

LITTLEFIELD CORP
Form 10-Q
August 13, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2010

Commission file number 0-24805

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

Delaware
(State or other jurisdiction of
incorporation or organization)

74-2723809
(I.R.S. Employer
Identification No.)

2501 N. Lamar Blvd.
Austin, Texas 78701
(Address of principal executive offices)

Registrant's telephone number:

(512) 476-5141

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller Reporting Company

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

On August 3, 2010, 17,915,087 shares of our Common Stock, par value \$0.001 per share, were outstanding.

Littlefield Corporation

FORM 10-Q

For the quarter ended June 30, 2010

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Littlefield Corporation
CONSOLIDATED BALANCE SHEETS

| ASSETS | June 30, 2010 (unaudited) | December 31, 2009 |
|---|---------------------------------|----------------------|
| Current Assets: | | |
| Cash and cash equivalents | \$3,480,875 | \$3,734,712 |
| Accounts receivable, net of allowance for doubtful accounts of \$26,752 and \$27,777, respectively | 491,066 | 510,054 |
| Other current assets | 261,244 | 213,993 |
| Note receivable – current portion | 75,000 | 75,000 |
| Total Current Assets | 4,308,185 | 4,533,759 |
| | | |
| Property and Equipment – at cost, net of accumulated depreciation and amortization | 7,183,857 | 7,118,263 |
| | | |
| Other Assets: | | |
| Goodwill | 5,349,852 | 5,215,634 |
| Intangible assets, net | 927,990 | 918,157 |
| Note receivable, net | 321,053 | 373,644 |
| Other non-current assets | 296,878 | 266,777 |
| Total Other Assets | 6,895,773 | 6,774,212 |
| | | |
| TOTAL ASSETS | \$18,387,815 | \$18,426,234 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| | | |
| Current Liabilities: | | |
| Long term debt, current portion | \$2,107,988 | \$273,380 |
| Long term debt, legal settlements, current portion | --- | 120,742 |
| Trade accounts payable | 23,210 | 183,285 |
| Accrued expenses | 929,556 | 1,087,497 |
| Total Current Liabilities | 3,060,754 | 1,664,904 |
| | | |
| Long-term Liabilities: | | |
| Long term debt, net of current portion | 1,011,679 | 2,885,090 |
| Other liabilities, related party | 107,793 | 96,027 |
| Total Long-term Liabilities | 1,119,472 | 2,981,117 |
| Total Liabilities | 4,180,226 | 4,646,021 |
| | | |
| Stockholders' Equity: | | |
| Common stock, \$0.001 par value, (authorized 40,000,000 shares, issued 18,817,406 shares and 18,817,406 shares, respectively , outstanding 17,915,087 shares and 17,959,114 shares, respectively) | 18,818 | 18,818 |
| Additional paid-in-capital | 31,163,902 | 31,148,229 |

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| | | |
|--|--------------|--------------|
| Treasury stock – 902,319 and 858,292 shares, at cost | (1,013,489) | (1,006,056) |
| Accumulated deficit | (15,961,642) | (16,380,778) |
| Total Stockholders' Equity | 14,207,589 | 13,780,213 |
| <hr/> | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$18,387,815 | \$18,426,234 |

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|-------------------|
| | 2010 | 2009 |
| REVENUES: | | |
| Entertainment | \$2,281,747 | \$2,358,525 |
| Other | 19,367 | 19,955 |
| TOTAL REVENUES | 2,301,114 | 2,378,480 |
| DIRECT COSTS AND EXPENSES: | | |
| Direct salaries and other compensation | 216,734 | 212,025 |
| Rent and utilities | 676,504 | 794,056 |
| Other direct operating costs | 478,529 | 585,134 |
| Depreciation and amortization | 197,825 | 176,229 |
| License expense | 40,210 | 36,473 |
| TOTAL COSTS AND EXPENSES | 1,609,802 | 1,803,917 |
| GROSS MARGIN | 691,312 | 574,563 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Salaries and other compensation | 355,206 | 323,138 |
| Legal and accounting fees | 238,563 | 216,643 |
| Depreciation and amortization | 19,538 | 27,057 |
| Share-based compensation expense | 26,855 | 122,869 |
| Other general and administrative | 185,535 | 152,103 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 825,697 | 841,810 |
| OPERATING INCOME (LOSS) | (134,385) | (267,247) |
| OTHER INCOME AND EXPENSES: | | |
| Interest income | 8,428 | 16,765 |
| Interest expense | (45,706) | (55,909) |
| Other income and expenses | (2,289) | --- |
| TOTAL OTHER INCOME AND EXPENSES | (39,567) | (39,144) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES | (173,952) | (306,391) |
| PROVISION FOR INCOME TAXES | 27,114 | 26,903 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | (201,066) | (333,294) |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | --- | 381,534 |
| NET INCOME (LOSS) | \$(201,066) | \$48,240 |

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|------------|
| | 2010 | 2009 |
| EARNINGS (LOSS) PER SHARE: | | |
| Basic earnings (loss) per share | | |
| Continuing operations | \$ (0.01) | \$ (0.02) |
| Discontinued operations | 0.00 | 0.02 |
| Total | \$ (0.01) | \$ 0.00 |
| Diluted earnings (loss) per share | | |
| Continuing operations | \$ (0.01) | \$ (0.02) |
| Discontinued operations | 0.00 | 0.02 |
| Total | \$ (0.01) | \$ 0.00 |
| Weighted average shares outstanding – basic | 17,880,653 | 17,512,788 |
| Weighted average shares outstanding – diluted | 17,880,653 | 17,786,972 |

Amounts may not add due to rounding.

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|------------------|
| | 2010 | 2009 |
| REVENUES: | | |
| Entertainment | \$5,308,964 | \$5,163,710 |
| Other | 38,470 | 40,031 |
| TOTAL REVENUES | 5,347,434 | 5,203,741 |
| DIRECT COSTS AND EXPENSES: | | |
| Direct salaries and other compensation | 428,805 | 432,169 |
| Rent and utilities | 1,368,759 | 1,552,467 |
| Other direct operating costs | 883,521 | 1,068,588 |
| Depreciation and amortization | 384,790 | 354,025 |
| License expense | 60,773 | 50,471 |
| TOTAL COSTS AND EXPENSES | 3,126,648 | 3,457,720 |
| GROSS MARGIN | 2,220,786 | 1,746,021 |
| GENERAL AND ADMINISTRATIVE EXPENSES: | | |
| Salaries and other compensation | 688,315 | 655,400 |
| Legal and accounting fees | 407,725 | 348,014 |
| Depreciation and amortization | 37,975 | 56,551 |
| Share-based compensation expense | 52,031 | 153,854 |
| Other general and administrative | 348,571 | 324,963 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 1,534,617 | 1,538,782 |
| ARBITRATION JUDGEMENT | 122,449 | --- |
| OPERATING INCOME (LOSS) | 563,720 | 207,239 |
| OTHER INCOME AND EXPENSES: | | |
| Interest income | 16,914 | 28,762 |
| Interest expense | (92,267) | (114,790) |
| Other | (15,190) | (8,157) |
| TOTAL OTHER INCOME AND EXPENSES | (90,543) | (94,185) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES | 473,177 | 113,054 |
| PROVISION FOR INCOME TAXES | 54,041 | 53,356 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | 419,136 | 59,698 |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | --- | 271,131 |
| NET INCOME (LOSS) | \$419,136 | \$330,829 |

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2010 | 2009 |
| EARNINGS (LOSS) PER SHARE: | | |
| Basic earnings (loss) per share | | |
| Continuing operations | \$0.02 | \$0.00 |
| Discontinued operations | 0.00 | 0.02 |
| Total | \$0.02 | \$0.02 |
| Diluted earnings (loss) per share | | |
| Continuing operations | \$0.02 | \$0.00 |
| Discontinued operations | 0.00 | 0.02 |
| Total | \$0.02 | \$0.02 |
| Weighted average shares outstanding – basic | 17,898,854 | 17,135,938 |
| Weighted average shares outstanding – diluted | 18,327,548 | 17,983,240 |

Amounts may not add due to rounding.

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|--------------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$419,136 | \$330,829 |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 422,764 | 463,562 |
| Stock-based compensation expense | 52,031 | 153,854 |
| (Gain) loss on sale of business unit | --- | (403,556) |
| (Gain) loss on disposals of equipment | 25,347 | 8,157 |
| Increase (decrease) in cash flows as a result of changes in asset and liability account balances: | | |
| Accounts receivable | 18,988 | 199,227 |
| Other assets | (77,587) | (65,935) |
| Trade accounts payable | (159,707) | (212,696) |
| Accrued expenses and other current liabilities | (115,845) | (41,144) |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | 585,127 | 432,298 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (367,008) | (228,930) |
| Purchase of goodwill and intangibles | (164,218) | (210,100) |
| Proceeds from the sale of equipment | --- | 6,775 |
| Proceeds from repayment of notes receivable, net | 52,591 | 19,463 |
| Proceeds from sale of business | --- | 300,000 |
| NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES | (478,635) | (112,792) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on notes payable, legal settlements and capital leases | (286,444) | (763,365) |
| Repurchase of common stock | (73,885) | (24,436) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (360,329) | (787,801) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (253,837) | (468,295) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 3,734,712 | 4,425,724 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$3,480,875 | \$3,957,429 |

See notes to consolidated financial statements.

Littlefield Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Six Months Ended June
30,

2010 2009

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash payments:

| | | |
|----------|----------|-----------|
| Interest | \$92,266 | \$114,790 |
|----------|----------|-----------|

| | | |
|--------------|----------|----------|
| Income taxes | \$63,888 | \$52,942 |
|--------------|----------|----------|

Non-cash transactions:

| | | |
|---|----------|----------|
| Issuance of treasury stock under deferred compensation plan | \$15,827 | \$17,815 |
|---|----------|----------|

| | | |
|---|----------|----------|
| Issuance of treasury stock under employee stock purchase plan | \$14,268 | \$17,515 |
|---|----------|----------|

| | | |
|--|-------|-----------|
| Issuance of common stock as stock-based compensation | \$--- | \$367,156 |
|--|-------|-----------|

| | | |
|--|-------|-----------|
| Sale of business in exchange for note receivable | \$--- | \$600,000 |
|--|-------|-----------|

| | | |
|---|-----------|-------|
| Purchase of Property and equipment in exchange for note payable | \$126,900 | \$--- |
|---|-----------|-------|

See notes to consolidated financial statements.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2010

NOTE 1 – PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION.

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

The operating results for the six month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2010. Except for historical information contained herein, certain matters set forth in this report are forward looking statements that are subject to substantial risks and uncertainties, including the impact of government regulation and taxation, customer attendance and spending, competition, and general economic conditions, among others. This Quarterly Report on Form 10-Q contains “forward-looking” statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company and its subsidiaries that are based on the beliefs of the Company’s management. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” and “intend” and words or phrases of similar import, as they relate to the Company or its subsidiaries or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission, based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

NOTE 2 – DISCONTINUED OPERATIONS.

This report presents the results of operations of the Company’s Hospitality segment for the six-month period ended June 30, 2009, as discontinued operations. On April 1, 2009, the Company completed the sale of its Premiere Tents and Events (“PTE”) business unit reflecting the Company’s focus on its charitable bingo business in Texas, South

Carolina, Alabama and Florida. The PTE business unit was sold for \$900,000 consisting of \$300,000 cash consideration and a seven year note for \$600,000 at six percent interest. The asset sale resulted in a gain on sale of \$403,556 resulting from a \$900,000 sales price less \$406,444 of disposed assets, at net book value and a fifteen percent valuation allowance on the seven year note.

Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
 June 30, 2010

NOTE 2 – DISCONTINUED OPERATIONS (continued).

The amounts of the discontinued Hospitality segment’s revenue, gross profit (loss), gain on sale, income (loss) from discontinued operations and income (loss) per basic share included in the second quarter and six months ended June 30, 2009, were as follows:

| | Q209 | Q209 YTD |
|--|------------|-------------|
| Revenue | \$ --- | \$ 425,533 |
| Gross profit (loss) | (22,022) | (132,425) |
| Gain on asset disposal | 403,556 | 403,556 |
| Income (loss) from discontinued operations | \$ 381,534 | \$ 271,131 |
| Income (loss) per share | \$ 0.02 | \$ 0.02 |

NOTE 3 – PROPERTY AND EQUIPMENT.

Property and equipment at June 30, 2010 and December 31, 2009 consists of the following:

| | June 30, 2010 | December 31, 2009 |
|---|---------------|----------------------|
| Land | \$ 760,467 | \$ 740,467 |
| Buildings | 3,557,423 | 3,395,498 |
| Leasehold improvements | 5,626,112 | 5,565,310 |
| Equipment, furniture and fixtures | 3,650,433 | 3,625,132 |
| Automobiles | 104,341 | 121,534 |
| | 13,698,776 | 13,447,941 |
| Less: Accumulated depreciation and amortization | (6,514,919) | (6,329,678) |
| Property and equipment, net | \$ 7,183,857 | \$ 7,118,263 |

Total depreciation expense, for owned and leased assets, charged to continuing operations for the six months ended June 30, 2010 and 2009 was approximately \$403,000 and \$392,000 respectively.

Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
 June 30, 2010

NOTE 4 – GOODWILL & OTHER INTANGIBLE ASSETS.

Goodwill at June 20, 2010, was as follows:

| | Gross Carrying Amount | Accumulated Amortization | Total |
|---------------------------------|-----------------------------|-----------------------------|-------------|
| Goodwill at December 31, 2009 | \$6,411,450 | \$ (1,195,816) | \$5,215,634 |
| Goodwill acquired during period | 134,218 | --- | 134,218 |
| Goodwill at June 30, 2010 | \$6,545,668 | \$ (1,195,816) | \$5,349,852 |

Intangible assets at June 30, 2010, consisted of the following:

| | Gross Carrying Amount | Accumulated Amortization | Total |
|--|-----------------------------|-----------------------------|-----------|
| Intangible Assets with Indefinite Lives: | | | |
| Bingo licenses at December 31, 2009 | \$881,339 | (51,974) | \$829,365 |
| Licenses acquired during the period | --- | --- | --- |
| Bingo licenses at June 30, 2010 | \$881,339 | (51,974) | \$829,365 |
| Intangible Assets with Finite Lives: | | | |
| Covenants not to compete at December 31, 2009 | \$332,500 | (243,708) | \$88,792 |
| Change in covenants not to compete | 30,000 | (20,167) | 9,833 |
| Covenants not to compete at June 30, 2010 | \$362,500 | (263,875) | \$98,625 |
| Intangible Assets, Net of Accumulated Amortization | | | \$927,990 |

Amortization expense charged to operations for the six months ended June 30, 2010 and 2009, was approximately \$20,000 and \$18,000 respectively. The increase in goodwill and covenants not to compete resulted from a South Carolina bingo hall acquisition during the first quarter of 2010.

NOTE 5 - SHAREHOLDERS' EQUITY.

At June 30, 2010, the Company holds 902,319 treasury shares at an average purchase cost of \$1.12.

Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
 June 30, 2010

NOTE 6 – SHARE BASED PAYMENTS.

The Company recorded approximately \$52,000 and \$154,000 in compensation expense in the six month periods ended June 30, 2010 and June 30, 2009, respectively, related to options issued under its stock-based incentive compensation plans. This includes expense related to both options issued in the current year and options issued in prior years for which the requisite service period for those options includes the current year. The fair value of these options was calculated using the Black-Scholes options pricing model. There were 25,000 and 1,020,000 options issued during the six month periods ended June 30, 2010 and 2009, respectively. For options issued in 2010, the following assumptions were used: dividend yield of 0%, expected volatility of 78%, risk free interest rate of 3.5% and an expected life of 10 years.

NOTE 7 – EARNINGS PER SHARE.

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include stock options, is computed using the treasury stock method.

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

| Six months ended June 30, | 2010 Basic | 2010 Diluted | 2009 Basic | 2009 Diluted |
|-------------------------------------|---------------|-----------------|---------------|-----------------|
| Numerator: | | | | |
| Net income (loss) | \$419,136 | \$419,136 | \$330,829 | \$330,829 |
| Denominator: | | | | |
| Weighted average shares outstanding | 17,898,854 | 17,898,854 | 17,135,938 | 17,135,938 |
| Effect of dilutive securities: | | | | |
| Stock options and warrants | --- | 428,694 | --- | 847,302 |
| Weighted average shares outstanding | 17,898,854 | 18,327,548 | 17,135,938 | 17,983,240 |
| Earnings (loss) per share | \$0.02 | \$0.02 | \$0.02 | \$0.02 |

Stock options to acquire 100,750 and 306,660 shares for the six months ended June 30, 2010 and 2009, respectively, were excluded from the computations of diluted EPS because the effect of including the stock options would have been anti-dilutive to a loss per share or the options were out of the money. The dilutive securities for the six month period ended June 30, 2009, included a stock grant of 1,182,699 shares granted during the first quarter of 2009 but not yet issued as of March 31, 2009.

Littlefield Corporation
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
 June 30, 2010

NOTE 8 - ACCOUNTING FOR STOCK BASED COMPENSATION

The Company applies FASB ASC 718, Compensation – Stock Compensation (FASB ASC 718) and FASB ASC 505, Equity (FASB ASC 505), using the modified prospective method of implementation, whereby the prospective method records the compensation expense from the implementation date forward, however leaves prior periods unchanged in accounting for its stock options. At December 31, 2009, 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 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.

Transactions under the stock option plans are summarized below. At June 30, 2010, a total of 1,547,410 options were outstanding under these plans.

Employee Stock Plans

| | Options | Weighted Average Exercise Price |
|-------------------------|-----------|--|
| Outstanding at 12/31/09 | 1,522,410 | \$ 0.42 |
| Granted | 25,000 | 0.76 |
| Exercised | --- | --- |
| Forfeited | -- | --- |
| Outstanding at 06/30/10 | 1,547,410 | \$ 0.43 |

The fair value of options granted during the six month period ended June 30, 2010 was approximately \$15,297; the 25,000 options vested upon grant.

Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the period in excess of the exercise price multiplied by the number of options outstanding or exercisable. The total intrinsic value of options exercised during 2010 was \$0, as no options were exercised. Total unrecognized stock-based compensation expense related to non-vested stock options was approximately \$122,000 as of June 30, 2010, related to approximately 491,000 shares with a per share weighted average fair value of \$0.25. We anticipate this expense to be recognized over a weighted average period of approximately 1.6 years.

The following table summarizes information about options outstanding at June 30, 2010 under the Employee Stock Plan:

| Range of | Number | Options Outstanding Weighted Avg. | Options Exercisable Number |
|----------|--------|--------------------------------------|-------------------------------|
|----------|--------|--------------------------------------|-------------------------------|

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| | Exercise Prices | Outstanding | Remaining Contractual Life | Weighted Avg. Exercise Price | Exercisable | Weighted Avg. Exercise Price |
|-------|---------------------------|-------------|----------------------------|------------------------------|-------------|------------------------------|
| 2010: | 1.26 - \$1.87 | 16,500 | 5.9 years | \$1.32 | 16,500 | \$1.32 |
| | 0.00 - \$1.25 | 1,530,910 | 7.6 years | \$0.42 | 1,040,285 | \$0.46 |
| | Total | 1,547,410 | 7.6 years | \$0.43 | 1,056,785 | \$0.47 |
| | Aggregate intrinsic value | \$441,664 | | | \$264,451 | |

The weighted average remaining contractual life of options exercisable as of June 30, 2010 was 7.1 years.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2010

NOTE 9 – INCOME TAXES.

The Company recorded approximately \$54,000 and \$53,000 of state income tax expense, respectively, for the six months ended June 30, 2010 and 2009. The Company does not expect to incur material federal income tax charges until the depletion of its accumulated federal income tax loss carry-forwards, which totaled approximately \$10,900,000 at December 31, 2009, and begin expiring in the year 2016.

FASB ASC 740, Income Taxes (FASB ASC 740) addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on 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 of June 30, 2010, 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 2006 through 2009 remain open to examination by the taxing jurisdictions in which we file income tax returns.

NOTE 10 - RELATED PARTY TRANSACTIONS.

During 2009, the Company renewed the employment agreement with its President and CEO; in accordance with this agreement, the Company accrued \$12,000 and \$12,000 of deferred compensation in the six months ended June 30, 2010 and 2009, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES.

Generally speaking, the Securities and Exchange Commission guidelines require a company to report any pending legal and/or regulatory proceedings that involves a claim for damages in excess of ten percent (10%) of its current assets. The litigation and proceedings discussed below do not necessarily meet this threshold, but are included in the interest of disclosure. The Company is also sometimes engaged in routine litigation incidental to its business. In general, the Company will vigorously defend itself against all claims to the fullest extent possible. The legal proceedings exclude certain insurance claims for which the Company believes are covered and defended by existing

insurance policies and ordinary and incidental matters.

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 and seeks recovery from the estate of Philip Furtney [“Furtney”] for fraud and negligent misrepresentations. 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., [“Pondella”] 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.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
June 30, 2010

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued).

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 of Furtney's estate as the defendant, the estate discharged Furtney's previous counsel and retained their own counsel which resulted in additional delay. Prior to his dismissal, Furtney's counsel filed a motion for summary judgment seeking the dismissal of the claims arguing that the claims against Furtney were barred by the previous judgments in the litigation with Pondella and Ontario; he also argued that the claims against Furtney were time-barred by the statute of limitations. The attorney retained by Furtney's estate continued to argue this motion and raise these defenses. A hearing on the motion was conducted in July 2009, and the parties then submitted supporting memorandums. The court entered an order in March 2010, denying the motion for summary judgment and the supporting arguments in their entirety. A hearing is scheduled for September 8, 2010, and it is anticipated that the court will set a trial date at that hearing.

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, Plaintiff is a wholly-owned subsidiary of the Company. The Plaintiff filed suit against the Defendants alleging the Defendants interfered with the Plaintiff's bingo operations and/or business operations at Super Bingo, which is located in Abilene, Texas. The Defendants asserted counterclaims against the Plaintiff alleging that the Plaintiff'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.

Defendants subsequently alleged that the Company and its CEO were the alter-ego of the Plaintiff and asserted third-party claims against them. These claims were dismissed by the Court via summary judgment in July 2010. A mediation was conducted in January 2010 and April 2010, but the case did not settle. The lawsuit is ongoing and the parties are currently engaged in discovery. The lawsuit has not been set for trial.

Cause No. 2009-CI-14245, B-Y Mission Plaza CC, Ltd. v. Coastal Bend Bingo, Inc. and Littlefield Corporation, in the 285th District Court of Bexar County, Texas.

B-Y Mission, Plaintiff, filed suit against the Company and one of its affiliates, alleging breach of a lease agreement between B-Y Mission, Landlord, and Coastal Bend, Lessee, and seeking to compel arbitration of the dispute. The Company is the Guarantor of the lease entered into by one of its affiliates, Coastal Bend. Coastal Bend attempted to terminate the lease under a clause of the lease that the Company believes permits termination of the lease under the circumstances and tendered the appropriate termination amount. The Company also asserted that B-Y Mission engaged in fraud by, among other things, making material misrepresentations in connection with the lease. The Landlord contended the termination was wrongful and seeks recovery of all remaining rental payments.

As of April 30, 2010, the suit is no longer pending. As a result of an arbitration conducted on March 31 and April 1, 2010, the arbitrator determined that the Company's affiliate did not have grounds to terminate the lease as alleged. However, the arbitrator also determined that Company's affiliate was entitled to a reduction of the amount of common area maintenance, insurance and taxes charged by the Landlord for the remainder of the lease. The arbitrator awarded the Landlord an amount for past rent and for attorney fees, which has been fully paid by the Company. The Company recorded a \$122,449 charge in its first quarter 2010 results to reflect this judgment. On April 29, 2010, the Court entered its final judgment adopting the decision and award of the arbitrator. The judgment expressly recites that all monetary awards therein have been fully satisfied by the Company and its affiliate. Pursuant to the private agreement between the parties, the award of the arbitrator and the judgment adopting the same are not subject to appeal by any party.

Littlefield Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 12 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

Recently Issued Accounting Pronouncements:

In April 2009, the FASB updated FASB ASC 820, Fair Value Measurements and Disclosures (FASB ASC 820) providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This update also includes guidance on identifying circumstances that indicate a transaction is not orderly. We adopted the update on April 1, 2009 as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

In September 2009, the FASB updated FASB ASC 105, Generally Accepted Accounting Principles (FASB ASC 105). The update establishes the FASB Standards Accounting Codification (“Codification”) as the source of authoritative U.S. generally accepted accounting principles (“GAAP”) recognized by the FASB to be applied to nongovernmental entities and rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. This update is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the update on July 1, 2009, as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

In January 2010, the FASB updated FASB ASC 820, Fair Value Measurements and Disclosures (FASB ASC 820) that requires additional disclosures and clarifies existing disclosures regarding fair value measurements. The additional disclosures include 1) transfers in and out of Levels 1 and 2 and 2) activity in Level 3 fair value measurements. The update provides amendments that clarify existing disclosures on 1) level of disaggregation and 2) disclosures about inputs and valuation techniques. This update will be effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the update on January 1, 2010 as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

In February 2010, the FASB updated FASB ASC 855, Subsequent Events (FASB ASC 855) that requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued. For an SEC filer, this guidance also eliminates the required disclosure of the date through which subsequent events are evaluated. This update is effective upon issuance. We adopted the update on January 1, 2010 as required and concluded it did not have a material impact on our consolidated financial position or results of operations.

NOTE 13 – SPECIAL CHARGES.

As more fully discussed in Note 11: Commitments and Contingencies, during the first three months of 2010, we recorded a \$122,000 charge related to an arbitration judgment.

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

The second quarter 2010 and year-to-date discussion in this report focuses on the Company's results of continuing operations which is comprised of the Company's Entertainment business' charitable bingo operations in four states: Texas, South Carolina, Alabama and Florida.

In April 2009, the Company disposed of Premiere Tents & Events (PTE) thereby strategically aligning its focus on its Entertainment business. The disposition of PTE was the final transaction in the disposition of the Company's Hospitality segment which had included units engaged in catering and party rentals. The disposition of the PTE business unit's assets resulted in a gain of approximately \$404,000.

Second quarter 2010 compared to 2009

During the second quarter, the Company achieved the second highest level of second quarter bingo revenue. Revenue declined 3% from the record-setting level last year. Income (loss) from continuing operations was a loss of approximately \$200,000, an improvement of approximately \$130,000 over the comparable prior year period. Excluding the notable items described below, income from continuing operations was approximately \$156,000.

The Q2 2010 results include approximately \$357,000 of notable items: \$133,000 of expense associated with the start-up of new halls and re-openings at halls in Texas, \$195,000 of legal expense for South Carolina, Florida, Texas and its Furtney litigation. \$27,000 for non-cash stock-based compensation and other asset disposals of \$2,000. The Company continues to reduce the negative impact of the Texas start-up operations. Its legal fees are expected to be more manageable with the anticipated settlement of the Furtney and Abilene litigation later this year.

The Q2 2009 results included approximately \$666,000 of notable items: \$378,000 of expense from Texas start-ups and re-openings, \$165,000 from legal expense related to South Carolina and Texas and its Furtney litigation, and \$123,000 for non-cash stock-based compensation expense.

Revenues

The following table sets forth the Company's revenues from continuing operations for the quarters ended June 30, 2010 and 2009:

| | Q2 2010 | Q2 2009 | Change | % Change |
|-------------------|-------------|-------------|-------------|-------------|
| Total Revenues | \$2,301,000 | \$2,378,000 | \$ (77,000) | (3 %) |
| Entertainment | 2,282,000 | 2,358,000 | (76,000) | (3 %) |
| Texas | 1,235,000 | 1,318,000 | (83,000) | (6 %) |
| South Carolina | 751,000 | 656,000 | 95,000 | 14 % |
| Alabama / Florida | 296,000 | 384,000 | (88,000) | (23 %) |
| Other | \$19,000 | \$20,000 | \$ (1,000) | NM |

During the second quarter of 2010, total revenues for the Company declined 3% from 2009's record-setting level of second quarter bingo revenue. The second quarter is typically seasonally a weaker quarter due to weakness during the summer months. The slight decline in Entertainment revenue largely reflects stable revenues in Texas and South Carolina and the contribution of a recent South Carolina acquisition offset by localized weakness at select halls in Alabama and Texas paired with the discontinuance of a certain style of play of bingo in Florida. Other revenue includes other ancillary services and miscellaneous revenue not reported as Entertainment revenue.

Entertainment revenues by state were as follows:

| | Q2 2010 | Q2 2009 | % Change |
|-----------|------------|------------|-------------|
| Texas | 54% | 56% | (2%) |
| S o u t h | 33% | 28% | 5% |
| Carolina | | | |
| Alabama / | 13% | 16% | (3%) |
| Florida | | | |

Gross profit and Costs and Expenses

The table below summarizes the Company's gross profit from continuing operations for the quarters ended June 30, 2010 and 2009. Gross profit percent (gross profit as a percent of sales) increased to 30% from 24% in 2009.

| | Q2 2010 | Q2 2009 | Change | % Change |
|--------------------|------------|------------|-------------|-------------|
| Total Gross Profit | \$691,000 | \$575,000 | \$ 116,000 | 20 % |
| Entertainment | 672,000 | 555,000 | 117,000 | 21 % |
| Other | \$19,000 | \$20,000 | \$ (1,000) | NM |

Overall, total costs and expenses decreased 11% from the comparable prior year quarter primarily as a result of lower costs associated with the closure of certain under-performing halls in Texas.

Direct salaries and other compensation slightly increased by approximately \$5,000 or 2% from the prior year.

Rent and utilities in the second quarter 2010 declined approximately \$118,000 or 15% from 2009, largely due to the closure of certain under-performing halls in Texas. In 2010 and 2009, we did not recognize lease costs on a straight-line basis as provided in FASB ASC 840, Leases (FASB ASC 840). 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 2010 and 2009, 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 the second quarter 2010 declined approximately \$107,000 or 18% from the prior year, mainly as a result of lower costs such as advertising, promotions and development expenses associated with start-ups, re-openings and closures of certain halls in Texas.

Depreciation and amortization expense totaled approximately \$217,000 (\$198,000 Cost of Services plus \$19,000 G&A) in 2010 versus \$203,000 in the prior year.

We measure corporate overhead as general and administrative expenses, excluding related depreciation expense, the noted legal fees and stock-based compensation. Corporate overhead totaled approximately \$585,000 in Q2 2010, compared to approximately \$527,000 in 2009; the \$58,000 increase mainly reflected acquisition-related initiatives including the addition of personnel and trade show activities. We measure corporate overhead because it provides management with a tool to assess performance consistently over different financial periods. The following table reconciles general and administrative expenses under GAAP to our corporate overhead measure.

| | Q2 2010 | Q2 2009 |
|--|-----------|-----------|
| Corporate overhead | | |
| General and administrative expenses (GAAP basis) | \$825,697 | \$841,810 |
| Stock-based compensation | (26,855) | (122,869) |
| Noted legal expenses | (194,714) | (165,312) |
| Depreciation and amortization | (19,538) | (27,057) |
| Corporate overhead (non-GAAP basis) | \$584,590 | \$526,572 |

Other income and expense was an expense of approximately \$40,000 for 2010, compared to approximately \$39,000 in 2009.

Our income tax expense for 2010 was approximately \$27,000 compared to \$27,000 in 2009, all of which is related to the expected effective tax rate for state income taxes. As of December 31, 2009, the Company had a net operating loss available for carryover on its federal income taxes of approximately \$10,900,000.

Income from continuing operations

During the second quarter of 2010, the Company's loss from continuing operations was reduced by approximately \$130,000 to a loss of approximately \$200,000; (\$0.01) loss per basic share and a loss of (\$0.01) per fully diluted share. The Company incurred a loss from continuing operations of approximately \$330,000 during the second quarter of 2009; a loss of (\$0.02) per basic share and (\$0.02) per fully diluted share. The weighted average number of basic common shares outstanding totaled 17,880,653 in 2010 compared to 17,512,788 in 2009. The increase in shares outstanding mainly represents shares issued as stock-based compensation.

The Q2 2010 results include approximately \$357,000 of notable items: \$133,000 of expense associated with the start-up of new halls and re-openings at halls in Texas, \$195,000 of legal expense for South Carolina, Florida, Texas and its Furtney litigation. \$27,000 for non-cash stock-based compensation and other asset disposals of \$2,000. The Company continues to reduce the negative impact of the Texas start-up operations. Its legal fees are expected to be more manageable with the anticipated settlement of the Furtney and Abilene litigation later this year.

The Q2 2009 results included approximately \$666,000 of notable items: \$378,000 of expense from Texas start-ups and re-openings, \$165,000 from legal expense related to South Carolina and Texas and its Furtney litigation, and \$123,000 for non-cash stock-based compensation expense.

Adjusted for the noted items above, the adjusted income from continuing operations during the second quarter of 2010 was approximately \$156,000 and basic earnings per share were \$0.01 per share in 2010 versus an adjusted net income of approximately \$332,000 and basic earnings per share of \$0.02 last year. Our management uses adjusted income (loss) from continuing operations to measure performance consistently over different financial periods. The following table reconciles operating income (loss) from continuing operations under GAAP to our adjusted income (loss) from continuing operations measure.

| Income (loss) from continuing operations | Q2 2010 | Q2 2009 |
|--|-------------|-------------|
| Operating income (loss) (GAAP basis) | \$(201,066) | \$(333,294) |
| Hall start-up activities | 133,059 | 377,522 |
| Stock-based compensation | 26,855 | 122,869 |
| Noted legal expenses | 194,714 | 165,312 |
| Other asset disposals | 2,289 | --- |
| Income (loss) excluding noted items (non-GAAP basis) | \$155,851 | \$332,409 |

Six months to date 2010 compared to 2009

During the six months ended June 30, 2010, the Company achieved a record level of revenue from continuing operations which increased 3% over the comparable prior year period. The Company's income from continuing operations increased approximately \$359,000 from the prior year to approximately \$419,000 from approximately \$60,000 last year. Excluding the notable items described below, income from continuing operations was approximately \$1,145,000, up approximately \$29,000 over the prior year period.

The Q2 2010 YTD results include approximately \$726,000 of notable items: \$217,000 of expense associated with the start-up of new halls and re-openings at halls in Texas, \$320,000 of legal expense for South Carolina, Florida, Texas and its Furtney litigation, \$122,000 related to an arbitration judgment, \$15,000 other asset disposals and \$52,000 for non-cash stock-based compensation. The Company continues to reduce the negative impact of the Texas start-up operations. Its legal fees should be more manageable with the anticipated settlement of the Furtney and Abilene litigation later this year.

The Q2 2009 earnings included approximately \$1,057,000 of notable items: \$635,000 of expense from Texas start-ups and re-openings, \$250,000 from legal expense related to South Carolina, Texas and Furtney litigation, \$10,000 of divestiture consideration, \$8,000 of other asset disposals and \$154,000 for non-cash stock-based compensation expense.

Revenues

The following table sets forth the Company's revenues from continuing operations in the six months ended June 30, 2010 and 2009:

| | 2010 | 2009 | Change | % Change |
|-------------------|--------------|--------------|-------------|-------------|
| Total Revenues | \$ 5,347,000 | \$ 5,204,000 | \$ 143,000 | 3 % |
| Entertainment | 5,309,000 | 5,164,000 | 145,000 | 3 % |
| Texas | 2,508,000 | 2,644,000 | (136,000) | (5 %) |
| South Carolina | 2,049,000 | 1,629,000 | 420,000 | 26 % |
| Alabama / Florida | 752,000 | 891,000 | (139,000) | (16 %) |
| Other | \$ 38,000 | \$ 40,000 | \$ (2,000) | NM |

During the first six months of 2010, total revenues reached a record level and increased 3% over 2009. Entertainment revenue increased 3% and was favorably affected by the contribution of revenue from halls acquired in South Carolina partially offset by localized weakness at certain halls in Texas and Alabama and the discontinuance of a certain style of play in Florida. Other revenue includes other ancillary services and miscellaneous revenue not reported as Entertainment revenue.

Entertainment revenues by state were as follows:

| | 2010 | 2009 | % Change |
|----------------------------------|------|------|-------------|
| Texas | 47% | 51% | (4%) |
| S o u t h C a r o l i n a | 39% | 32% | 7% |
| A l a b a m a / F l o r i d a | 14% | 17% | (3%) |

Gross profit and Costs and Expenses

The table below summarizes the Company's gross profit from continuing operations for the six months ended June 30, 2010 and 2009. Gross profit percent (gross profit as a percent of sales) increased to 42% from 34% in 2009.

| | 2010 | 2009 | Change | % Change |
|--------------------|--------------|--------------|-------------|-------------|
| Total Gross Profit | \$ 2,221,000 | \$ 1,746,000 | \$ 475,000 | 27 % |
| Entertainment | 2,183,000 | 1,706,000 | 477,000 | 28 % |
| Other | \$ 38,000 | \$ 40,000 | \$ (2,000) | NM |

Overall, total costs and expenses decreased approximately \$330,000 or 10% from the comparable six-month prior year period mainly as a result of the closure of certain under-performing halls in Texas (\$418,000).

Direct salaries and other compensation were down approximately 3,000 or 1%, an insignificant amount.

Rent and utilities in 2010 declined approximately \$184,000 or 12% from 2009, largely due to the closure of certain under-performing halls in Texas. We do not recognize lease costs on a straight-line basis as provided in FASB ASC

840, Leases (FASB ASC 840). 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 2010 and 2009, 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 2010 declined approximately \$185,000 or 17% from the prior year, mainly resulting from lower costs such as advertising, promotions and development expenses associated with start-ups, re-openings and closures of certain halls in Texas.

Depreciation and amortization expense totaled approximately \$423,000 (\$385,000 Cost of Services plus \$38,000 G&A) in 2010 versus \$411,000 in the prior year. The increase in depreciation is mainly attributed to hall renovations.

We measure corporate overhead as general and administrative expenses, excluding related depreciation expense, the noted legal fees and stock-based compensation. Corporate overhead totaled approximately \$1,125,000 in 2010, compared to approximately \$1,068,000 in 2009, the \$57,000 increase mainly represents acquisition-related initiatives including the addition of personnel and trade show activities. We measure corporate overhead because it provides management with a tool to assess performance consistently over different financial periods. The following table reconciles general and administrative expenses under GAAP to our corporate overhead measure.

| Corporate overhead | 2010 | 2009 |
|--|--------------|--------------|
| General and administrative expenses (GAAP basis) | \$ 1,534,617 | \$ 1,538,782 |
| Stock-based compensation | (52,031) | (153,854) |
| Noted legal expenses | (319,732) | (249,890) |
| Depreciation and amortization | (37,975) | (56,551) |
| Acquisition and divestiture consideration | --- | (10,000) |
| Corporate overhead (non-GAAP basis) | \$ 1,124,879 | \$ 1,068,487 |

Other income and expense was an expense of approximately \$91,000 for 2010, compared to approximately \$94,000 in 2009.

Our income tax expense for 2010 was approximately \$54,000 compared to \$53,000 in 2009, all of which is related to the expected effective tax rate for state income taxes. As of December 31, 2009, the Company had a net operating loss available for carryover on its federal income taxes of approximately \$10,900,000.

Income from continuing operations

During the first six months of 2010, income from continuing operations was approximately \$419,000; \$0.02 per basic share and \$0.02 per fully diluted share. During the first six months of 2009, the Company's income from continuing operations was approximately \$60,000; \$0.00 per basic share and \$0.00 per fully diluted share. The weighted average number of basic Common Stock shares outstanding totaled 17,898,854 in 2010 compared to 17,135,938 in 2009. The increase in shares outstanding mainly represents shares issued as stock-based compensation.

The Q2 2010 YTD results include approximately \$726,000 of notable items: \$217,000 of expense associated with the start-up of new halls and re-openings at halls in Texas, \$320,000 of legal expense for South Carolina, Florida, Texas and its Furtney litigation, \$122,000 related to an arbitration judgment, \$15,000 other asset disposals and \$52,000 for non-cash stock-based compensation. The Company continues to reduce the negative impact of the Texas start-up operations. Its legal fees should be more manageable with the anticipated settlement of the Furtney and Abilene litigation later this year.

The Q2 2009 earnings included approximately \$1,057,000 of notable items: \$635,000 of expense from Texas start-ups and re-openings, \$250,000 from legal expense related to South Carolina, Texas and Furtney litigation, \$10,000 of divestiture consideration, \$8,000 of other asset disposals and \$154,000 for non-cash stock-based compensation expense.

Adjusted for the noted items above, the adjusted income from continuing operations during the first six months of 2010 was approximately \$1,145,000 and basic earnings per share were \$0.06 per share in 2010 versus an adjusted net income of approximately \$1,117,000 and basic earnings per share of \$0.07 last year. Our management uses adjusted income (loss) from continuing operations to measure performance consistently over different financial periods. The following table reconciles operating income (loss) from continuing operations under GAAP to our adjusted income (loss) from continuing operations measure.

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| Income (loss) from continuing operations | 2010 | 2009 |
|--|--------------|--------------|
| Operating income (loss) (GAAP basis) | \$ 419,136 | \$ 59,698 |
| Hall start-up activities | 216,922 | 635,145 |
| Stock-based compensation | 52,031 | 153,854 |
| Noted legal expenses | 319,732 | 249,890 |
| Arbitration judgment | 122,449 | --- |
| Acquisition and divestiture consideration | --- | 10,000 |
| Asset disposals | 15,190 | 8,157 |
| Income (loss) excluding noted items (non-GAAP basis) | \$ 1,145,460 | \$ 1,116,744 |

Liquidity and Capital Resources

Cash and cash equivalents at June 30, 2010, totaled approximately \$3,481,000 and represented 19% of total assets of approximately \$18,388,000. Current assets totaled approximately \$4,308,000. Current liabilities of \$3,061,000 were increased by \$1.9 million to reclassify a loan due April 2011 to current liabilities. Management anticipates refinancing the loan during the summer of 2010 and has commenced discussions with its financial institution. Working capital was approximately \$1,247,000 with a current ratio of 1.4 to 1 compared to approximately 2.7 to 1 in December 2009.

Cash provided by operating activities for the six months ended June 30, 2010 totaled approximately \$585,000 compared to cash provided of \$432,000 during 2009. Cash flows from operating activities in 2010 were increased by net income of approximately \$419,000 and provided by non-cash depreciation expense of approximately \$423,000, stock based compensation of approximately \$52,000 and partially offset by decreased accounts payable of \$160,000 and other net changes in asset and liability accounts of \$149,000.

Net cash used in investing activities in 2010 totaled approximately \$479,000 for capital expenditures mainly for bingo hall renovations, leasehold improvements and the acquisition of a hall in South Carolina partially offset by the collection of approximately \$53,000 on notes receivable. This compared to cash used in investing activities last year of a net \$113,000 reflecting approximately \$413,000 for capital expenditures and an acquisition partially offset by \$300,000 from the sale of the PTE business unit.

Cash used in financing activities in 2010 totaled approximately \$360,000, compared to cash used in financing activities in 2009 of approximately \$788,000. In 2010, approximately \$286,000 of cash was used for the payment of notes payable and \$74,000 to repurchase stock. During the first six months of 2009, approximately \$500,000 was used in the final payoff of a note related to the purchase of six halls in South Carolina during 2008 to realize a \$300,000 reduction in purchase price and approximately \$264,000 was used for the payment of notes payable and legal settlement obligations and \$24,000 to repurchase stock.

At June 30, 2010, we had approximately \$18,388,000 in total assets with total liabilities of approximately \$4,180,000 and approximately \$14,208,000 of shareholders' equity. Total assets include approximately \$3,481,000 in cash, \$491,000 of net accounts receivable, other current assets of \$336,000, \$7,184,000 of net property and equipment, \$6,278,000 of intangible assets, \$321,000 note related to the sale of PTE and \$297,000 of other assets. Total liabilities primarily consist of accounts payable of approximately \$23,000 and notes payable obligations of approximately \$3,120,000 and accrued and related-party liabilities of \$929,000 and \$108,000 respectively.

In 2010, we plan to continue to use our cash generated from operations to make leasehold improvements and renovations in our bingo operations. We also plan to use advantageous combinations of bank financing, seller financing, treasury stock, and cash on hand to acquire new bingo halls when favorable terms can be obtained.

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 June 30, 2010 or 2009. The Company holds its funds in cash and certificates of deposit generally insured by the FDIC with uninsured amounts setting off loans payable. Generally, the Company minimizes exposure to interest rate fluctuations on its long-term debt arrangements by entering into fixed rate notes payable or establishing interest rate collars within which a variable interest rate on long-term debt may fluctuate. As a result of these terms the market risk associated with interest rate fluctuations on long-term debt is not material.

Recently Issued Accounting Pronouncements

See Note 12 – Recently Issued Accounting Pronouncements in the Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Response to this item is included in Item 2 – Management’s Discussion and Analysis of Financial Conditions and Results of Operations – Market Risk above.

Item 4. 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-Q, 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.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2010, 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of material pending legal proceedings, see Note 11 to the unaudited Consolidated Financial Statements included in Part I hereof, which Note 11 is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We have a share repurchase program that authorizes us to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under equity compensation plans. The following table sets forth information regarding our repurchases or acquisitions of common stock during the first six months of 2010:

| Repurchase Period | Total Number of Shares Repurchased | Average Price Paid per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plans |
|-------------------|------------------------------------|------------------------------|--|
| Q1 2010 | 101,000 | \$ 0.72 | 101,000 |
| Q2 2010 | 2,360 | \$ 0.70 | 2,360 |
| Total | 103,360 | \$ 0.71 | 103,360 |

Average price per share includes transactions costs. During the first six months of 2010, the Company repurchased \$73,885 of its common stock. During 2009, the Company repurchased \$114,906 of its common stock.

Item 6. 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).

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- 10.1* 2002 Stock Option Plan (incorporated by reference to Exhibit 1 of the Definitive Proxy Statement Schedule 14A, filed with the SEC on March 22, 2002).
- 10.2* 2002 Employee Stock Purchase Plan (incorporated by reference to Exhibit 2 of the Definitive Proxy Statement Schedule 14A, filed with the SEC on March 22, 2002).
- 10.3* 2009 Employment Agreement (incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K filed with the SEC in March 31, 2009).
- 31.1 Rule 31a-14(a) / 15d-14(a) Certifications, filed herewith
- 32.1 Section 1350 Certifications, filed herewith
 - * Denotes a management contract or compensatory plan or arrangement.

SIGNATURES

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

Littlefield Corporation

August 13, 2010

By:

/s/ JEFFREY L. MINCH

Jeffrey L. Minch

President and Chief Executive Officer

/s/ RICHARD S. CHILINSKI

Richard S. Chilinski

Chief Financial Officer

