December 31, 2006	10,817,941	\$ 11,944	\$23,367,178	(\$1,433,809)	(\$12,664,566)
	=====	=====	=====	=====	=====
Sale of common stock	400,000	400	476,160		
Stock-based compensation			57,244		
Issuance of treasury stock pursuant to employee stock purchase plan and employee					

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401K deferrals	37,868		(25,343)	48,092	
Stock dividend adjustment	42,595		(54,096)	54,096	
Options exercised by employees	145,656		(110,298)	184,983	
Comprehensive income					
Net income for the year ended 12/31/07					300,185
Balance December 31, 2007	<u>11,444,060</u>	<u>\$ 12,344</u>	<u>\$23,710,845</u>	<u>(\$1,146,638)</u>	<u>(\$12,364,381)</u>
Sale of common stock	5,190,568	5,191	6,994,809		
Stock-based compensation			53,491		
Issuance of treasury stock pursuant to employee stock purchase plan and employee 401K deferrals	52,773		(24,472)	67,022	
Options exercised by employees	67,500		(51,409)	85,725	
Net income (loss) for the year ended 12/31/08					(4,252,099)
Balance December 31, 2008	<u>16,754,901</u>	<u>\$ 17,535</u>	<u>\$30,683,264</u>	<u>(\$ 993,891)</u>	<u>(\$16,616,480)</u>

See notes to consolidated financial statements

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Littlefield Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended Dec	
	2008	
	<u>-----</u>	<u>-----</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	(\$ 4,252,099)	\$
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,031,760	
Asset impairments and contract termination costs	2,390,322	
Bad debt allowance and write-offs	(17,023)	
Stock based compensation expense	384,646	
(Gain)/loss on sale of investment assets	---	
(Gain)/loss on disposal of property and equipment	(473,217)	

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Increase (decrease) in cash flows as a result of changes in asset and liability account balances:		
Accounts receivable	(180,859)	
Prepaid expenses and other assets	287,622	
Trade accounts payable	83,818	
Accrued expenses and other liabilities	(252,321)	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(997,351)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities	---	
Purchase of property and equipment	(2,404,788)	
Purchase of goodwill/intangibles	(1,374,704)	
Proceeds from sale of property and equipment	632,350	
Proceeds from repayment of note receivable, net	3,170	
NET CASH PROVIDED (USED) IN INVESTING ACTIVITIES	(3,143,972)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable, settlements and capital leases	(432,893)	
Payments on related party liabilities	---	
Proceeds from note payable	---	
Proceeds from options exercised	34,316	
Proceeds from sale of common stock	7,000,000	
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	6,601,423	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,460,100	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,965,624	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,425,724	\$

See notes to consolidated financial statements

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Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended Dec

2008

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

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Cash payments:

Interest	\$ 323,591	\$
	=====	=====
Income taxes	\$ 99,239	\$
	=====	=====

Non-cash transactions:

Issuance of treasury stock under deferred compensation plan	\$ 25,817	\$
	=====	=====
Issuance of treasury stock under employee stock purchase plan	\$ 16,733	\$
	=====	=====
Purchase of Property and Equipment in exchange for note payable	\$ 500,000	
	=====	=====

See notes to consolidated financial statements

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

 NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Littlefield Corporation actively participates in the U.S. charitable bingo market, and the rental/hospitality business. The Company's corporate headquarters is located in Austin, Texas, and the Company operates primarily through wholly owned subsidiaries in Texas, South Carolina, Alabama and Florida. The Company generates its revenues from bingo centers in all four states and the rental/hospitality market in Texas.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of Littlefield Corporation and its subsidiaries (herein collectively referred to as the "Company"). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Reclassifications:

Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

Management Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash equivalents consist of funds invested in certificates of deposit and money market accounts and in investments with a maturity of less than one year when purchased.

Accounts Receivable:

Accounts receivable consist of amounts due from charitable organizations that conduct bingo events at the Company's various bingo centers, and are generally payable within one month of the event. Receivables also include rent due from operators of concessions located within bingo centers. Hospitality receivables are due from businesses, individuals and non-profit organizations and are generally due immediately after the event. Accounts receivable are not secured. Management provides an allowance for doubtful accounts, which reflects its estimate of the uncollectible receivables. In the event of non-performance, the maximum exposure to the Company is the recorded amount of receivables, net of allowance for doubtful accounts, at the balance sheet date.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Property and Equipment:

The cost of equipment, furniture and fixtures is depreciated over the estimated useful lives of the assets ranging from two to seven years, using the straight-line method. Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful lives. Buildings are amortized over forty years, which approximates their estimated useful lives. Building improvements are amortized over their estimated useful lives ranging from seven to forty years. Upon sale, retirement or abandonment of assets, the related cost and accumulated depreciation are eliminated from the accounts and gains or losses are reflected in income. Repairs and maintenance expenses, which do not extend asset lives, are expensed as incurred.

Advertising:

Advertising costs are expensed when incurred or the first time the advertising takes place. During 2008, the Company had advertising expenses of approximately \$143,000 compared to approximately \$158,000 in 2007.

Goodwill and Intangible Assets:

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Intangible assets, which primarily consist of goodwill, bingo licenses and non-compete covenants resulting from the acquisition of bingo entities or hospitality companies, are periodically reviewed by management to evaluate the future economic benefits or potential impairments, which may affect their recorded values. Goodwill, which represents the excess of the cost of assets acquired over the fair market value of those tangible assets on the date of their acquisition. Under Statement on Financial Accounting Standard 142, Goodwill and Other Intangible Assets, goodwill acquired in a business combination for which the acquisition date is after June 30, 2001, shall not be amortized, but shall be reviewed for impairment in value.

Since 2002, goodwill and intangible assets with indefinite lives are no longer amortized. These indefinite-lived assets only pertain to the State of Texas. The Company has one class of asset that is classified as indefinite and not subject to periodic amortization. This class of asset is known as a "Grandfathered License." In discussing these "Grandfathered Licenses", a distinction should be made as to the types of bingo licenses the Company owns. There are two classes of commercial lessor licenses in Texas, a "Grandfathered" and a "Tier." The "Grandfathered" license refers to any license that was in existence prior to 1989 in which a non renewal has not occurred.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

A "Grandfathered" license allows the operator to have up to seven (7) charities in a hall and charge up to \$600 per session in rent. These licenses are regulated by the Texas Lottery Commission and must be renewed each year. There is an annual fee associated with the renewal of these licenses, which is expensed throughout the year. There is a limited number of these licenses available and they are traded between individuals and organizations. They are a traded commodity, in that they have a cash value which is determined by the market place. These licenses can only be revoked or canceled by failing to renew them by the renewal date or for illegal activity.

A "Tier" license is deemed by the company to have no value as an asset and are not carried as an asset on the Company's books. A "Tier" commercial lessor license is any license issued after 1989 or any license issued prior to 1989 in which a non renewal occurred. A "Tier" license allows the operator to have one (1) charity in a hall and charge up to \$600 per session in rent. These licenses are issued, renewed, and applied for through the Texas Lottery Commission. The only cost associated with obtaining and keeping this type of license is an annual renewal fee, which is expensed throughout the year. These licenses are not sold on a negotiated basis, at this time.

In South Carolina there are promoter and solicitor licenses with set fees that are renewed each year and expensed during the year. In Alabama there is a business license which is based upon the gross amount of rents, these too are renewed annually and expensed during the year. These licenses are not recorded as assets and therefore have no related amortization.

Non-compete covenants are amortized over the periods of the stated benefits, ranging from one to five years, and are monitored for contractual compliance. If the projected undiscounted future cash flows related to the intangible assets are less than the recorded value, the intangible asset is written down to fair value.

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Revenue Recognition:

The Company generates revenues from the following sources and recognizes revenue when earned and collectability is probable:

(i) Bingo:

Bingo rents, paper sales and head tax payments are received from charitable organizations through various sub-lease agreements of the Company's bingo centers. Revenues are determined by customer attendance, spending and prize payouts, profit splits, as well as state regulations, which may dictate the number of bingo sessions a charity can conduct and rent limits that can be paid to a commercial lessor, such as the Company. Revenues are accrued and accounted for in the month that they are due when realizable. Revenues that are generated by amounts, such as customer attendance, are recognized in the month they are earned and collectability is probable.

(ii) Catering and Party Rental:

Revenue is also earned from the Hospitality division which charges fees for catering, staffing, bar service, event coordination, and party event and tent rentals. Revenues are accrued and accounted for in the month in which the services are performed.

(iii) Other:

Other revenues are earned concessions, vending machines, bingo supplies, and other sources. Other revenues are recognized in the month they are earned.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Income Taxes:

Deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax basis and financial reporting carrying amounts of assets and liabilities. The Company periodically evaluates its deferred tax assets and adjusts any related valuation allowance based on the estimate of the amount of such deferred tax assets which the Company does not believe will meet the "more-likely-than-not" recognition criteria.

Per Share Data:

Basic earnings (loss) per share of common stock is calculated by dividing income (loss) from continuing operations by the weighted average number of common shares actually outstanding during each period. Diluted earnings (loss) per share of common stock is calculated by dividing net income (loss) by the fully

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diluted weighted average number of common shares outstanding during each period, which includes dilutive stock options and convertible shares.

Stock-Based Compensation:

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. SFAS 123R also requires the cash flows resulting from the tax benefits from tax deductions in excess of the compensation cost recognized (excess tax benefits) to be classified as financing cash flows. Prior to the effective date of SFAS 123R, we applied Accounting Principles Board Opinion 25 ("APB 25"), Accounting for Stock Issued to Employees and related interpretations for our stock option grants. APB 25 provides that the compensation expense relative to our stock options is measured based on the intrinsic value of the stock option at date of grant.

The Company recorded approximately \$385,000 and \$57,000 in compensation expense in the periods ended December 31, 2008 and December 31, 2007 related to options issued under its stock-based incentive compensation plans and a stock grant for 2008. 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-KSB for the fiscal year ended December 31, 2006. No options were issued for the fiscal years ended December 31, 2008 and 2007; a stock grant with a fair value on the date of grant of \$331,156 was accrued in 2008 with issuance of shares to be made in 2009.

As of December 31, 2008, the Company had \$3,787 of total unrecognized compensation cost related to stock options which is expected to be recognized over a weighted average period of less than one year. Treasury stock is issued upon stock option exercises.

Comprehensive Income:

The Company had other comprehensive income related to realized gains and losses on available for sale securities of \$0 for 2008 and \$4,713 for 2007.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Recently Issued Accounting Pronouncements:

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. This pronouncement applies

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under other accounting standards that require or permit fair value measurements. Accordingly, this statement does not require any new fair value measurement. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, SFAS 157 is amended by Financial Statement Position ("FSP") FAS 157-1, Application of FASB Statement 157 to FASB Statement 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, which excludes from the scope of this provision arrangements accounted for under SFAS 13, Accounting for Leases. SFAS 157 is also amended by FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. We adopted SFAS 157 on January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP FAS 157-2. The partial adoption of SFAS 157 did not have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115. This standard permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. This statement is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 on January 1, 2008, as required. The adoption of SFAS 159 did not have a significant impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS 141(R), Business Combinations--a replacement of FASB Statement No. 141, which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. We are currently evaluating the requirements of SFAS 141(R) and have not yet determined the impact on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. The intent of the position is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, Business Combinations, and other U.S. generally accepted accounting principles. The provisions of FSP FAS 142-3 are effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We are currently evaluating the requirements of FSP FAS 142-3 and have not yet determined the impact on our consolidated financial statements.

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December 31, 2008

NOTE 2 - MATERIAL ACQUISITIONS, OPENINGS, CLOSINGS AND REORGANIZATIONS

2008

In December 2007 the Company announced it executed a definitive agreement to acquire a Florida bingo hall. The acquisition of a bingo hall in Pensacola, Florida was completed with an effective date of January 1, 2008.

On April 15, 2008, the Company sold the assets of its custom catering business unit reflecting the Company's focus on its charitable bingo business in Texas, South Carolina, Alabama and Florida. The asset sale resulted in a gain on sale of \$474,387 resulting from a \$650,000 sales price less \$175,613 of disposed assets, at net book value.

The assets of the catering business unit were sold for \$650,000 with payment consisting of \$250,000 in cash and a three year \$400,000 note receivable at seven percent (7%). During the third quarter of 2008, the note was paid in full less a discount of \$22,000 granted for the early payoff of the note.

The amounts of sales, gross profit and gross profit on a basic per share basis of the catering business unit included in the fourth quarter and twelve months to date of 2008 compared to the comparable prior year periods are as follows:

	Q408	Q407	Change	2008	2007	
Revenue	\$ ---	\$ 691,096	\$ (691,096)	\$ 497,039	\$2,364,645	\$ (1
Gross profit	\$ ---	\$ 95,784	\$ (95,784)	\$ (33,263)	\$ 38,800	\$
Gross profit per share	\$ 0.00	\$ 0.01		\$ (0.00)	\$ (0.00)	

On July 14, 2008, the Company, through a wholly-owned South Carolina subsidiary, Columbia One Corp. entered into an asset purchase agreement with Kokomos Inc., a South Carolina corporation, and its sole owner, acquiring all of the assets of six (6) bingo halls located in Greer (2), Columbia (3) and Goose Creek (1) South Carolina. The assets were purchased for \$1.8 million, consisting of \$750,000 in cash paid at closing and a promissory note for \$1,050,000, secured by the assets being purchased. The original agreement allowed for the purchase price to be reduced by \$300,000 to \$1.5 million if a single, lump sum payment of \$750,000 was made on or before September 30, 2008, in full satisfaction of the promissory note. On September 26, 2008 the Company paid an additional \$250,000 on the note and amended the agreement to allow for the reduction in purchase price to \$1.5 million if \$500,000 is paid on the note by January 6, 2009. The promissory note bears interest of 6% per annum, matures October 1, 2013 and is payable in quarterly installments commencing on January 1, 2009. The Company paid the remaining \$500,000 in full satisfaction of the note in January 2009. The \$1,500,000 net purchase price represented the fair value of bingo equipment assets acquired in the amount of \$61,882, a covenant not to compete in the amount of \$50,000 with the remaining \$1,388,118 attributed to goodwill and other intangible assets.

2007

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In August 2007 the Company announced it acquired the stock of two Texas corporations who each own a commercial license to lease bingo premises. The acquisitions are complementary to the Company's current portfolio of Texas bingo licenses which are classified as intangible assets.

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

 NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2008 and 2007 consists of the following:

	2008	2007
	-----	-----
Land	\$ 740,467	\$ 740,
Buildings	3,395,498	3,404,
Building and leasehold improvements	5,434,234	4,756,
Bingo, and rental equipment	2,102,146	1,989,
Equipment, furniture and fixtures	3,301,562	2,604,
Automobiles	384,644	468,
	-----	-----
	15,358,551	13,963,
Less: Accumulated depreciation and amortization	(7,380,137)	(7,037,
	-----	-----
Property and equipment, net	\$ 7,978,414	\$ 6,926,
	=====	=====

Depreciation expense charged to operations for the years ended December 31, 2008 and 2007 was \$998,927 and \$762,846 respectively.

 NOTE 4 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2008 and 2007 is as follows:

	Gross Carrying Amount	Accumulated Amortization	
	-----	-----	-----
Goodwill at December 31, 2006	\$ 6,704,375	\$ (1,799,264)	\$ 4

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Goodwill changes during period		---	---	
Goodwill at December 31, 2007	\$	6,704,375	\$ (1,799,264)	\$ 4
Goodwill acquired during period		1,638,618	---	1
Goodwill impairment losses		(2,049,275)	603,448	(1
Goodwill disposed of during period		(42,368)	---	
Goodwill at December 31, 2008	\$	6,251,350	\$ (1,195,816)	\$ 5
		Entertainment	Hospitality	
Balance at December 31, 2006	\$	4,533,727	\$ 371,384	\$ 4
Goodwill changes during period		---	---	
Balance at December 31, 2007	\$	4,533,727	\$ 371,384	\$ 4
Goodwill acquired during the year		1,638,618	---	1
Goodwill impairment losses		(1,116,811)	(329,016)	(1
Goodwill disposed of during period		---	(42,368)	
Balance at December 31, 2008	\$	5,055,534	\$ ---	\$ 5

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

Intangible assets at December 31, 2008 and 2007 consists of the following:

	Gross Carrying Amount	Accumulated Amortization	
Intangible Assets with Indefinite Lives:			
Bingo licenses at December 31, 2006	\$ 589,719	(51,974)	\$
Change in bingo licenses	105,000	---	
Bingo licenses at December 31, 2007	\$ 694,719	(51,974)	\$
Licenses acquired during the period	186,620	---	
Bingo licenses at December 31, 2008	\$ 881,339	(51,974)	\$
Intangible Assets with Finite Lives:			
Covenants not to compete at December 31, 2006	\$ 297,500	(211,549)	\$
Change in covenants not to compete	---	(29,490)	
Covenants not to compete at December 31, 2007	\$ 297,500	(241,039)	\$
Change in covenants not to compete	50,000	(33,377)	
Asset impairment	(65,000)	65,000	
Covenants not to compete at December 31, 2008	\$ 282,500	(209,416)	\$
Intangible Assets, Net of Accumulated			

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Amortization

\$

Amortization expense charged to operations for the twelve months ended December 31, 2008 and 2007, was approximately \$32,833 and \$29,500, respectively.

Future amortization on intangible assets with finite lives is as follows:

Year	Amount
----	-----
2009	\$ 27,417
2010	19,000
2011	10,000
2012	10,000
2013	6,667

Total	\$ 73,084
	=====

NOTE 5 - WRITE-OFFS AND CHARGES

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), the Company recognizes impairment losses when facts and circumstances indicate that the carrying amount of an asset may not be recoverable. In such cases, an impairment loss is recognized and measured as the amount by which the carrying value of the asset exceeds the fair value of the asset.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

During 2008, in accordance with Statement on Financial Accounting Standard 142, Goodwill and Other Intangible Assets and Statement on Financial Accounting Standard 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company wrote-down the carrying value of goodwill in the amount of \$1,445,827 and leasehold improvements in the amount of \$272,132. In accordance with Statement of Financial Accounting Standards 146, Accounting for Costs Associated with Exit or Disposal Activities the Company recorded contract termination costs in the amount of \$672,363. The goodwill impairment stems from the Company's normal annual review of goodwill and other intangible assets in light of actual financial performance, changed economic conditions and certain specific underperforming bingo hall closures. The contract termination costs are associated with certain underperforming bingo hall closures in Texas.

For the year ended December 31, 2007, the Company evaluated the carrying value of goodwill for each reporting unit of the Company and determined that no impairment of goodwill was necessary.

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NOTE 6 - LONG-TERM DEBT

Long-term debt at December 31, 2008 consist of the following:

Note payable to a bank, due in monthly installments of approximately \$18,200 including interest at prime plus 0.5%, maturing March 2011, secured by real estate

Mortgage note payable to a bank, due in monthly installments of \$4,394, including interest at the prime rate, maturing August 2012, secured by a deed of trust on the real estate

Mortgage note payable to a third party, due in monthly installments of \$5,578, including interest at 8% maturing July 2010, secured by a second lien on the real estate

Installment note payable to a third party, due in monthly installments of \$2,279, including interest at 5%, maturing March 2012, secured by real estate

Installment note payable to a third party, due in monthly installments of \$4,600, including interest at 6%, maturing September 2011, secured by subsidiary stock

Installment note payable to a third party, due in monthly installments of \$1,519, including interest at 5%, maturing March 2012, secured by bingo hall business

Promissory note payable to a third party bearing interest of 6% payable in quarterly installments, maturing October 2013.

Less current maturities

Long-term debt, net of current portion

The current maturities of long-term debt include a \$500,000 Promissory Note payable which was paid in January 2009 to realize a \$300,000 reduction in the purchase price of the Company's South Carolina acquisition.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

Long-term debt, legal settlements at December 31, 2008 consists of the following:

Installments to a third party, due monthly in the amount of \$25,000, including interest at 14%, maturing through July 2010, unsecured

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Less current maturities

Long-term debt, net of current portion

Payments of notes payable and long term debt, legal settlements for each of the next five fiscal years and thereafter are as follows:

Years Ending December 31,	Notes Payable	Legal Settlements	Total
2009	749,786	262,748	1,012,534
2010	264,588	120,742	385,330
2011	2,079,014	---	2,079,014
2012	544,308	---	544,308
2013	46,325	---	46,325
Thereafter	232,280	---	232,280
	<u>\$ 3,916,301</u>	<u>\$ 383,490</u>	<u>\$ 4,299,791</u>
	=====	=====	=====

Interest expense for the years ended December 31, 2008 and 2007 were approximately \$324,000 and \$446,000 respectively.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, Disclosure About Fair Value of Financial Instruments, requires disclosure about the fair value of all financial assets and liabilities for which it is practical to estimate. Cash, accounts receivable, accounts payable, accrued liabilities, notes and legal settlements payable and other liabilities are carried at amounts that reasonably approximate their fair values.

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

NOTE 8 - INCOME TAXES

A reconciliation of the expected federal income tax expense (benefit) based on the U.S. Corporate income tax rate of 39% to actual for 2008 and 34% to actual for 2007 is as follows:

2008

2007

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Expected income tax (benefit)	(\$ 1,617,232)	\$ 128,811
Amounts not deductible for federal income tax purposes	5,025	14,597
Other	9,040	---
State income taxes, net of federal income tax	64,264	51,922
Change in valuation allowance	1,644,254	(116,660)
	<u>\$ 105,351</u>	<u>\$ 78,670</u>

The provision for income taxes consists of the following:

	2008	2007
Current year income taxes:		
Federal	\$ -0-	\$ -0-
State	105,351	78,670
Deferred income taxes:		
Federal	-0-	-0-
State	-0-	-0-
	<u>\$ 105,351</u>	<u>\$ 78,670</u>

Deferred tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

	2008	2007
Deferred tax asset	\$ 6,057,425	\$ 4,413,171
Deferred tax liability	---	---
Valuation allowance for deferred tax asset	(6,057,425)	(4,413,171)
Net deferred tax asset	<u>\$ -0-</u>	<u>\$ -0-</u>

The components of deferred tax assets at December 31, 2008 and 2007 are as follows:

Deferred tax asset	2008	2007
Net operating loss carryforward	\$ 3,598,699	\$ 2,851,669
Depreciation	460,212	484,302
Allowance for doubtful accounts	42,621	49,260
Accrued expenses	1,783,045	963,415

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Capital Loss carryforward	20,496	20,071
Other	152,352	44,454
	-----	-----
Net deferred tax asset	\$ 6,057,425	\$ 4,413,171
	=====	=====

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

The non-current deferred tax asset results from differences in depreciation of fixed assets and legal reserves for financial and federal income tax reporting purposes and the deferred tax benefit of net operating losses. Due to continuing operating losses for tax purposes, the deferred tax asset has been allowed for as it does not meet the "more likely than not" recognition criteria.

At December 31, 2008, the Company has net operating loss carry forwards for federal income tax purposes of approximately \$9.2 million that begin expiring in the year 2016.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48) on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. As a result of our implementation of FIN 48 at the time of adoption and as of December 31, 2008, the Company did not recognize a liability for uncertain tax positions. We do not expect our unrecognized tax benefits to change significantly over the next twelve months. The tax years 2005 through 2008 remain open to examination by the taxing jurisdictions in which we file income tax returns.

 NOTE 9 - STOCKHOLDERS' EQUITY

The Company acquired, prior to 2002, 2,159,100 shares of its common shares for \$2,337,385 under the current stock buyback program (See Note 13). The average price to repurchase these shares was \$1.27 and at December 31, 2008 the Company held 779,806 treasury shares.

In 2008, the Company sold 5,190,568 shares of its common stock for cash of \$7,000,000. The Company issued 52,773 shares of treasury stock under the Employee Stock Purchase Plan and 401K Plan at a cost of \$42,550. The Company issued 67,500 shares of treasury stock under options exercised by employees for cash of \$34,316. In addition, the Company recognized additional compensation expense of \$53,491 related to stock-based compensation.

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In 2007, the Company sold 400,000 shares of its common stock for cash of \$476,560. The Company issued 37,868 shares of treasury stock under the Employee Stock Purchase Plan and 401K Plan at a cost of \$22,749. The Company issued 145,656 shares of treasury stock under options exercised by employees for cash of \$74,685. The Company issued 42,595 shares of its stock for stock dividend adjustments. In addition, the Company recognized additional compensation expense of \$57,244 related to stock-based compensation.

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

NOTE 10 - EARNINGS PER SHARE

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

	2008		
	Basic	Diluted	Basic
Numerator:			
Net income (loss)	(\$ 4,252,099)	(\$ 4,252,099)	\$ 300,1
Net income (loss) available to common stockholders	(\$ 4,252,099)	(\$ 4,252,099)	\$ 300,1
Denominator:			
Weighted average shares outstanding	15,499,981	15,499,981	11,228,2
Effect of dilutive securities:			
Stock options and warrants	---	---	-
Weighted average shares outstanding	15,499,981	15,499,981	11,228,2
Earnings (loss) per share	(\$ 0.27)	(\$ 0.27)	\$ 0.

Stock options to acquire 63,396 and 60,000 shares for the year ended December 31, 2008 and 2007, respectively, were excluded in the computation of diluted earnings per share because the effect of including the stock options would have been anti-dilutive.

NOTE 11 - ACCOUNTING FOR STOCK BASED COMPENSATION

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The Company applies FASB Statement of Financial Accounting Standards No. 123R (Revised 2004), Share Based Payment, using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, however leaves prior periods recorded in accordance with APB Opinion No. 25 Accounting for Stock Issued to Employees ("APB 25") in accounting for its stock options. At December 31, 2008, the Company has implemented five shareholder approved stock option plans. These plans are intended to comply with Section 422 of the Internal Revenue Code of 1986, as amended. The plans collectively provide for the total issuance of 3,600,000 common shares, as adjusted for the 20% stock dividend in 2006, over ten years from the date of each plan's approval. In addition, the plans allow for additional increases of 15% of the then outstanding shares each year through 2008.

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

Transactions under the stock option plans are summarized below. At December 31, 2008, a total of 445,410 options were outstanding under these plans.

Employee Stock Plans		
	Options	Weighted Average Exercise Price
Outstanding at 12/31/06	763,566	\$ 0.70
Granted	---	---
Exercised	(145,656)	0.51
Forfeited	---	---
Outstanding at 12/31/07	617,910	\$ 0.74
Granted	---	---
Exercised	(67,500)	0.51
Forfeited	(105,000)	1.78
Outstanding at 12/31/08	445,410	\$ 0.53

The Company did not issue any options in 2008 or 2007.

The following table summarizes information about options outstanding at December 31, 2008 and 2007 under the Employee Stock Plan adjusted for the 2006 stock dividend:

Range of	Options Outstanding		Options Exercised	
	Number	Weighted Avg. Remaining	Number	Weighted Avg.

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	Exercise Prices -----	Outstanding -----	Contractual Life -----	Exercise Price -----	Exercisable -----	Exer -----
2008:	\$1.88 - 2.82	---	---	---	---	---
	\$1.26 - 1.87	16,500	7.4 years	\$1.32	16,500	
	\$0.00 - \$1.25	428,910	5.7 years	\$0.50	355,410	
		-----			-----	
		445,410	5.8 years	\$0.53	371,910	
2007:	\$1.88 - 2.82	60,000	0.1 years	\$2.74	60,000	
	\$1.26 - 1.87	16,500	8.4 years	\$1.32	16,500	
	\$0.00 - \$1.25	541,410	6.8 years	\$0.51	304,410	
		-----			-----	
		617,910	6.2 years	\$0.74	380,910	
	Aggregate intrinsic value	\$ 180			\$ 180	

Aggregate intrinsic value represents the value of the Company's closing stock price of \$0.35 on the last trading day of the year in excess of the exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options exercised during the years ended December 31, 2008 and 2007 was \$43,835 and \$130,481, respectively. Total unrecognized stock-based compensation expense related to non-vested stock options was \$3,787 as of December 31, 2008, related to approximately 73,500 shares with a per share weighted fair value of \$0.48. We anticipate this expense to be recognized over a weighted average period of approximately 0.25 years.

The weighted average remaining contractual life of options exercisable as of December 31, 2008 was 5.8 years.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 12 - RELATED PARTY TRANSACTIONS

In 2002, the Company's President and CEO was awarded a \$300,000 bonus. In August 2007, the Board of Directors approved and payment was made to the President and CEO for the accrued bonus and accrued interest thereon. The Company accrued \$11,813 in interest in 2007 on this liability.

During 2006, the Company renewed the three year employment agreement with its President and CEO; in accordance with this agreement, the Company accrued \$24,000 and \$24,000 of deferred compensation in 2008 and 2007, respectively. In addition, in accordance with this agreement the Company awarded the President and CEO a stock grant of 1,182,699 shares with a value on the grant date of \$331,156 which was recorded as a liability as of December 31, 2008 with issuance of shares to be made in 2009.

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NOTE 13 - COMMITMENTS AND CONTINGENCIES

(a) Operating Leases:

The Company is obligated under various operating leases. Generally, the leases provide for minimum annual rentals as well as a proportionate share of the real estate taxes and certain common area charges. Minimum annual rentals under these leases are as follows:

Year Ending December 31, -----	Minimum Rentals
2009	\$ 2,282,741
2010	2,142,294
2011	1,984,512
2012	1,423,910
2013	968,795
Thereafter	1,555,763

Total minimum annual rentals	\$ 10,358,015
	=====

Rent expense for the years ended December 31, 2008 and 2007 amounted to approximately \$2.3 million and \$1.9 million, respectively.

In 2003, the Company leased out Grandview Bingo in Amarillo. The arrangement is that of a standard monthly sublease and not a per-session lease. The tenant has put down a \$7,800 security deposit. The minimum annual future receipts under this sublease are as follows:

Year Ending December 31, -----	Minimum Rent
2009	93,600
2010	93,600
2011	93,600
2012	93,600
2013	93,600
Thereafter	124,800

Total minimum annual rentals	\$ 592,800
	=====

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

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(b) Legal:

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.

The Company is obligated to make payments over approximately the next one and one-half years in settlement of litigation that was concluded in prior periods. At December 31, 2008, the carrying value of these obligations was \$383,490. The Company is current in all its settlement payment obligations.

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.

In this case, Littlefield is plaintiff. Littlefield initially sought recovery from Philip Furtney ["Furtney"] for fraud, negligent misrepresentations, and breach of guaranty. This litigation arises from the 1995 acquisition of three Florida bingo centers by a predecessor, American Bingo & Gaming Corporation, from two corporations controlled by Furtney - Pondella Hall for Hire, Inc., and 800438 Ontario. Several months after the acquisition of the three centers, the Florida Attorney General obtained an indictment for alleged racketeering against two American Bingo subsidiaries that operated two of the centers and brought a civil proceeding for racketeering against the same two subsidiaries and American Bingo based upon the same allegations. The indictment and civil litigation were the result of an investigation that had been ongoing for over one year prior to the acquisition of the centers. Furtney was aware of the investigation and its serious nature, but did not disclose the investigation to American Bingo. In fact, the agreements related to the sales specifically and falsely stated that there were not any ongoing governmental investigations. American Bingo settled the litigation brought by the Florida Attorney General and sold its Florida centers as a condition of the settlement. The resolution of this long pending matter was substantially delayed when Furtney, a citizen of Canada and part time resident of Mexico, avoided service of the Complaint and would not permit his United States attorney to accept service of the Complaint. Littlefield was successful in finally serving Furtney when he was in the United States in 2005, to attend related litigation.

Furtney passed away in September 2007, several months before the scheduled trial date. In the event a defendant dies following the commencement of litigation, the Florida Rules of Civil Procedure provides that a plaintiff may substitute the defendant's estate as the defendant and continue to pursue the claim to judgment. Furtney's estate has now been substituted as the defendant and Littlefield intends to vigorously pursue the claim for all damages related to the purchase of the Florida centers from Furtney's estate, including all sums paid in the acquisition, all costs incurred by American Bingo in the litigation with the state of Florida, and judgments Littlefield was required to pay to Pondella and 800438 Ontario as a result of related litigation. After the substitution, Furtney's estate discharged Furtney's previous counsel and retained their own counsel which resulted in additional delay. We expect the case will go to trial in the fall of 2009.

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NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

In South Carolina Department of Revenue v. Littlefield Corporation, Midlands Promotions, Inc., Low Country Promotions, Inc., and Gamecock Promotions, Inc., 05-ALJ-17-0413-CC,

This case has now been settled. The South Carolina Department of Revenue issued an administrative bingo violation against the above referenced parties alleging that the Company has an unlawful number of bingo promoter licenses. The Department of Revenue seeks to revoke all bingo promoter licenses held by the Company's South Carolina subsidiaries and seeks a \$5,000 penalty. The Department of Revenue is seeking to pierce the corporate veil of the Company to thereby attribute the promoter licenses to the Company. The Department of Revenue's theory is that the three South Carolina subsidiaries are sham corporations and that, as a matter of law, the Company should be deemed the holder of the 12 promoter licenses at issue. South Carolina law provides that a promoter may only have 5 licenses. The Company moved for summary judgment and it was denied. However, certain originally named charities were dismissed from the lawsuit. The case was stayed until co-counsel returned from active military duty, which occurred at the end of June 2008.

Additionally, in Littlefield Corporation, Gamecock Promotions Inc., Palmetto Upstate Promotions Inc., and Midlands Promotions Inc. v. South Carolina Department of Revenue, 07-ALJ-17-623-CC, the Company and its subsidiaries protested the South Carolina Department of Revenue's initial denial of six additional promoters licenses that the Department of Revenue denied on the same theories upon which they seek to revoke the other subsidiaries' promoter licenses, as described above. Although both parties' Motions for Summary Judgment were denied in this proceeding, in June 2008, the administrative law judge in this protest proceeding ordered that the six licenses be issued pending trial and resolution of the proceedings between the Department of Revenue and the Company.

The Company and its subsidiaries will seek to consolidate both of the above proceedings for discovery and trial, because both proceedings involve the same legal and factual issues. The Company and its subsidiaries are vigorously defending the revocation proceeding and the right to hold the additional licenses for which the subsidiaries applied and assert that Littlefield Corporation is not the holder of these promoter licenses, but rather that its lawfully formed subsidiaries are separate corporations that each hold a lawful number of the promoter licenses.

The Department of Revenue recently indicated that it is interested in settling all of these matters in a manner that will allow the Company's subsidiaries to continue as bingo promoters as they have done in the past. As of December 31, 2008 the Department, the Company and its subsidiaries were working on finalizing the agreement. A final agreement was reached within which the subsidiaries, without a fine or penalty, will continue as bingo promoters and for a period of two years the Company and its subsidiaries are to provide the Department with certain quarterly and annual information pertaining to its subsidiaries. In March 2009, both matters were dismissed, with prejudice by an Administrative Law Judge.

Cause No. 8285-D; West Texas Bingo, Inc v. Rodger Hiatt, in the 350th Judicial District Court of Taylor County, Texas.

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In this case, the Company is plaintiff. The Company filed suit against the Defendant alleging the Defendant interfered with the Company's bingo operations and/or business operations at Super Bingo, which is located in Abilene, Texas. The Defendant asserted counterclaims against the Company alleging that the Company's claims were harassing and constituted intentional infliction of emotional distress. Defendant's claims were dismissed by the Court via summary judgment in June 2008, and there are currently no pending claims being asserted by Defendant against West Texas Bingo, Inc. or Littlefield Corporation. The lawsuit is ongoing and the parties are currently engaged in discovery. The matter has not been set for trial, nor have the parties scheduled a pre-trial mediation.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

Cause No.24, 182-B; West Texas Bingo, Inc. v. Janie Wall, in the 104th Judicial District Court of Taylor County, Texas.

In this case, the Company is plaintiff. The Company filed suit against the Defendant alleging the Defendant interfered with the Company's bingo operations and/or business operations at Super Bingo, which is located in Abilene, Texas. The Defendant asserted counterclaims against the Company alleging that the Company's claims were harassing and constituted intentional infliction of emotional distress. Defendant's claims were dismissed by the Court via summary judgment in June 2008, and there are currently no pending claims being asserted by Defendant against West Texas Bingo, Inc. or Littlefield Corporation. Although there are pending claims being asserted by Defendant, Defendant recently moved the Court for leave to assert additional claims against Littlefield Corporation and its CEO; the Court has not yet ruled upon Defendant's request. The lawsuit is ongoing and the parties are currently engaged in discovery. The matter has not been set for trial, nor have the parties scheduled a pre-trial mediation.

(c) Stock Repurchase Plan:

During the second quarter of 1998, the Company authorized a stock repurchase program to purchase up to 1,000,000 shares of its common stock. On February 8, 2000 the Company amended the stock repurchase program to permit purchase of up to 2,000,000 shares of its common stock at such time and prices the Company deems advantageous. The amount was subsequently increased to 3,000,000 shares. There is no commitment or obligation on the part of the Company to purchase any particular number of shares, and the program may be suspended at any time at the Company's discretion. Any shares so repurchased will be held as treasury shares and be available for general corporate purposes. No shares were repurchased in 2008 or 2007.

(d) Concentration of Credit Risk:

The Company maintains its cash and certificates of deposit in banks which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At

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December 31, 2008, cash in banks exceeded FDIC coverage by approximately \$155,000 with such uninsured amounts setting off loans payable.

(e) 401(K) and Employee Stock Ownership Plan

The Company has a 401(K) and Employee Stock Ownership Plan that was instituted in 2001. In 2008 employees were allowed to defer up to 90% of their wages to a maximum of \$15,500, tax deferred, for retirement purposes. The Company has no obligation to match any of the employee deferrals and contributions to the plan are at the discretion of management. At December 31, 2008 and 2007, the Company contributed \$0 and \$0 respectively, into the Plan.

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Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

(f) Employee Stock Purchase Plan

During 2002, the Company implemented the 2002 Employee Stock Purchase Plan to allow employees of Littlefield Corporation and any subsidiaries to acquire stock ownership in the Company. The Company has reserved 250,000 shares under this plan. Offering of shares under this plan will commence 1) on the first day of each fiscal year and will end on the last day of the fiscal year or 2) at the sole discretion of the administrators. Any offerings that remain unsold during the offering period shall expire and shall be made available for grant in future offering periods. Eligible employees shall elect to make contributions between 1% and 10% of gross compensation. The exercise price of any shares purchased by a participant shall be at eighty-five percent (85%) of the lower of the fair market value of the common stock on the date of the grant or date of exercise. Through December 31, 2008, 203,081 shares have been purchased through this program. Of the shares purchased 28,062 shares were purchased in 2008 and 21,619 in 2007.

During 2006, the Company renewed and modified its employment agreement with its President and CEO to extend through December 31, 2008. Should the Company terminate the employment agreement without cause, the Company would be liable for salary compensation of \$200,000, the acceleration of unvested stock-based compensation, deferred compensation of \$72,000 and the payment of other stated benefits earned in cash.

NOTE 14 - SEGMENTS

The Company adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131) in the fiscal year ended December 31, 1999. SFAS 131 establishes standards for reporting information regarding operating segments in annual financial

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statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas.

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions how to allocate resources and assess performance.

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 accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that depreciation and amortization are allocated to each segment from functional department totals based on certain assumptions which include, among other things, revenues. Also, the Company's CODM does not view segment results below gross profit (loss), therefore, general and administrative expenses, net interest income/expense, other income, and the provision for income taxes are not broken out by segment below.

The entertainment segment encompasses charitable bingo hall operations in Texas, Alabama, Florida and South Carolina. The hospitality segment includes income from party and tent rentals, catering services and event planning fees. These segments were identified based on the different nature of the services and legislative monitoring and, in general, the type of customers for those services.

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

A summary of the segment financial information, separating the catering business sold in April 2008, reported to the CODM for the twelve months ended December 31, 2008 and 2007, is as follows:

December 31, 2008

	Entertainment	Hospitality	Catering	Adjustment	C
Revenue	\$8,494,000	\$2,137,000	\$497,000	\$94,000	\$
Depreciation and Amortization	663,000	231,000	12,000	126,000	
Segment profit (loss)	1,404,000	(345,000)	(33,000)	(5,278,000)	
Segment Assets	32,272,000	681,000		(13,427,000)	

December 31, 2007

	Entertainment	Hospitality	Catering	Adjustment	C
Revenue	\$8,526,000	\$2,489,000	\$2,365,000	\$49,000	\$
Depreciation and Amortization	427,000	207,000	42,000	116,000	
Segment profit (loss)	3,491,000	(222,000)	39,000	(3,008,000)	
Segment Assets	\$27,928,000	1,228,000		(13,368,000)	

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The Adjustments generally represent other corporate expenses and revenue, other income, depreciation and amortization related to corporate assets, impairment charges, corporate gains and losses on disposition of assets, inter-company eliminations and corporate capital expenditures to reconcile segment balances to consolidated balances.

A summary of items included in the "Adjustment" follows:

	2008	2007
Gross profit - other revenue	\$ 107,000	\$ 49,000
General and administrative expense	(3,157,000)	(2,654,000)
Gain (loss) on disposition of fixed assets	473,000	23,000
Asset impairments and termination costs	(2,390,000)	---
Other income and expenses	(206,000)	(347,000)
Provision for income taxes	(105,000)	(79,000)
	-----	-----
Total "Adjustment"	\$ (5,278,000)	\$ (3,008,000)

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Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2008

 NOTE 15 - 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 year ended December 31, 2008 and 2007 are as follows:

	2008	2007
Net income (loss)	(\$4,252,099)	\$300,185
Other comprehensive income		
Unrealized (loss) on marketable securities		
Reclassification adjustment for loss on sale of investments included in net income	---	4,713

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	----- ---	----- 4,713 -----
Total comprehensive income	(\$4,252,099) =====	\$304,898 =====

NOTE 16 - SUBSEQUENT EVENTS

In January 2009, the Company renewed its employment agreement with its President and CEO.

In February 2009, the Company completed an acquisition of two bingo halls in South Carolina. The Company commenced operations February 10, 2009.

In late February 2009, the Company entered into an asset purchase agreement for the sale of its event / rental unit. The agreement allows for a due diligence period through April 3, 2009 during which time the potential purchaser may withdraw its offer except for a minimal feasibility fee.