

LITTLEFIELD CORP
Form 10KSB
March 31, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Commission file No
0-24805

Littlefield Corporation

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

Delaware

(State or other jurisdiction of incorporation or organization)

74-2723809

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

2501 North Lamar Blvd. Austin, Texas 78705

(Address of principal executive offices)

(512) 476-5141

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Sections 12(g) of the Exchange Act: Common Stock

Indicate by check mark whether the issuer (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 issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year:

\$ 9,927,697

Aggregate market value of the issuer's common stock held by non-affiliates based on the average bid and asked price as of **March 1, 2005**

Number of shares of the issuer's common stock outstanding as of March 1, 2005	\$5,865,268
	8,378,954

Documents Incorporated By Reference

The issuer's Proxy Statement for its annual meeting of stockholders scheduled to be held on **May 18, 2005**, is incorporated by reference in this Form 10-KSB in Part III Item 9, Item 10, Item 11 and Item 12.

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: DESCRIPTION OF BUSINESS

Littlefield Corporation develops, owns and operates charitable bingo halls, and owns and operates party rental and catering companies. We operate 30 charitable bingo halls in Texas, Alabama, and South Carolina. We also own and operate Littlefield Hospitality in Austin, Texas. The Hospitality division consists of Premiere Events and Rental, a party and tent rental company, and Word of Mouth Catering, a custom catering company.

We were incorporated in Delaware in 1994 as American Bingo and Gaming Corp. From inception through 1999 we suffered through a chaotic leadership structure. There have been five (5) separate Presidents or Chief Executive Officers during our brief history as well as a continuously changing Board of Directors. In mid-1999, Daniel W. Deloney was named a director, and immediately after the resignation of the Board of Directors and management, became interim Chief Executive Officer and Chairman of the Board. In July 1999, Jeffrey L. Minch was appointed a director and in October 1999, was named President. Current independent board members are Carlton Williams, Alfred Stanley and Michael Wilfley. Alfred Stanley and Michael Wilfley were elected at the May 2004 annual meeting to replace Hank Anawaty who did not seek reelection and Daniel Deloney who was not reelected. Carlton Williams was named Chairman of the Board. The Board of Directors owns a substantial amount of stock.

CURRENT YEAR EVENTS:

On January 1, 2004, the Company incorporated Littlefield Management Company, Inc. in the state of Texas as a wholly owned subsidiary.

On May 6, 2004, the Company's stock was delisted from the NASDAQ and began trading on the OTC Bulletin Board. This event is discussed more thoroughly in Item 5 – "Market for Common Equity and Related Stockholder Matters."

In 2004, we purchased one bingo hall, Bingo Barn in Midland, Texas. In South Carolina, we opened or entered into an agreement to open three new 'C' halls, Coverall's Bingo in Walterboro, Conway Bingo in Conway and Meeting Place Bingo in Charleston. Meeting Place Bingo and Bingo Amigo in Greenville, SC were closed during this year. We also

began the process to secure space for a fourth "C" hall in Aiken. All of these events are discussed more thoroughly in Item 6 – "Management's Discussion and Analysis of Financial Condition and Results of Operations".

PRINCIPLE BUSINESS AND MARKETS

We currently have two distinct and separate business segments.

1. "Littlefield Entertainment" owns and operates 30 charitable bingo halls. Of these 30 bingo halls, sixteen (16) are in Texas (Austin-1, Abilene-2, Amarillo-3, McAllen-3, Lubbock-3, Odessa-2, Midland-1 and San Antonio-1), three (3) are in Alabama (Montgomery-2 and Mobile-1) and eleven (11) are in South Carolina (Charleston-6, Columbia-2, Georgetown-1, Walterboro-1 and Conway-1). The total segment comprised approximately 65% of our total revenues in 2004.
2. "Littlefield Hospitality" consists of Austin Tents and Events which was acquired in November 2000, Premiere Party Rental which was acquired in July of 2001, and Word of Mouth Custom Catering which was acquired in August of 2001. Austin Tents and Events and Premiere Party Rental were subsequently combined and are now called Premiere Events and Rental. Revenues in our Hospitality division comprised 34% of total gross revenues in 2004.

On January 31, 2003, a third unit, Littlefield Amusements was discontinued. This unit operated amusement type gaming machines in Montgomery, Alabama, but when those machines were deemed illegal, the business unit was discontinued.

LITTLEFIELD ENTERTAINMENT. Our main business is the management of charitable bingo halls. We might be called a "charitable bingo lessor" or "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 precise 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.

In the due diligence of investing in a new start up bingo hall, the company anticipates 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). We have two new start up halls in South Carolina, neither of which has reached a stable and predictable operating environment to date. These halls, one of which opened in 2004 (Coveralls Bingo in Walterboro, SC), and another which will open in early 2005 (Mill Pond Bingo in Conway, SC), should reach this level of stability in 2005 and early 2006.

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 environmental changes beyond our ability to predict or control. In the past three years we have purchased El Bingo Grande Bingo Hall, Bingo Idea and Bingo Barn. 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 purchase has produced a 40% return since 2002. In 2002, the first year we operated the hall, we had 12% return, in 2003 a 16% return and in 2004 a 16% return.

In 2004, our charitable bingo halls raised approximately **\$3,429,000** in charitable funding for those charities that

operate in our bingo halls. We helped raise \$732,000 for charities in South Carolina, \$397,000 for charities in Alabama, and \$2,300,00 for charities in Texas. In the past three years alone our company has helped raise well over \$12 million for charity.

Competition: The charitable bingo market is a fragmented business, 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 principle 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 jurisdiction and is permitted in others.

Regulation. We operate in Texas, Alabama 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 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 everyday 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.

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 and Word of Mouth Custom Catering in the summer of 2001. These combined businesses had average revenue of approximately \$4,500,000 per year and operated in the central Texas area in and around Austin, Texas. The companies engaged in the party rental business, catering, and installation of tents for events, parties, weddings, festivals, etc. as well as a small amount of event planning (music, flowers, catering, etc.).

Competition: The catering, party rental, tent installation, and event coordination market is very fragmented,

especially in the local Austin area. There are numerous catering and party rental companies in the Austin area. While some companies do offer catering services and party rentals, they do not offer “one-stop shopping”, that our combined companies can provide. 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, Premiere Party Rental, and Word of Mouth Custom Catering give us 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, franchise, property, etc.) and employment issues. Permits are often needed for certain site locations. We comply with all regulatory issues.

LITTLEFIELD AMUSEMENTS:

As previously mentioned, Littlefield Amusements was discontinued as a business segment on January 31, 2003. One month of revenue and expenses from this former business unit is included in our financial statements. At this time, all machines have been sold. The company no longer owns any gaming machines and would only contemplate returning to the business in a clearly regulated and non-saturated market.

EMPLOYEES:

As of the report date, we had approximately one hundred (100) employees and four (4) directors, of which one is a full time employee. Of the current employment level, eight (8) are at our headquarters in Austin, Texas, eleven (11) are engaged in bingo operations, and eighty one (81) are with Littlefield Hospitality.

ITEM 2 – DESCRIPTION OF PROPERTY

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, and South Carolina and in turn sublease the bingo centers to various charities. We are responsible for real estate taxes, insurance, common area maintenance and repair expenses on some of our leases. We own four bingo centers and our former corporate headquarters in South Carolina. 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

Status

Alabama

Mobile

Bingo Hall

Bingo Haven

Operating

Montgomery

Bingo Hall

Winners

Operating

Montgomery

Bingo Hall
Good Times

Operating

South Carolina

Charleston

(2) Bingo Halls (B&C)

Beacon

Operating

Charleston

(2) Bingo Halls (B&C)

Lucky I

Operating

Charleston

(2) Bingo Halls (B&C)

Shipwatch

Operating

Columbia

(2) Bingo Halls (B&C)

American Bingo I & II

Operating

Columbia

To be leased

Old Corp. Hdqtrs

7,000 SF leased

Georgetown

Bingo Hall

By George! Bingo

Operating

Walterboro

Bingo Hall

Coverall Bingo

Operating

Conway

Bingo Hall

Mill Pond Bingo

Open 2005

Texas

Abilene

Bingo Hall

Ambler Bingo

Operating

Abilene

Bingo Hall

Super Bingo
Operating

Amarillo
Bingo Hall
Hi-Plains Bingo
Operating

Amarillo
Bingo Hall
Goldstar II Bingo
Operating

Amarillo
Bingo Hall
Grandview Bingo
Operating

Austin
Corporate Headquarters
Corporate Hdqtrs
Occupied

Austin
Bingo Hall
American Paradise
Operating

Lubbock
Bingo Hall
Lucky Bingo
Operating

Lubbock
Bingo Hall
Goldstar I Bingo
Operating

Lubbock
Bingo Hall
Parkway Bingo
Operating

McAllen
Bingo Hall
Americana I
Operating

McAllen/San Juan
Bingo Hall
Triple City Bingo

Operating

McAllen
Bingo Hall
El Bingo Grande
Operating

Midland
Bingo Hall
Bingo Barn
Operating

Odessa
Bingo Hall
Strike It Rich
Operating

Odessa
Bingo Hall
Let It Ride
Operating

Austin
Warehouse
Premiere Party Rental
Operating

Austin
Kitchen & Offices
Word of Mouth
Operating

San Antonio
Bingo Hall
Blanco Bingo
Operating

ITEM 3 - LEGAL PROCEEDINGS

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

Pondella Hall for Hire, Inc., d/b/a Eight Hundred v. American Bingo and Gaming, Case No.: 97-2750, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida. In July of 1995 the Company bought three Florida bingo centers from Phillip Furtney and two corporations related to Mr. Furtney (which corporations and Mr. Furtney are referred to collectively as "Furtney"). On June 12, 1997, Furtney filed a lawsuit against the Company in Florida, alleging breach of contract. Furtney alleged that the Company defaulted on its original purchase note and

stock obligations under the purchase agreements. On July 12, 1997, the Company answered this lawsuit and filed a counterclaim against Furtney alleging, among other things, fraud, negligent misrepresentation, breach of express warranties, contractual indemnity and tortious interference with contractual rights. The Company believes that it was materially defrauded in its purchase of these three Florida bingo centers from Furtney in that Furtney made no disclosure to the Company of an ongoing criminal investigation of the operation of these bingo centers by the Florida State Attorney General's Office, and that Furtney was fully aware of this investigation. The State of Florida temporarily closed these three bingo centers, as well as several other centers formerly owned by Mr. Furtney, in November 1995. The Company sold these three bingo centers in December of 1995. In January of 1997, the Company and the State of Florida settled all matters regarding the Company's previous ownership and operation of these bingo centers. The Company completed depositions of Mr. Furtney and a corporate representative of the Furtney controlled companies discussed above on September 20, 2000 and plans to pursue and defend this action vigorously. The case was heard in January 2005. Judgment was found against the Company for approximately \$1,000,000 plus attorney's fees. The Company accrued \$1,200,000 in the 2004 financial statements related to this case.

Lenrich Associates LLC v. Littlefield Corporation, et al; Civil Action No. 00-CP-10-4742, South Carolina Court of Common Pleas, County of Charleston. Lenrich Associates brought this action against the Company based on a commercial lease guaranty that was signed by the Company. The tenant on the lease was Concessions Corp., a subsidiary of the Company and had been used as the location of the "Lucky II" facility, which was closed in early 2000. The lease expired in February 2003. Because rental payments under the lease were in arrears, Lenrich Associates sought to enforce the guaranty against the Company. The Company's liability under the guaranty was capped at the lesser of two years of fixed and additional rent or the amount of fixed and additional rent corresponding to the time period mandated by South Carolina law. A settlement agreement had been reached for \$147,500, which has been accrued for by the Company in June 2002. However, the plaintiff withdrew their support of the settlement agreement shortly thereafter. The Company has petitioned the court to enforce the settlement agreement and is currently awaiting this decision.

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

Collins Entertainment Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, and American Bingo and Gaming Corp.; American Bingo and Gaming Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, Civil Action No. 97-CP-10-4685, South Carolina Court of Common Pleas, Charleston County. On October 9, 1997, Collins Entertainment, Inc., filed a lawsuit alleging the Defendants had engaged in civil conspiracy and tortiously interfered with the Plaintiff's contract, violating the South Carolina Unfair Trade Practices Act. The Plaintiff sought actual damages in excess of \$350,000 and an unspecified amount of punitive damages. The Company believed this lawsuit was completely without merit; however, a judgment was issued on February 12, 2001 in favor of the plaintiff. Damages of \$157,000 were awarded in addition to punitive damages of \$1,570,000. The Company appealed this decision with the South Carolina appellate court, and the judgment was affirmed. The Company applied for a re-hearing with the appellate court, which threw out their original opinion. However, their new opinion also reaffirmed the judgment. The Company is now in the process of filing an appeal to the South Carolina Supreme Court. The total amount of the award has been accrued for in the financial statements plus \$300,000 in post judgment interest. The actual damages of \$157,000 were paid in 2001.

George M. Harrison, et al. v. Littlefield Corporation Civil Action No. 4:04-1038-25 This action is currently pending in the United States District Court for the District of South Carolina, Florence Division. Plaintiffs were the owners of a parcel of real property in Darlington, South Carolina that was leased to Darlington Music Company, a former subsidiary of Littlefield Corporation. In 1990, Plaintiffs, who were also the owners of Darlington Music Company at that time, caused Darlington Music Company to enter into a 15-year lease of the real property they owned. Darlington Music Company was later acquired from Plaintiffs by Littlefield Corporation's predecessor, American Bingo & Gaming. This business continued to operate as a wholly-owned subsidiary until such time as changes in South Carolina law regarding video gaming required that the business be wound down. In May 2001, Plaintiffs later received a judgment in the amount of \$199,148 against Darlington Music Company for nonpayment of rent. Through this action, Plaintiffs are now attempting to enforce that judgment against Littlefield Corporation on the basis of various legal theories. Littlefield intends to vigorously defend this action and will also ask, if possible, to have the underlying judgment against its former subsidiary reexamined.

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 2004.

PART II

ITEM 5 - MARKET FOR 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 bid prices for our common stock for the periods indicated as reported on a daily basis by the OTC Bulletin Board.

2004:

High

Low

2003:

High

Low

First Quarter

\$1.22

\$0.65

First Quarter

\$0.60

\$0.30

Second Quarter

\$0.94

\$0.59

Second Quarter

\$0.72

\$0.35

Third Quarter

\$0.64

\$0.45
 Third Quarter
 \$0.54
 \$0.36
 Fourth Quarter
 \$0.75
 \$0.50
 Fourth Quarter
 \$0.75
 \$0.43

The Company's stock price traded below a dollar for all of 2003 and the first quarter of 2004. As a result, on May 4, 2004, the Company was notified that NASDAQ had issued an opinion concerning the April 2004 Delisting hearing the Company had before the NASDAQ Listing Qualifications Panel. It was the opinion of the Panel that the Company failed to present a definitive plan that would enable it to regain compliance with the bid price requirement within a reasonable period of time and to sustain compliance with all requirements for continued listing on the NASDAQ SmallCap Market over the long term. The Company's securities were delisted from The NASDAQ SmallCap Market effective with the open of business on May 6, 2004, and were immediately eligible for trade on the OTC Bulletin Board under the same symbol: LTFD.

Security Holders

As of March 1, 2005, our common stock was held by approximately 1,196 beneficial shareholders.

Dividends

We have never 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	
Weighted average exercise price of outstanding options, warrants and rights	
Number of securities remaining available for future issuance	
	(a)
	(b)
	(c)
Equity compensation plans approved by security holders	
	1,034,055
	1.25
	1,965,945
Equity compensation plans not approved by security holders	
	NA
	NA

NA
Total
1,034,055
1.25
1,965,945

Recent Sales of Unregistered Securities

There were no sales of unregistered securities in 2004.

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The year 2004 brought continued growth in our bingo division and slowed losses in our hospitality division.

In April we acquired Bingo Barn in Midland. The Bingo Barn purchase allowed the company to reorganize and optimize our operations in the Midland/Odessa market. The purchase gave us the only night time bingo hall in the city, allowed us to market three halls together, one in Midland and two in Odessa, and kept the competition from entering the market place.

In Alabama, Bingo operations were faced with increased competition from "Indian Casinos" and a race track in the area. These casinos and the race track, which are mini-gaming centers, operate under different rules with different pay-out structures than our charitable bingo halls in the same market. Despite these pressures our operations showed an improvement in the 4th quarter that is carrying over into the 1st quarter of 2005.

In South Carolina, we continue to grow the South Carolina operations. In 2004 we opened Coveralls Bingo in Walterboro and a temporary hall in Charleston called Meeting Place. Meeting Place closed in December 2004. We began the process in 2004 to open "C" bingo halls in Conway and Aiken. The Conway and Aiken locations will open in early 2005. "C" bingo halls accounted for 66% of the South Carolina revenue.

Our Hospitality division continued to show signs of improvement in 2004. Direct and indirect expenses were down \$139,000 from 2003, strategic reductions in wages and benefits accounted for 95% of the reduction. G&A and other income and expenses were also down by \$100,000 from lower interest expense, no severance payments as in 2003 and a small gain on disposal of assets versus a \$29,000 loss in 2003. However revenues slipped \$252,000 when compared to 2003, despite this the fourth quarter rebounded with a 6% increase in revenues over 2003. Even though the Hospitality division is improving the division again recorded a net loss for the year.

Results of Operations

The breakdown in revenues, net profit, and assets by segment is as follows:

Entertainment

Hospitality

	Total	Other Company
Gross revenues		6,484,000 3,409,000 35,000 9,928,000
Net income (loss)		2,312,000 (489,000) (2,920,000) (1,097,000)
Total assets		22,061,000 1,513,000 (8,296,000) 15,278,000

The "Other" column consists of corporate overhead, other income and expenses, income taxes, inter-company eliminations.

Comparison of 2004 to 2003

Note: All figures discussed below have been rounded off to the nearest thousand and are approximate.

Net Income

	2004 2003 Change
Total Net Income	
\$ (1,097,000)	
\$ 222,000	
\$ (1,319,000)	
Entertainment	2,312,000 2,156,000 156,000
Hospitality	(489,000) (476,000) (13,000)

We had a net loss in 2004 totaling \$1,097,000 compared to net income in 2003 of \$222,000. The large net loss in 2004 was entirely attributable to a \$1,200,000 allowance for a legal settlement relating to a 1995 bingo case and \$300,000 for post judgment interest on an earlier case. There was no goodwill impaired in 2004 or 2003. With the legal accrual removed from 2004, we had net income of \$403,000, an \$181,000 increase over 2003.

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Broken down by segments, net income from bingo operations (Littlefield Entertainment) was \$2,312,000 in 2004 compared to \$2,156,000 in 2003, an increase of over 7%. The hospitality division had a net loss from operations of \$489,000 in 2004, compared to a net loss of \$476,000 in 2003, an increase of 3%. The losses sustained here were a direct result of lower revenues, management has been able to effectively keep costs down through strategic handling of cost most specifically personnel related, helped by lower interest costs. This relates to cautious spending in the market place for the first 2 ½ quarters of 2004. Beginning in late Q3 2004 and carrying forward through the end of the year, revenues began to climb. Q4 2004 revenues were up 11% from the same period in 2003.

Revenues

	2004	2003	Change	% Change
Total Revenues				
\$ 9,928,000				
\$ 9,971,000				
\$ (43,000)				
				(0.4%)
Entertainment				
	6,484,000	6,281,000	203,000	3%
Texas	4,075,000	3,946,000	129,000	3%
South Carolina	1,209,000	991,000	218,000	22%
Alabama	1,200,000	1,344,000	(144,000)	(11%)
Hospitality				
	3,409,000	3,661,000	(252,000)	(7%)

Revenues were at breakeven with the prior year, held back by the Alabama operations in the Entertainment Division and by Hospitality. The Alabama operations were hurt by increased competition in the form of casinos on the Indian Reservations and electronic gaming machines at a horse race track in the adjoining counties. The Alabama operations began to rebound in the latter part of the year and we anticipate this trend to continue in the coming year. Through the 3rd quarter 2004, Alabama revenues were down 17% from the prior year, by the end of the 4th quarter revenues had rebounded 6% to end the year down 11% from 2003. Hospitality's revenues were down from the prior year with most of the reduction coming in the first three quarters of the year. Hospitality began to show improvement late in the 3rd quarter and we anticipate 2005 to continue to show improvement in the economy. Through the 3rd quarter of 2004 year to date revenues were down 17% from 2003, by the end of the 4th quarter, they had rebounded to be down 10% from 2003.

Gross Margins

	2004	2003	Change	% Change
Total Gross Margins				
\$ 2,109,000				
\$ 2,019,000				
\$ 90,000				
				4%
Entertainment				
	2,506,000	2,272,000	234,000	
				10%
Hospitality				
	(427,000)	(314,000)	(113,000)	
				(36%)

Gross Margin in 2004 was \$2,109,000 or 21% of revenue, compared to gross margin in 2003 of \$2,019,000. This represents an increase in gross margin of \$90,000. This represents an increase in gross margin of 4%, which is evident of continued commitment by the management of the company to reduce costs, as the 4% increase was realized with essentially the same revenue as the year prior.

Broken down by segments, the Entertainment (bingo) division had gross margin in 2004 of \$2,506,000 (39% of revenue) compared to a gross margin in 2003 of \$2,272,000 (36% of revenue) a \$234,000 increase. The Hospitality division had gross margin in 2004 of negative \$427,000 compared to gross margin in 2003 of negative \$314,000.

Gross margin as discussed above includes all direct and indirect expenses, depreciation, and goodwill impairment.

General & Administrative Expenses

Corporate overhead, also called general and administrative expense, was \$1,420,000 in 2004 compared to \$1,472,000 in 2003, a decrease in overhead expense of \$52,000. The decrease is a result of lower legal fees and reduced depreciation and amortization.

Other Income and Expenses

Interest and investment income was down 79% to \$10,000 in 2004 from \$47,000 in 2003. The decrease is completion of the sale of investments in late 2003. Interest expense was down 20% in 2004 to \$285,000 from \$358,000 in 2003.

We accrued \$1,200,000 for legal settlements and \$300,000 in post judgment interest on a separate case. We had a loss on the sale of fixed assets in 2004 of \$23,000 compared to a gain on the sale of fixed assets of \$71,000 in 2003.

The gain on the sale of fixed assets in 2003 was not due to any single event but was made up of many small dispositions throughout the year.

Our income tax expense for 2004 was \$60,000 compared to \$60,000 in 2003, all of which is related to state income taxes. The Company currently has a net operating loss available for carryover on its federal income taxes of approximately \$7,600,000.

Extraordinary Gain

We had no extraordinary gains from continued operations in 2004 or 2003.

Liquidity and Capital Resources

Cash flow from operations of \$1,206,000 was sufficient to fund all investment and financing activities in 2004. At year end, net cash and cash equivalents increased by \$241,723 compared to last year. We predict that next year's cash flow from operations will also be sufficient to fund normal business investing and financing activities, but we will continue to seek additional financing from either sellers or third party lenders for any major acquisitions. The Company has notes payable coming due in the next twenty four months amounting to \$602,000 in 2005 and \$630,000 in 2006. Of these notes payable, there are no large balloon payments, allowing for manageable debt repayments on a monthly and quarterly basis. Of the 2005 notes payable \$169,000 is to related parties that will be paid in full by July 2005. Of the 2006 debt, \$106,000 is to a related party that we fully expect to be able to restructure. Of the remaining notes payable, a note with a bank in the amount of \$540,000, with \$180,000 payments due for the each of the years 2005, 2006, 2007, is expected to be paid in full by the end of 2005.

Debt/Lease Schedule

12 months 2005
 24 Months 2006
 36 Months 2007
 48 Months 2008
 60 Months 2009

Thereafter

Totals

Related Parties

\$ 168,750

\$ 105,650

\$ 274,400

Notes Payable

\$ 433,085

\$ 524,463

\$ 323,524

\$ 326,140

\$ 157,233

\$ 1,689,898

\$ 3,454,343

Capital Leases

\$ 65,589

\$ 67,317

\$ 132,906

Operating Leases

\$ 1,465,587

\$ 1,210,262

\$ 853,346

\$ 624,970

\$ 375,218

\$ 760,374

\$ 5,289,757

Total Obligations

\$ 2,133,011

\$ 1,907,692

\$ 1,176,870

\$ 951,110

\$ 532,451

\$ 2,450,272

\$ 9,151,406

We have reserved approximately \$3,238,000 for punitive damages related to a legal judgments that were rendered against the Company in February 2001, \$1,570,000, and January 2005, \$1,200,000, \$300,000 in post judgment interest, as well as \$168,000 for two other settlements, one of which is still pending. In the 2001 case, we have already paid the actual damages of approximately \$157,000, and our appeal continues. In the January 2005 case, the final judgment has not been rendered. If we lose our appeals we plan to set up a payout arrangement with the plaintiff to pay off the amounts due in installments.

In 2005, we plan 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 new bingo hall acquisitions when favorable terms can be obtained.

Critical Accounting Policies

Statement of Financial Accounting Standards No. 149, Derivative Instruments and Hedging Activities - amends SFAS 133 effective after June 30, 2003 for "Financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity - establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 151, Inventory Costs – an amendment to ARB No. 43, Ch 4, clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage), requires items those items to be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" and that allocation of fixed production overheads to the costs of conversions be based on the normal capacity of the production facilities effective November 2004. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 152, Accounting for Real Estate Time-Sharing Transaction – an amendment to FASB No. 66 & 67 amends No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. It also amends FASB No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. This is effective the fiscal year beginning after June 15, 2005. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – an amendment to APB No. 29 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces

it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 123 (R), Share Based Payments – an amendment to SFAS 123 amends SFAS 123 to establish standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also address transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, “Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. This statement is effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The financial impact of adopting SFAS 123(R) can not be predicted; however, it will likely have a material impact on the Company’s financial statements.

Item 7 - Financial Statements

The independent auditors’ report, consolidated financial statements and notes thereto included on the following pages are incorporated herein by reference.

Report of Sprouse & Anderson, L.L.P.

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Consolidated Balance Sheet

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Consolidated Statements of Operations

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Consolidated Statements of Stockholders’ Equity

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Consolidated Statements of Cash Flows

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Item 8 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A – Controls and Procedures

Evaluation of Disclosure Controls

We evaluated the effectiveness of our disclosure controls and procedures ("Disclosure Controls") as of the end of the 2004 fiscal year. This evaluation ("Controls Evaluation") was done with the participation of our president and chief executive officer ("CEO") and chief financial officer ("CFO").

Disclosure Controls are controls and other procedures that are designed 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 ("Exchange Act") is recorded processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure Controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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 ("Internal Controls") 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.

Conclusions

Based upon the Controls Evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, the Disclosure Controls are effective in providing reasonable assurance that material information relating to Littlefield Corporation is made known to management on a timely basis during the period when our periodic reports are being prepared.

Internal control over financial reporting is a framework incorporating processes designed to assure that transactions are booked properly initially and find their way to the appropriate place on the company's financial statements. There were no changes in our internal control over financial reporting that occurred during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting..

PART III

Item 9 - Directors and Executive Officers; Compliance With Section 16(a) of the Exchange Act

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on **May 18, 2005**, which proxy statement will be filed with the Securities and Exchange Commission no later than April 18, 2005, is incorporated herein by reference.

Item 10 - 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 18, 2005**, which proxy statement will be filed with the Securities and Exchange Commission no later than April 18, 2005, is incorporated herein by reference.

Item 11 - Security Ownership of Certain Beneficial Owners and Management

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on **May 18, 2005**, which proxy statement will be filed with the Securities and Exchange Commission no later than April 18, 2004, is incorporated herein by reference.

Item 12 - Certain Relationships and Related Transactions

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on **May 18, 2005**, which proxy statement will be filed with the Securities and Exchange Commission no later than April 18, 2005, is incorporated herein by reference.

Item 13 - Exhibits, Lists and Reports on Form 8-K

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*

Amended and Restated 1994 Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Annual Report on Form 10-KSB filed by the Company on March 18, 1999, for the year ended December 31, 1998).

10.2*

Amended and Restated 1995 Employee Stock Option Plan (incorporated by reference to Exhibit 10.2 of the Annual Report on Form 10-KSB filed by the Company on March 18, 1999, for the year ended December 31, 1998).

10.3*

1995 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12 of the Annual Report on Form 10-KSB filed by the Company for the year ended December 31, 1994).

10.4*

Amended and Restated 1996 Employee Stock Option Plan (incorporated by reference to Exhibit 10.4 of the Annual Report on Form 10-KSB filed by the Company on March 18, 1999, for the year ended December 31, 1998).

10.5*

Amended and Restated 1997 Stock Option Plan (incorporated by reference to Exhibit 10.5 of the Quarterly Report on Form 10-QSB filed by the Company on August 14, 1998 for the quarter ended June 30, 1998).

10.6*

American Bingo 7 Gaming Corp. Stock Option Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-QSB filed by the Company on August 16, 1999, for the quarter ended June 30, 1999).

10.7

Master Coin Machine Agreement dated November 9, 1998, by and among the Company, Gold Strike, Inc., Mims & Dye Enterprises, LLC, Michael W. Mims and Danny C. Dye (incorporated by reference to Exhibit 10.20 of the Annual Report on Form 10-KSB filed by the Company on March 18, 1999, for the year ended December 31, 1998).

10.8

Settlement Agreement dated January 27, 1997 with the State of Florida (incorporated by reference to Exhibit 10.21 of the Quarterly Report on Form 10-QSB filed by the Company on August 14, 1998 for the quarter ended June 30, 1998).

10.9*

Employment Agreement effective as of April 1, 2002, with Jeffrey L. Minch.

21.1

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.

In response to this item, the information included in our proxy statement for the annual meeting of stockholders to be held on **May 18, 2005**, which proxy statement will be filed with the Securities and Exchange Commission no later than April 18, 2005, is incorporated herein by reference.

Item 14 Principal Accountant Fees and Services

Audit Fees

The aggregate fees billed to the Company by Sprouse & Anderson, L.L.P. for the audit of Littlefield Corporation and Subsidiaries' annual financial statements included in the 10K and for the review of the financial statements included in its quarterly reports on Form 10-Q for the fiscal years ended December 31, 2004 and 2003 totaled \$62,925 and \$57,000, respectively.

Tax Fees

The aggregate fees billed to the Company by Sprouse & Anderson, L.L.P. for services rendered to the Company during the fiscal years ended December 31, 2004 and 2003 for tax compliance, tax advice or tax planning was \$15,000 and \$16,238, respectively.

It is the audit committee's policy to pre-approve all services provided by Sprouse & Anderson, L.L.P. All services provided by Sprouse & Anderson, L.L.P. during the years ended December 31, 2004 and 2003 were pre-approved by the audit committee.

Reports on Form 8-K

None

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: February 15, 2005

LITTLEFIELD CORPORATION

(Registrant)

By: **/s/ Jeffrey L. Minch**

Jeffrey L. Minch

President and CEO

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

February 15, 2004

/s/ Carlton Williams

Carlton Williams

Chairman of the Board

February 15, 2004

/s/ Alfred Stanley

Alfred Stanley

Director

February 15, 2004

/s/ Michael Wilfley

Michael Wilfley

Director

February 15, 2004

LITTLEFIELD CORPORATION & SUBSIDIARIES

DECEMBER 31, 2004

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Consolidated Statements of Cash Flows for the

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Littlefield Corporation

We have audited the accompanying consolidated balance sheet of Littlefield Corporation and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2004 and 2003. These consolidated financial statements are the 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 standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 and Subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003, in conformity with U.S. generally accepted accounting principles.

SPROUSE & ANDERSON, L.L.P.

Austin, Texas

February 15, 2004

Littlefield Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004

ASSETS

Current Assets:

Cash and cash equivalents

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	\$ 527,103
Accounts receivable, net of allowance for doubtful accounts of \$18,405	630,734
Equity Securities, available for sale	3,108
Other current assets	<u>212,779</u>
Total Current Assets	<u>\$ 1,373,724</u>
Property and Equipment – at cost, net of accumulated depreciation and amortization	<u>\$ 7,693,392</u>
Other Assets:	
Notes receivable	845,000
Goodwill	4,404,107
Intangible assets, net	571,494
Other non-current assets	<u>390,735</u>
Total Other Assets	<u>6,211,336</u>
TOTAL ASSETS	<u>\$ 15,278,452</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	
Current Liabilities:	
Notes payable	2,761
Obligations under capital lease	65,589
Long term debt, current portion	430,324
Long term debt-related party, current portion	168,750
Trade accounts payable	291,907
Reserve for settlements	3,237,500
Accrued expenses	443,175
Other current liabilities-related party	<u>500,229</u>

Total Current Liabilities

\$ 5,140,235

Long-term Liabilities:

Obligations under capital lease, net of current	67,317
Long term debt, net of current portion	3,021,258
Long term debt-related party, net of current portion	<u>105,650</u>

Total Long-term Liabilities

\$ 3,194,225

Total Liabilities

\$ 8,334,460

Stockholders' Equity:

Common stock, \$.001 par value, (authorized 20,000,000 shares, issued 10,176,890 shares, outstanding 8,378,954 shares)	10,177
Additional paid-in-capital	23,715,026
Treasury stock – 1,797,936 shares, at cost	(2,293,490)
Stock subscription receivable	0
Accumulated other comprehensive income	(719)
Accumulated deficit	<u>(14,487,002)</u>
Total Stockholders' Equity	<u>\$ 6,943,992</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$15,278,452

See notes to consolidated financial statements

	<u>2004</u>	<u>2003</u>
REVENUES:		
Entertainment	\$ 6,484,397	\$ 6,281,027
Hospitality	3,409,328	3,661,372
Other	<u>33,972</u>	<u>28,883</u>
TOTAL REVENUES	<u>9,927,697</u>	<u>9,971,282</u>
DIRECT COSTS AND EXPENSES:		
Direct salaries and other compensation	2,390,147	2,578,104
Rent and utilities	2,163,388	2,122,878
Other direct operating costs	2,388,390	2,379,963
Depreciation and amortization	821,077	807,178
Goodwill impairment	---	---
License expense	<u>55,318</u>	<u>63,779</u>
TOTAL COSTS AND EXPENSES	<u>7,818,320</u>	<u>7,951,902</u>
GROSS MARGIN	<u>2,109,377</u>	<u>2,019,380</u>

GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and other compensation	533,144
	511,259
Legal and accounting fees	376,667
	429,435
Depreciation and amortization	106,806
	133,313
Other general and administrative	<u>403,333</u>
	<u>398,022</u>

TOTAL GENERAL AND ADMINISTRATIVE EXPENSES

<u>1,419,950</u>
<u>1,472,029</u>

OPERATING INCOME (LOSS)

<u>689,427</u>
<u>547,351</u>

OTHER INCOME AND EXPENSES:

Interest and investment income	9,713
	46,561
Interest expense	(284,571)
	(357,660)
Gain/(Loss) on sale of fixed assets and intangibles	3,154
	(64,056)
Gain/(Loss) on sale of investment assets	45,057
	(51,637)
Write-off of abandoned assets	---
	(3,000)

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Reserve for legal settlements	(1,500,000)

Other income and (expense)	---
	(14,846)
Gain on write-off of capital lease payable	---
	<u>135,163</u>
TOTAL OTHER INCOME AND EXPENSES	<u>(1,726,647)</u>
	<u>(309,475)</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	(1,037,220)
	237,876
PROVISION FOR INCOME TAXES	<u>60,000</u>
	<u>57,817</u>
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,097,220)
	180,059
DISCONTINUED OPERATIONS	
Net loss from operations of discontinued Amusements division, net of state income tax expense of \$2,183 and \$428, respectively	---
	(9,747)
Gain on disposal of assets of discontinued Amusements operations	---
	<u>51,225</u>
NET INCOME (LOSS)	<u>(1,097,220)</u>
	<u>221,537</u>
OTHER COMPREHENSIVE INCOME (LOSS), Net of Tax of \$0 and \$0	<u>(37,148)</u>
	<u>159,599</u>

NET COMPREHENSIVE INCOME (LOSS)

\$ (1,134,368)
\$ 381,136

See notes to consolidated financial statements

Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

Years Ended December 31,

2004

2003

EARNINGS (LOSS) PER SHARE:

Basic earnings (loss) per share

\$ (.131)

\$.03

Diluted earnings (loss) per share

\$ (.129)

\$.03

Weighted average shares outstanding – basic

8,378,954

8,269,133

Weighted average shares outstanding – diluted

8,474,785

8,375,030

See notes to consolidated financial statements

Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

-Common Stock-

**Additional
Paid-in**

Treasury

Subscriptions

**Accumulated
Accumulated Other Comprehensive**

<u>Description</u>
<u>Shares</u>
<u>Value</u>
<u>Capital</u>
<u>Stock</u>
<u>Receivable</u>
<u>Deficit</u>
<u>Income</u>
<u>Total</u>

Balance at December 31, 2002

8,187,283
\$10,177
\$23,829,049
\$(2,536,649)
\$(31,360)
\$(13,611,319)
\$(123,170)
\$ 7,536,728

Issuance of treasury stock under deferred compensation plan

50,000

(42,580)

67,659

25,079

Issuance of treasury stock pursuant to employee stock purchase plan and employee 401K deferrals

70,090

(42,622)

84,045

24,729

66,152

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Comprehensive income for the year ended 12/31/03

159,599
159,599

Net income for the year ended 12/31/03

221,537

221,537

Balance at December 31, 2003

8,307,373
\$10,177
\$23,743,847
\$(2,384,945)
\$ (6,631)
\$(13,389,782)
\$ 36,429
\$ 8,009,095

Issuance of treasury stock under deferred compensation plan

25,000

(14,750)

32,000

17,250

Issuance of treasury stock pursuant to employee stock purchase plan and employee 401K deferrals

46,581

(14,071)

59,455

6,631

52,015

Comprehensive income for the year ended 12/31/04

(37,148)

(37,148)

Net income for the year ended 12/31/04

(1,097,220)

(1,097,220)

Balance at December 31, 2004

8,378,954
\$10,177
\$23,715,026
\$(2,293,490)
\$ 0
\$(14,487,002)
\$ (719)
\$6,943,992

See notes to consolidated financial statements

Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

2004
2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$ (1,097,220)
	\$ 221,537
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation, amortization, and goodwill impairment	927,883
	951,708
Bad debt allowance and write-offs	18,405
	47,244
Loss on and disposal of fixed and intangible assets	---

(Gain)/loss on sales of investment assets	(45,057)
	51,637
(Gain) on disposal of property and equipment	(3,154)
	(836)

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Increase (decrease) in cash flows as a result of changes in asset and liability account balances:

Accounts receivable	32,168
	7,336
Prepaid expenses and other assets	(15,900)
	5,837
Trade accounts payable	(95,036)
	(77,314)
Accrued expenses and other liabilities	<u>1,483,511</u>
	<u>(201,421)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,205,600</u>
	<u>1,005,728</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sales of securities	521,451
	431,264
Purchase of property and equipment	(364,802)
	(155,763)

Purchase of goodwill/intangibles	(39,983)
	(115,330)
Proceeds from sale of property and equipment	<u>2,875</u>
	<u>210,469</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on notes payable and capital leases	(1,089,259)
	(1,306,413)
Proceeds from notes payable	---
	26,370
Collections of subscribed receivables	6,631

Purchase of Treasury Stock	<u>(790)</u>

NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	<u>(1,083,418)</u>
	<u>(1,280,043)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	241,723
	96,325

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>285,380</u>
	<u>189,055</u>

CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 527,103</u>
	<u>\$ 285,380</u>

See notes to consolidated financial statements

Littlefield Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

<u>2004</u>
<u>2003</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash payments:

\$288,553

\$207,536

Interest

Income taxes

\$ 56,685

\$ 23,500

Non-cash transactions:

Acquisition of property and equipment in exchange for notes payable

\$94,155

\$130,000

Acquisition of intangibles in exchange for notes payable

\$224,062

-0-

Acquisition of equipment under capital lease

\$-0-

\$130,691

Issuance of treasury stock under deferred compensation plan

\$ 32,000

\$ 25,079

See notes to consolidated financial statements

**Littlefield Corporation – Notes to Consolidated Financial Statements
December 31, 2004**

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Littlefield Corporation actively participates in the U.S. charitable bingo market, and the event planning/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 and Alabama. The Company generates its revenues from bingo centers in all three states and the event planning/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 items in the financial statements have been reclassified to maintain consistency and comparability for all periods presented herein.

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 money market accounts and in investments with a maturity of ninety days or less 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.

Notes Receivable:

In May 2001, the Company entered into a note receivable with David and Harriet Heep Shaffer. The principal amount of the note was \$845,000 paying 16% interest with a maturity date of May 1, 2004. The Company holds a first lien deed of trust on approximately 1,154 acres located in Travis and Hayes counties in Texas.

In 2002, the Heep Shaffer filed for bankruptcy protection, up to that point the company had accrued for \$222,603 of interest on the books. In accordance with GAAP, at the time of the bankruptcy the Company discontinued accruing for interest, though interest is still due to the company. Since May 1, 2004, interest has continued to accrue on the unpaid principal and interest at an 18% interest rate. The Company believes that there are no potential uncertainties related to the collection due to the filing of the bankruptcy because of our position as a secured creditor and the value of the underlying collateral. The bankruptcy court has recognized the Company's position and has acknowledged the Company's first lien. In the bankruptcy filings the land held as collateral was valued in excess of \$10,000,000. The Company expects the collection of this receivable to come in the next twelve months though the timing of the ultimate collection of this obligation may be delayed depending on the timing of the completion of the bankruptcy case. The Company has the right to either sell the note to a third party or await ultimate resolution of the bankruptcy.

This note receivable is pledged as collateral on a \$540,000 note with Plains Capital Bank.

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. The 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.

Investments:

The Company accounts for its investments under Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company's securities are considered available for sale and are valued at fair value for financial statement purposes. Fair value is based on quoted market prices. The Company uses the average cost method for determining the cost basis on realized gains and losses of investments. The unrealized holding gain or loss represents the net change in the fair value of those securities and is shown in other comprehensive income.

Advertising:

Advertising costs are expensed when incurred or the first time the advertising takes place. During 2004, the Company had advertising expenses of \$125,602 compared to \$99,112 in 2003. At December 31, 2004, the Company had

prepaid advertising costs of approximately \$4,500.

Goodwill and Intangible Assets:

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, was amortized over various periods ranging from three to fifteen years in 2001 only, consistent with the estimated useful life of the goodwill. 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 live 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 referred to any license that was in existence prior to 1989 in which a non renewal has not occurred. A "Grandfathered" license allows the operator to have up to six (6) 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. There is currently a moratorium on this license for new operators through December 2005.

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 depreciation.

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.

Revenue Recognition:

The Company generates revenues from the following sources:

(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, 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 that are known and consistent each month, such as rents, are accrued and accounted for in the month that they are due. Revenues that are generated in undefined amounts, such as customer attendance, are recognized when they are received.

(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 when they are received.

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 believes does not 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 diluted weighted average number of common shares outstanding during each period, which includes dilutive stock options and convertible shares.

Stock Based Compensation:

The Company measures compensation cost for its stock based compensation plans under the provisions of Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock Issued to Employees”. The difference, if any, between the fair value of the stock on the date of grant over the exercise price for the stock is accrued over the related vesting period. SFAS No. 123, “Accounting for Stock-Based Compensation”, (“SFAS 123”) requires companies that continue to use APB 25 to account for its stock-based compensation plan to make proforma disclosures of net income (loss) and earnings (loss) per share as if SFAS No. 123 had been applied. Statement of Financial Accounting Standards No. 148 “Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123” provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The options granted have exercise prices which approximate fair value and accordingly, no compensation cost has been recognized for the compensatory stock options in the consolidated financial statements. Had compensation cost for the Company’s stock options been determined consistent with FASB Statement No. 123, “Accounting for Stock Based Compensation”, the Company’s net income (loss) and net income (loss) per share would have been decreased (increased) to the pro-forma amounts indicated below:

	<u>2004</u>	<u>2003</u>
Net income (loss)		
As reported	\$(1,097,220)	\$221,537
Proforma	\$(1,193,478)	\$183,420
Basic earnings (loss) per share		
As reported	\$(.13)	\$0.03
Proforma	\$(.14)	\$0.02
Diluted earnings (loss) per share		
As reported	\$(.13)	\$0.03
Proforma	\$(.14)	\$0.02

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model.

The following assumptions were for grants in 2004; dividend yield of 0%, expected volatility of 120%, risk free interest rates of 5.5% and an expected life of approximately 10 years. The following assumptions were for grants in 2003; dividend yield of 0%, expected volatility of 113%, risk free interest rates of 5.0%, and an expected life of approximately 10 years.

Comprehensive Income:

The Company has other comprehensive income related to unrealized gains and losses on available for sale securities.

Critical Accounting Policies

Statement of Financial Accounting Standards No. 149, Derivative Instruments and Hedging Activities - amends SFAS 133 effective after June 30, 2003 for "Financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity - establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. Effective for financial instruments entered into or modified after May 31, 2003 and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 151, Inventory Costs – an amendment to ARB No. 43, Ch 4, clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage), requires items those items to be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" and that allocation of fixed production overheads to the costs of conversions be based on the normal capacity of the production facilities effective November 2004. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 152, Accounting for Real Estate Time-Sharing Transaction – an amendment to FASB No. 66 & 67 amends No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. It also amends FASB No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. This is effective the fiscal year beginning after June 15, 2005. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – an amendment to APB No. 29 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

Statement of Financial Accounting Standards No. 123 (R), Share Based Payments – an amendment to SFAS 123 amends SFAS 123 to establish standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also address transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services. This statement is effective for public entities that file as small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

NOTE 2 - MATERIAL ACQUISITIONS, OPENINGS, CLOSINGS AND REORGANIZATIONS

2004

In April we acquired Bingo Barn in Midland for \$400,000. This included a sale of real estate in the amount of \$150,000, which was executed with a down payment of \$30,000 cash and a note in the amount of \$120,000 and a bingo license, all equipment, inventory and supplies associated with the bingo hall for \$70,000 cash and a note in the amount of \$180,000. The Bingo Barn purchase allowed the company to reorganize and optimize our operations in the Midland/Odessa market. The purchase gave us the only night time bingo hall in the city, allowed us to market three halls together, one in Midland and two in Odessa, and kept the competition from entering the market place.

In South Carolina, we opened Coveralls Bingo in Walterboro and a temporary hall in Charleston called Meeting Place. Meeting Place closed in December 2004. We began the process in 2004 to open "C" bingo halls in Conway and Aiken. The Conway and Aiken locations will open in early 2005.

As part of the acquisition of Word of Mouth Catering and Premiere Party Rental, which took place in 2001, the Company entered into three employment agreements with the principles of those businesses. In 2003, one of those employment agreements was amicably terminated under terms agreeable to both parties. That employee is now an independent contractor who acts as a consultant to the Company on an "as needed" basis. In 2004, the employment agreement with the remaining two employees ended as per the original agreements, one of those employees has left the company, and the other continues his employment with the Company on an at-will basis. As of December 31, 2004, the remaining salary expense associated with the remaining two employment agreements is approximately \$0.

2003

In November 2003, the Company acquired Bingo Idea, a bingo hall in Odessa, Texas and has planned an additional acquisition of Bingo Barn in Midland, Texas. Once the Bingo Barn purchase is complete, the Company will reorganize and optimize its new and existing halls in the Midland/Odessa market. This should occur in early 2004.

Also in Texas, the Company reorganized its arrangement at Grandview Bingo in Amarillo. Grandview was a slightly under performing hall. A competing hall, which was larger and more profitable, was unable to continue their lease in their location. As a result, the Company subleased its space at Grandview Bingo to that charity group. The Company receives a profitable markup for this sublease arrangement each month, but do not receive per-session rent or take any part in their bingo operations.

In Alabama, the Company discontinued its Amusement operations on January 31, 2003, sold the machines, and eliminated the employees associated with that business. The Company also introduced "Lightning Bingo" in Montgomery. Lightning Bingo is a quick paced bingo game with more frequent games and smaller payouts. Bingo operations in Alabama are facing increased competition from "Indian Casinos" in the area. These casinos, which are mini-gaming centers, operate under different rules with different pay-out structures than our charitable bingo halls in the same market.

In South Carolina, the Company changed By George Bingo in Georgetown from a 'B' hall to a 'C' hall. 'C' halls in South Carolina can play every day but have smaller prizes than 'B' halls. By George is performing much better as a 'C' hall. As part of a continued reorganization and optimization plan, the Company also moved Bonanza Bingo from Goose Creek to a new location in Ladson.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 consists of the following:

Land

\$ 953,724

Buildings	3,587,231
Building and leasehold improvements	4,374,448
Bingo, and rental equipment	1,644,344
Equipment, furniture and fixtures	2,332,845
Automobiles	<u>391,819</u>
	13,284,411
Less: Accumulated depreciation and amortization	<u>(5,591,019)</u>
Property and equipment, net	<u>\$7,693,392</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2004 and 2003 was \$927,883 and \$951,708 respectively.

NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill at December 31, 2004 is as follows:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Total</u>
Goodwill	<u>\$7,185,107</u>	<u>\$(2,781,000)</u>	<u>\$4,404,107</u>
		<u>Entertainment</u>	<u>Hospitality</u>
Balance at December 31, 2003	\$3,908,660		\$371,384

Goodwill acquired during the year	\$4,280,044
	124,063
	-0-
Impairment losses	124,063
	<u>-0-</u>
	<u>-0-</u>
	<u>-0-</u>
Balance at December 31, 2004	
	<u>\$4,032,723</u>
	<u>\$ 371,384</u>
	<u>\$4,404,107</u>

Intangible assets at December 31, 2004 consists of the following:

	Gross Carrying Amount	Accumulated Amortization	Total
Intangible Assets with Indefinite Lives:			
Bingo licenses	\$487,745	\$ -0-	\$487,745
Intangible Assets with Finite Lives:			
Covenants not to compete	\$297,500	\$(213,751)	\$83,749
Capitalized acquisition costs related to note receivable	<u>50,950</u>	<u>(50,950)</u>	<u>-0-</u>
Intangible Assets, Net of Accumulated Amortization			

\$571,494

During the year ended December 31, 2004, the Company purchased goodwill in the amount of \$124,063 associated with the acquisition of Bingo Barn bingo hall. During 2004, the Company also acquired bingo licenses with indefinite lives for \$50,000 and two covenants not to compete in the amount of \$87,500.

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

2005	
\$22,500	
2006	
22,500	
2007	
18,749	
2008	
10,000	
2009	
<u>10,000</u>	
Total	
\$83,749	

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.

For the years ended December 31, 2004 and 2003, the Company evaluated the carrying value of goodwill for each reporting unit of the company and determined that no impairment of goodwill was necessary.

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

Notes payable at December 31, 2004 consist of the following:

Installment note payable to a bank, due in monthly installments of \$3,121, including interest at 7.75%, due on demand or January 2005, secured by furniture and fixtures

2,761

\$ 2,761

At December 31, 2004, the Company was in violation of a financial covenant under one loan agreement with a bank. The bank has waived the violation.

Long-term debt at December 31, 2004 consist of the following:

Mortgage note payable to a bank, due in quarterly installments of approximately \$23,494, including interest at prime plus 1%, maturing October 2019, secured by real estate

\$ 956,517

Mortgage note payable to a third party, due in monthly installments of \$8,563, including interest at 9% maturing August 2006, secured by a deed of trust on the real estate

151,106

Mortgage note payable to a bank, due in monthly installments of \$4,394, including interest at the prime rate, maturing August 2022, secured by a deed of trust on the real estate

620,270

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

541,826

Note payable to a bank, due in monthly interest only installments at prime rate plus 1 ½% through August 2005, then due in monthly installments of \$16,500, maturing August 2008, secured by a note receivable and a personal guarantee by the Company's president & CEO for \$300,000.

540,000

Installment note payable to a third party, due in monthly installments of \$13,170, including interest at 7%, maturing August 2006, secured by bingo hall business

236,415

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

164,422

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

109,615

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Installment note payable to a third party, due in monthly installments of \$490, including interest at 13.75%, maturing April 2007.	11,680
Installment note payable to a third party, due in monthly installments of \$222, including interest at 9.9%, maturing April 2006.	3,697
Installment note payable to a third party, due in monthly installments of \$758, including interest at 0%, maturing September 2006, secured by an automobile	15,919
Installment note payable to a third party, due in monthly installments of \$767, including interest at 5.9%, maturing January 2005, secured by an automobile	759
Installment note payable to a third party, due in monthly installments of \$527, including interest at 5.9%, maturing March 2007, secured by an automobile	12,757
Installment note payable to a third party, due in monthly installments of \$4,047, including interest at 8% maturing December 2006, unsecured	<u>86,599</u>
	3,451,582
Less current maturities	<u>(430,324)</u>
Long-term debt, net of current portion	<u>\$3,021,258</u>

Long-term debt related party at December 31, 2004 consists of the following:

Installment note payable to a related party, due in quarterly installments of \$31,250, plus interest at 8%, maturing July 2005, secured by cash flow from the acquired business	93,750
Installment note payable to a related party, due in quarterly installments of \$12,500, plus interest at 8%, maturing August 2005, unsecured	

37,500

Installment note payable to a related party, due in quarterly installments of \$12,500, plus interest at 8%, maturing August 2005, unsecured

37,500

Installment note payable to a related party, due in monthly interest only installments of \$594 at 6.75%, with a balloon payment on July 2006

105,650

274,400

Less current maturities

(168,750)

Long-term debt, related party, net of current portion

\$ 105,650

Principal payments on notes payable and long-term debt for each of the next five fiscal years and thereafter are as follows:

Years Ending December 31,

2005

\$601,835

2006

630,113

2007

323,524

2008

326,140

2009

157,233

Thereafter

1,689,898

\$3,728,743

Interest expenses for the years ended December 31, 2004 and 2003 were \$285,000 and \$358,000 respectively.

NOTE 7 - OBLIGATIONS UNDER CAPITAL LEASES

The Company did not enter into any new capital leases in 2004

Future minimum payments due under capital lease obligations are as follows:

Years Ending December 31, 2004

Total future minimum lease payments	\$153,734
Less amount representing interest	<u>(20,828)</u>
Present value of minimum lease payments	132,906
Less current installments	<u>(65,589)</u>
Obligations under capital leases, net of current portion	<u>\$ 67,317</u>

Principal payments on capital leases for each of the next five fiscal years are as follows:

Future Maturities

2005	\$ 65,589
2006	67,317
	<u>\$132,906</u>

Gross amounts of assets on balance sheet recorded under capital leases were \$245,337 and \$245,337 for 2004 and 2003, net of accumulated amortization of \$89,215 and \$81,718.

NOTE 8 - 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 and other liabilities are carried at amounts that reasonably approximate their fair values.

The carrying amount and fair value of notes receivable, capital leases payable and notes payable at December 31, 2004 are as follows:

Carrying Amount

	<u>Fair Value</u>
Notes receivable	\$ 845,000
	\$ 845,000
Capital leases payable	132,906
	132,906
Notes payable	3,728,743
	3,728,743

The fair values of the Company's fixed rate notes receivable, capital leases payable and notes payable have been estimated based upon relative changes in the Company's borrowing rates since origination of the fixed rate debt.

NOTE 9 - INCOME TAXES

A reconciliation of the expected federal income tax expense (benefit) based on the U.S. Corporate income tax rate of 34% to actual for 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Expected income tax (benefit)	\$ 352,655	\$95,723
Amounts not deductible for federal income tax purposes	1,020	3,896
State income taxes, net of federal income tax	60,000	60,000
Change in valuation allowance	<u>(353,675)</u>	<u>(99,619)</u>
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

The provision for income taxes consists of the following:

	<u>2004</u>	<u>2003</u>
Current year income taxes:		
Federal	\$ -0-	\$ -0-
State	60,000	

	60,000
Deferred income taxes:	
Federal	-0-
State	-0-
	<u>-0-</u>
	<u>-0-</u>
	<u>\$60,000</u>
	<u>\$60,000</u>

Deferred tax assets and liabilities as of December 31, 2004 are as follows:

Current deferred tax asset	\$ ---
Current deferred tax liability	\$ ---

Valuation allowance for current deferred tax asset	---
	<u>---</u>
Net current deferred tax asset	<u>---</u>
	\$ ---
	\$ ---
Non-current deferred tax asset	\$ 5,576,328
Non-current deferred tax liability	\$4,838,275

Valuation allowance for non-current deferred tax asset	---
	<u>(5,576,328)</u>
Net non-current deferred tax asset	<u>(4,838,275)</u>
	\$ -0-
	<u>\$ -0-</u>

The non-current deferred tax asset results from differences in amortization of the non-compete agreements, and asset write-off and reserves for financial and federal income tax reporting purposes and the deferred tax benefit of net operating losses.

At December 31, 2004, the Company has net operating loss carry forwards for federal income tax purposes of approximately \$7.6 million that begin expiring in the year 2009. The utilization of the net operating loss is subject to limitations in accordance with §382 of the Internal Revenue Code.

NOTE 10 – STOCKHOLDERS’ EQUITY

The Company has acquired, prior to 2002, 2,159,100 shares of its common shares for \$2,337,385 under the current stock buyback program (See Note 14). The average price to repurchase these shares was \$1.08 and at December 31, 2004 the Company holds 1,797,936 treasury shares.

In 2004 the Company issued 46,581 shares of treasury stock under the Employee Stock Purchase Plan and 401K plan at a cost of \$52,015. The Company issued 25,000 shares of treasury stock at a cost of \$17,250 for deferred compensation.

In 2003, the Company issued 50,000 shares of treasury stock as deferred compensation at a cost of \$25,079. The Company issued 70,090 shares of treasury stock at a cost of \$66,152 for cash and subscriptions receivable.

NOTE 11 - EARNINGS PER SHARE

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

Numerator:

	<u>2004</u>	
	<u>2003</u>	
	Basic	
	Diluted	
	Basic	
	Diluted	
Net income (loss)		<u>\$(1,097,220)</u>
		<u>\$(1,097,220)</u>
		<u>\$221,537</u>
		<u>\$221,537</u>
Net income (loss) available to common stockholders		<u>\$(1,097,220)</u>
		<u>\$(1,097,220)</u>
		<u>\$221,537</u>
		<u>\$221,537</u>
<u>Denominator:</u>		

Weighted average shares outstanding	8,378,954
	8,378,954
	8,269,133
	8,269,133
Effect of dilutive securities:	
Preferred stock	---

Stock options and warrants	---
	<u>95.831</u>

	<u>105.897</u>
Weighted average shares outstanding	<u>8,378,954</u>
	<u>8,474,785</u>
	<u>8,269,133</u>
	<u>8,375,030</u>
Earnings (loss) per share	<u>\$ (.13)</u>
	<u>\$ (.13)</u>
	<u>\$.03</u>
	<u>\$.03</u>

NOTE 12 - ACCOUNTING FOR STOCK BASED COMPENSATION

The Company applies APB Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its stock options. At December 31, 2004, 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

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collectively provide for the total issuance of 3,000,000 common shares over ten years from the date of each plan's approval. At December 31, 2004, a total of 1,034,055 options are outstanding under these plans. As of February 5, 2004 the additional 100,000 options for shares that were outstanding to non-employees outside of these plans expired.

	<u>Employee Stock Plans</u>	<u>Other Compensatory</u>	<u>Combined Total</u>
<u>Options</u> Weighted			<u>Average Exercise Price</u>
	Weighted Average Exercise Price	<u>Options</u>	
		<u>Options</u>	
Outstanding at 12/31/02		687,000	
		\$1.60	
		100,000	
		\$3.88	
Granted		787,000	
		20,055	
		0.53	

Exercised		20,055	
		(50,000)	
		(.53)	

Forfeited		(50,000)	
		<u>(3,000)</u>	
		<u>-0-</u>	

Outstanding at 12/31/03		<u>(3,000)</u>	
		654,055	
		\$ 1.70	
		100,000	
		\$3.88	
		754,055	

Granted		530,000
	.57	---

	530,000	
Exercised		(25,000)
		.69

	---	(25,000)
Forfeited		<u>(125,000)</u>
		.51
		<u>(100,000)</u>
	---	<u>(225,000)</u>
Outstanding at 12/31/04		<u>1,034.055</u>
		\$ 1.25

		<u>1,034.055</u>

The fair value of options issued during 2004 and 2003 were approximately \$300,000 and \$11,000, respectively.

The following table summarizes information about options outstanding at December 31, 2004 and 2003 under the Employee Stock Plan:

<u>Options Outstanding</u>
<u>Options Exercisable</u>
Range of <u>Exercise Prices</u>
Number <u>Outstanding</u>
Weighted Avg. Remaining <u>Contractual Life</u>
Weighted Avg. <u>Exercise Price</u>
Number <u>Exercisable</u>

Weighted Avg.
Exercise Price

2004:

\$3.39---\$5.07

150,000

1.3 years

\$3.75

150,000

\$3.75

\$2.26---\$3.38

100,000

1.8 years

\$3.04

100,000

\$3.04

\$1.51---\$2.25

--- years

\$ 0.00---\$1.50

784,055

8.2 years

\$.55

409,680

\$.62

1,034,055

6.6 years

\$1.25

659,680

\$1.70

2003:

\$3.39---\$5.07

150,000

2.3 years

\$3.75

150,000

\$3.75

\$2.26---\$3.38
 100,000
 2.8 years
 \$3.04
 100,000
 \$3.04

\$1.51---\$2.25

 --- years

\$ 0.00---\$1.50
 404,055
 6.6 years
 \$.61
 312,180
 \$.79

654,055
 5.6 years
 \$1.70
 562,180
 \$ 1.89

The following table summarizes information about other compensatory stock options outstanding at December 31, 2004 and 2003. All of these other compensatory stock options expired on February 5, 2004.

<u>Options Outstanding</u>
<u>Options Exercisable</u>
Range of <u>Exercise Prices</u>
Number <u>Outstanding</u>
Weighted Avg. Remaining <u>Contractual Life</u>
Weighted Avg. <u>Exercise Price</u>
Number

Exercisable

Weighted Avg.
Exercise Price

2004:

--- year

2003:

\$3.88
100,000
0.1 year
\$3.88
100,000
\$3.88

NOTE 13 - RELATED PARTY TRANSACTIONS

In July 2001, the Company acquired Premiere Party Rentals. In conjunction with this purchase, the Company issued two promissory notes payable in the amount of \$500,000 each to the seller (a related party), as partial consideration for this purchase, and entered into a three-year employment agreement with the seller. The first note payable is due in quarterly installments of \$31,250 plus interest at an annual rate of 8.0% with a maturity date of July 2005. The second note originally due and payable in full, along with accrued interest at 8% annual rate, in July 2004, was paid in full in August 2004. For the years ended December 31, 2004 and 2003, the Company recognized \$34,644 and \$59,360 of interest expense related to these obligations.

In August 2001, the Company acquired Word of Mouth Custom Catering. In conjunction with this purchase, the Company issued two promissory notes payable in the amount of \$200,000 each to the two sellers (related parties), as partial consideration for this purchase, and entered into three-year employment agreements with the sellers. In November 2003, the relationship with one of the sellers changed from that of an employee to an independent contractor on a consulting basis, in August of 2004 the agreement terminated with the remaining employee as per the original agreement. The terms of the notes did not change. These notes payable are due in quarterly installments of \$12,500, plus interest at an annual rate of 8.0% and a maturity date of August 2005. For the years ended December 31, 2004 and 2003, the Company recognized \$8,441 and \$17,000 of interest expense related to these obligations.

The President and CEO of the Company has personally guaranteed one note payable to a third party lender, in the original total amount of \$540,000. (See also Note 6.) The balance due on the note at December 31, 2004 is \$540,000, of which the CEO has personally guaranteed \$300,000.

The Company accrued a total of \$61,275 in loan guaranty fees to him in 2002. This amount has been added to the President's bonus amount accrued in 2002 in the amount of \$300,000, plus accrued interest and is presented on the balance sheet as a current accrued liability – related party.

The Company purchased the President's office furniture and antiques for a total price of \$105,650 in July 2002. This amount was set up on a note payable with interest only payments for 4 years at 6.75% with the principal amount due in July 2006 as a balloon payment.

NOTE 14 – 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 <u>December 31,</u>	<u>Minimum Rentals</u>
2005	\$1,465,587
2006	1,210,262
2007	853,346
2008	624,970
2009	375,218
Thereafter	<u>760,374</u>
Total minimum annual rentals	<u>\$5,289,757</u>

Rent expense for the years ended December 31, 2004 and 2003 amounted to approximately \$1.5 million and \$1.7 million, respectively.

In 2003, the Company leased out Grandview Bingo in Amarillo. Grandview was an under-performing hall that the Company subleased to a group of charities. 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 <u>December 31,</u>	<u>Minimum Rent</u>
2005	\$ 93,600
2006	93,600
2007	93,600
2008	93,600
2009	93,600
Thereafter	93,600

Total minimum annual rentals	<u>499,200</u>
(b) Legal:	<u>\$967,200</u>

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

Pondella Hall for Hire, Inc., d/b/a Eight Hundred v. American Bingo and Gaming, Case No.: 97-2750, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida. In July of 1995, the Company bought three Florida bingo centers from Phillip Furtney and two corporations related to Mr. Furtney (which corporations and Mr. Furtney are referred to collectively as "Furtney"). On June 12, 1997, Furtney filed a lawsuit against the Company in Florida, alleging breach of contract. Furtney alleged that the Company defaulted on its original purchase note and stock obligations under the purchase agreements. On July 12, 1997, the Company answered this lawsuit and filed a counterclaim against Furtney alleging, among other things, fraud, negligent misrepresentation, breach of express warranties, contractual indemnity and tortious interference with contractual rights. The Company believes that it was materially defrauded in its purchase of these three Florida bingo centers from Furtney in that Furtney made no disclosure to the Company of an ongoing criminal investigation of the operation of these bingo centers by the Florida State Attorney General's Office, and that Furtney was fully aware of this investigation. The State of Florida temporarily closed these three bingo centers, as well as several other centers formerly owned by Mr. Furtney, in November 1995. The Company sold these three bingo centers in December of 1995. In January of 1997, the Company and the State of Florida settled all matters regarding the Company's previous ownership and operation of these bingo centers. The Company completed depositions of Mr. Furtney and a corporate representative of the Furtney controlled companies discussed above on September 20, 2000 and plans to pursue and defend this action vigorously. The case was heard in January 2005. Judgment was found against the Company for approximately \$1,000,000 plus attorney's fees. The Company accrued \$1,200,000 in the 2004 financial statements related to this case.

Lenrich Associates LLC v. Littlefield Corporation, et al; Civil Action No. 00-CP-10-4742, South Carolina Court of Common Pleas, County of Charleston Lenrich Associates brought this action against the Company based on a commercial lease guaranty that was signed by the Company. The tenant on the lease was Concessions Corp., a subsidiary of the Company and had been used as the location of the "Lucky II" facility, which was closed in early 2000. The lease expired in February 2003. Because rental payments under the lease were in arrears, Lenrich Associates sought to enforce the guaranty against the Company. The Company's liability under the guaranty was capped at the lesser of two years of fixed and additional rent or the amount of fixed and additional rent corresponding to the time period mandated by South Carolina law. A settlement agreement had been reached for \$147,500, which has been accrued for by the Company in June 2002. However, the plaintiff withdrew their support of the settlement agreement shortly thereafter. The Company has petitioned the court to enforce the settlement agreement and is currently awaiting this decision.

Littlefield Corp. v. Dye, Civil Action No. 2002-cp-08-478. The Company filed an action on March 6, 2002, in Berkeley County, South Carolina for collection on a note signed by Danny C. Dye. The note, which was executed on December 10, 1998, was in the amount of \$80,000. The Company alleges that Dye still owes \$58,481 toward the principle balance, plus \$19,257 in accrued interest through December 31, 2002. On January 14, 2003, Mr. Dye amended his answer to assert counterclaims against the Company for fraudulent breach of contract and violation of the South Carolina Payment of Wages Act based on allegations that the Company failed to pay Dye amounts due under an employment contract. Mr. Dye has alleged that the Company owes him \$375,000 in unpaid salary and is seeking treble damages under the Payment of Wages Act for a total amount of \$1,250,000 in damages. The Company believes

that the counterclaims are without merit and the Company plans to contest them vigorously.

Collins Entertainment Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, and American Bingo and Gaming Corp.; American Bingo and Gaming Corp. v. Coats and Coats Rental Amusement, d/b/a Ponderosa Bingo and Shipwatch Bingo, Wayne Coats, individually, Civil Action No. 97-CP-10-4685, South Carolina Court of Common Pleas, Charleston County. On October 9, 1997, Collins Entertainment, Inc., filed a lawsuit alleging the Defendants had engaged in civil conspiracy and tortiously interfered with the Plaintiff's contract, violating the South Carolina Unfair Trade Practices Act. The Plaintiff sought actual damages in excess of \$350,000 and an unspecified amount of punitive damages. The Company believed this lawsuit was completely without merit; however, a judgment was issued on February 12, 2001 in favor of the plaintiff.

Damages of \$157,000 were awarded in addition to punitive damages of \$1,570,000. The Company appealed this decision with the South Carolina appellate court, and the judgment was affirmed. The Company applied for a re-hearing with the appellate court, which threw out their original opinion. However, their new opinion also reaffirmed the judgment. The Company is now in the process of filing an appeal to the South Carolina Supreme Court. The total amount of the award has been accrued for in the financial statements plus \$300,000 in post judgment interest. The actual damages of \$157,000 were paid in 2001.

George M. Harrison, et al. v. Littlefield Corporation Civil Action No. 4:04-1038-25 This action is currently pending in the United States District Court for the District of South Carolina, Florence Division. Plaintiffs were the owners of a parcel of real property in Darlington, South Carolina that was leased to Darlington Music Company, a former subsidiary of Littlefield Corporation. In 1990, Plaintiffs, who were also the owners of Darlington Music Company at that time, caused Darlington Music Company to enter into a 15-year lease of the real property they owned. Darlington Music Company was later acquired from Plaintiffs by Littlefield Corporation's predecessor, American Bingo & Gaming. This business continued to operate as a wholly-owned subsidiary until such time as changes in South Carolina law regarding video gaming required that the business be wound down. In May 2001, Plaintiffs later received a judgment in the amount of \$199,148 against Darlington Music Company for nonpayment of rent. Through this action, Plaintiffs are now attempting to enforce that judgment against Littlefield Corporation on the basis of various legal theories. Littlefield intends to vigorously defend this action and will also ask, if possible, to have the underlying judgment against its former subsidiary reexamined.

(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 2004 or 2003.

(d) Concentration of Credit Risk:

The Company maintains its cash in banks which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2004, cash in banks exceeded FDIC coverage by approximately \$174,000.

(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 2004 employees were allowed to defer up to 90% of their wages to a maximum of \$12,000, 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, 2004 and 2003, the Company contributed \$0 and \$0 respectively, into the Plan.

(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. At December 31, 2004, the Company has a subscription receivable from participants in the amount of \$0.

(g) The Company has entered into three-year employment agreements with two individuals. Should the Company terminate the employment agreements without cause, the Company would be liable for salary compensation and the cash value of the Company paid portion of any insurance coverage owed for the remaining term of employment. As of December 31, 2004, the remaining salary expense associated with these two employment agreements is approximately \$0.

NOTE 15 - 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 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 operating profit (loss), therefore, net interest income, 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, 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.

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

Year Ended December 31, 2004

Entertainment
Hospitality
Adjustment

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	<u>Consolidated</u>
Revenue	\$6,484,000
	\$3,409,000
	\$35,000
	\$9,928,000
Depreciation and amortization	497,000
	324,000
	107,000
	928,000
Segment profit (loss)	2,312,000
	(489,000)
	(2,920,000)
	(1,097,000)
Segment Assets	\$22,061,000
	\$1,513,000
	(8,296,000)
	15,278,000

Year Ended December 31, 2003

	<u>Entertainment</u> <u>Hospitality</u> <u>Adjustment</u> <u>Consolidated</u>
Revenue	\$6,281,000
	\$3,661,000
	\$29,000
	\$9,971,000
Depreciation and amortization	477,000
	330,000
	133,000
	940,000
Segment profit (loss)	2,156,000
	(476,000)
	(1,500,000)

Segment Assets	180,000
	\$20,575,000
	\$1,826,000
	(6,514,000)
	15,887,000

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

NOTE 16: INVESTMENTS

The Company accounts for its investments under Statement of Financial Accounting Standards No. 115, Accounting for Investments in Debt and Equity Securities. The Company's investments consist of the following:

	<u>2004</u>	<u>Basis</u>
		<u>Fair Value</u>
		<u>Unrealized</u>
		<u>Gain (Loss)</u>
Mutual Funds		<u>\$5,230</u>
		<u>\$3,108</u>
		<u>\$(2,122)</u>
Total		<u>\$5,230</u>
		<u>\$3,108</u>
		<u>\$(2,122)</u>

These securities are considered available-for-sale, as defined by SFAS No. 115, and accordingly, the unrealized holding loss is shown in other comprehensive income as follows:

Unrealized holding loss recognized at year end	\$ (37,148)
Gain(Loss) recognized in prior year earnings	(35,026)
Unrealized holding gain (loss) on investments held for sale.	(2,122)

The Company sold certain securities available for sale during 2004, and received proceeds of \$521,541. The Company realized a net gain of \$45,057 on the sale.

NOTE 17: DISCONTINUED OPERATIONS

The Amusements division was closed down at the end of January 2003, when the arcade machines were deemed illegal in the County of Montgomery. All the fixed assets were sold for \$146,500, which resulted in a gain on the disposal of assets of \$51,225, net of income tax expense of \$2,183. Two of the three arcades were in existing bingo halls owned by the Company and have remained open. The third arcade location's lease was terminated in accordance with the terms of the lease. A warehouse lease was also terminated in March 2003, where excess machines had been stored.

The Amusements division had revenue of \$0 in 2004 and \$83,908 in 2003. Related expenses were \$0 for 2004 and \$93,655 for 2003.

NOTE 18 - SUBSEQUENT EVENTS

January 2005 – *Pondella Hall for Hire, Inc., d/b/a Eight Hundred v. American Bingo and Gaming, Case No.: 97-2750, Circuit Court of the Twelfth Judicial Circuit in and for Manatee County, Florida.* This case was heard and judgment found against the Company in the amount of \$1,280,000 plus attorney fees. As of the date of this report the final arguments had not been heard, however the Company did elect to accrue the judgment and related legal expenses in the amount of \$1,200,000 in 2004 for this event.

March 2005 – The Company through it's wholly owned subsidiary Conway Bingo Inc., leased a facility in Conway South Carolina and opened a "C" hall doing business as Mill Pond Bingo.

EXHIBIT 22.1
SUBSIDIARIES

1919 Riverside Corp.
Ambler Bingo, Inc.
Americana I, Inc.
Americana II, Inc.
Americana III, Inc.
Americana IV, Inc.(Lucky)
Bing-O-Rama, Inc.
Charity Amusement of Montgomery Inc.
Charity Bingo, Inc.
Charity Games of Montgomery
Charity Management of Montgomery
Gamecock Promotions Inc.
Columbia One Corp.
Concessions Corp.
Hidalgo Charities Inc.
Hidalgo Partnership, Ltd
Lavaca Enterprises, Inc.
Littlefield General Partner Inc.
Littlefield Hospitality Inc.
LTFD Management Company Inc.
Low Country Promotions, Inc.
Meeks Management Company Inc

Midlands Promotions, Inc.
Parkway Bingo, Inc.
S.A. Charities, Inc.
Southern Blvd Bingo
Strike It Rich Bingo, Inc.
The Samaritan Associates, Inc.
West Texas Bingo, Inc.
Capitol Charities, Inc.
Charity Bingo-Birmingham, Inc.
Charity Amusement of Millbrook, Inc.
Charity Bingo of Texas, Inc.
Charity Management of Prattville, Inc.
Country's Amusement Inc
Dabber's Bingo, Inc.
Delta Bingo, Inc.
Forest Bingo, Inc.
Grenada Bingo, Inc.
Louisville Bingo, Inc.
Starkville Bingo, Inc.
Texas Charities, Inc.
Travis Charities, Inc.
Walterboro Bingo Inc.

EXHIBIT 31.1
Certification of Chief Executive Officer

I, Jeffrey L. Minch, certify that:

1. I have reviewed this annual report on Form 10-KSB of Littlefield Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the small business issuer and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

February 15, 2005

/s/ Jeffrey L. Minch

President and Chief Executive Officer

Certification of Chief Financial Officer

I, Troy D. Zinn, certify that:

1. I have reviewed this annual report on Form 10-KSB of Littlefield Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

February 15, 2005

/s/ Troy D. Zinn

Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. § 1350

The undersigned, Jeffrey L. Minch, President and Chief Executive Officer of Littlefield Corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that:

(1) the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 15, 2005

/s/ Jeffrey L. Minch

President and Chief Executive Officer

Certification Pursuant to 18 U.S.C. § 1350

The undersigned, Troy D. Zinn, Chief Financial Officer of Littlefield Corporation (the "Company"), pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, hereby certifies that:

(1) the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 15, 2005

/s/ Troy D. Zinn

Chief Financial Officer
