

CKX LANDS, INC.

Form 10-K

March 24, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

**Annual Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-31905**

**CKX Lands, Inc.**

(Exact name of registrant as specified in its Charter)

**Louisiana**

(State or other jurisdiction of incorporation or organization)

**72-0144530**

(I.R.S. Employer Identification Number)

**1508 Hodges Street**

**Lake Charles, LA**

(Address of principal executive offices)

**70601**

(Zip Code)

Registrant's telephone number, including area code: **(337) 493-2399**

Securities registered pursuant to Section 12(b) of the Act:

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**Common Stock with no par value**    **NYSE MKT**

Title of each class                      Name of each exchange on which registered

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes    No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).    Yes    No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES      NO

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2016 based on the closing price on that date of \$11.34 was \$16,392,526.

The number of shares of the registrant’s Common Stock outstanding as of March 24, 2017, was 1,942,495.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant’s definitive Proxy Statement prepared in connection with the 2017 Annual Meeting of Stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

## PART I

### Item 1. BUSINESS

#### General Description

CKX Lands, Inc. is a Louisiana corporation organized in 1930 as Calcasieu Real Estate & Oil Co., Inc. to receive non-producing mineral royalties spun off by a southwest Louisiana bank. Over the years, as some of the royalties yielded oil and gas income, the Company used the proceeds to purchase land. On May 17, 2005, the Company changed its name from Calcasieu Real Estate & Oil Co., Inc. to CKX Lands, Inc. The primary reason for the change was to help clarify that the Company is not directly involved in oil and gas exploration or operations. As used herein, the “Company” or “CKX” refers to CKX Lands, Inc.

The Company’s shares are listed on the NYSE MKT (previously known as NYSE AMEX), under the symbol CKX. As of March 24, 2017, there were 1,942,495 shares outstanding. The Company had a common equity public float of less than \$75 million as of the last business day of the second fiscal quarter. Consequently, the Company is a smaller reporting company under the Securities and Exchange Commission regulations.

As a reporting company, CKX is subject to the informational requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and accordingly files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). The public may read and copy any materials filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. As an electronic filer, CKX’s public filings are maintained on the SEC’s Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**The Company will provide to stockholders without charge upon their written request a copy of the registrant's annual report on Form 10-K, including the financial statements and the financial statement schedules, required to be filed with the SEC for the registrant's most recent fiscal year. Requests should be sent to CKX Lands, Inc., 1508 Hodges Street, Lake Charles, LA 70601. Copies may also be obtained through the Company’s website, [www.ckxlands.com](http://www.ckxlands.com).**

The Company owns land, timber, and mineral interests and collects income through its ownership in the form of oil and gas royalties, timber sales, and surface leases for farming, right of way and other uses. The Company actively

manages its timber lands, however the Company is not involved in the exploration or production of oil and gas nor does it actively farm for agricultural purpose its lands.

CKX owns a 100% interest in 7,521 acres and undivided interests ranging from 0.260% to 77.778% in 37,739 acres, including a 16.667% interest in 33,486 acres and a 50.000% interest in 1,696 acres, resulting in an ownership of approximately 14,326 net acres.

CKX does not perform or cause to have performed oil and gas producing activities inasmuch as: (1) we do not search for crude oil or natural gas in their natural states; (2) we do not acquire property for the purpose of exploration or the removing of oil and gas; and (3) we are not involved in construction, drilling and/or production activities necessary to retrieve oil and gas.

Oil and gas royalties are paid by the operators who own the wells. Timber income is paid by the highest bidder for the timber. There are several mills in the immediate area that compete for timber. Surface income is received for farming, right of way or other surface land uses. The prices paid for oil, gas and timber depend on national and international market conditions. Prices paid for surface leases depend on regional and local market conditions. Oil and gas revenues were 59.17% of the Company's total revenues in 2016 and 74.02% in 2015.

The source of all raw materials for the Company is the land itself. All oil and gas income will eventually deplete, but we have no access to this depletion information. Timber income and agriculture income are renewable resources. The Company's three reportable business segments are oil and gas, timber, and surface. Segment revenue and related business segment financial information are included in the notes to financial statements.

The Company does not spend any money on research and development.

The Company does not need government approval of its principal products or services except that the State of Louisiana must permit the size & location of all oil and gas producing units. The operator of the oil & gas units is responsible for this permitting process.

### **Employees**

The Company has three employees, all of whom are part-time. There are two officers, and one clerical person. The Company is not subject to union contracts nor does the Company have any hospitalization, pension, profit sharing, option or deferred compensation programs.

### **Customers**

The Company's customers are those who have mineral leases on Company lands, purchase timber in competitive bids or execute surface leases for farming, hunting, right of ways or other purposes. During 2016, the Company received approximately 65.13% of its total revenues from the following customers:

| <u>Customer</u>            | <u>Revenue Type</u> | <u>% of Total Revenue</u> |   |
|----------------------------|---------------------|---------------------------|---|
| Pintail Oil & Gas LLC      | Oil & Gas           | 15.00                     | % |
| Georgia Pacific            | Timber              | 13.65                     | % |
| Riceland Petroleum Company | Oil & Gas           | 7.80                      | % |
| Arcadia Operating, LLC     | Oil & Gas           | 7.66                      | % |
| G2X Energy, Inc.           | Surface             | 7.35                      | % |
| EOG Resources, Inc.        | Oil & Gas           | 7.33                      | % |
| SV Energy Company, LLC     | Oil & Gas           | 6.34                      | % |

Loss of cash receipts from any of these customers or revenue streams would have a material adverse effect on the Company.

### **Environmental and Other Governmental Regulations**

The operators of the wells are responsible for complying with environmental and other governmental regulations. However, should an operator abandon a well located on Company land without following prescribed procedures, the land owners could possibly be held responsible. The Company does not believe this would have a material effect on

its financial condition.

## **Item 1A. RISK FACTORS**

### **Significant Risk Factors**

The Company's business and operations are subject to certain risks and uncertainties, including:

#### **Reliance upon Oil and Gas Discoveries**

The Company's most significant risk is its reliance upon others to perform exploration and development for oil and gas on its land. Future income is dependent on others finding new production on the Company's land to replace present production as it is depleted. Oil and gas prices as well as new technology will affect the possibility of new discoveries.

#### **Commodity Prices**

The majority of the Company's operating income comes from the sale of commodities produced from its lands: oil and gas, and timber. Fluctuations in these commodity prices will directly impact net income. In 2016, average gas prices paid to the Company were 23.42% lower than the average in 2015, and average oil prices, excluding plants, were lower in 2016 than in 2015, by 22.84%. If the average oil and gas prices in 2016 reverted to the 2015 averages, income before income tax would have increased by approximately 55.82%.

## **Natural Disasters**

The Company has approximately 10,612 net acres of timberland (pine and hardwood) in various stages of growth or age classes. A typical pine timber stand will be harvested after 30 to 35 years of growth with some thinning occurring during this time. A hardwood stand will be harvested after 45 to 50 years of growth. A natural disaster can have a material adverse effect on timber growth, reducing its value. Natural disasters could include a hurricane, tornado, high winds, heavy rains and flooding, and/or fire cause by lightning.

## **Interest Rate Risks**

The Company has no direct exposure to changes in foreign currency exchange rates and minimal direct exposure to interest rates. The Company has an unsecured line of credit with Whitney National Bank with no outstanding balance. The Company has no current plans to draw against this line.

## **Item 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **Item 2. PROPERTIES**

The Company owns approximately 14,326 net acres all located in Louisiana. The approximate gross and net acres located in each Louisiana parish are presented below.

| <u>Parish</u>   | Gross<br>Acres | Net<br>Acres |
|-----------------|----------------|--------------|
| Calcasieu       | 17,517         | 5,098        |
| Jefferson Davis | 9,737          | 2,326        |
| Allen           | 8,068          | 2,483        |
| Beauregard      | 7,357          | 3,588        |
| Cameron         | 1,702          | 350          |
| LaFourche       | 240            | 40           |
| Natchitoches    | 200            | 200          |
| Vermilion       | 180            | 30           |

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|            |        |        |
|------------|--------|--------|
| Rapides    | 129    | 129    |
| St. Landry | 80     | 32     |
| Sabine     | 50     | 50     |
| Total      | 45,260 | 14,326 |

Included in the 14,326 net acres presented above, are approximately 7,521 acres owned 100% by the Company. The Louisiana parish location for these 100% owned lands is presented below.

| <u>Parish</u>   | Acres |
|-----------------|-------|
| Beauregard      | 2,754 |
| Calcasieu       | 2,421 |
| Allen           | 1,121 |
| Jefferson Davis | 684   |
| Natchitoches    | 200   |
| Cameron         | 162   |
| Rapides         | 129   |
| Sabine          | 50    |
| Total           | 7,521 |

For management purposes, the Company classifies the 14,326 net acres owned by CKX as follows: 10,612 net acres are timber lands, 2,576 net acres are agriculture lands, 944 net acres are marsh lands and 194 net acres are located in metropolitan areas.

The table below shows, for the years ended December 31, 2016 and December 31, 2015, the Company's net gas produced in thousands of cubic feet (MCF), net oil produced in barrels (Bbl), and average sales prices relating to oil and gas attributable to the royalty interests of the Company as reported by the various producers.

|                                                    | Year<br>Ended<br>12/31/16 | Year<br>Ended<br>12/31/15 |
|----------------------------------------------------|---------------------------|---------------------------|
| Net gas produced (MCF)                             | 48,959                    | 55,910                    |
| Average gas sales price (per MCF) <sup>(1)</sup>   | \$ 2.55                   | \$ 3.33                   |
| Net oil produced (Bbl) <sup>(2)</sup>              | 8,447                     | 10,590                    |
| Average oil sales price (per Bbl) <sup>(1,2)</sup> | \$ 39.87                  | \$ 51.67                  |

Notes to above schedule:

<sup>(1)</sup> Before deduction of severance taxes and other charges.

<sup>(2)</sup> Excludes plant products.

### Item 3. LEGAL PROCEEDINGS

The Company was not involved in any legal proceedings as of December 31, 2016.

### Item 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### Item MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS 5. AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is traded on the NYSE MKT (previously known as NYSE AMEX) under the trading symbol CKX since its listing on December 8, 2003. Prior to the listing there was no established public trading market

for the Common Stock, and there had been only limited and sporadic trading in the Common Stock, principally among the Company's shareholders. On March 21, 2017, there were approximately 467 stockholders of record. There were no sales of unregistered securities of the Company and no purchases or sales of CKX equity securities during 2016 by the Company. The closing price for the Common Stock was \$11.76 on March 22, 2017. The following table sets forth the high and low sales prices for the Common Stock by quarter during 2016 and 2015.

|                                      |      | First   | Second  | Third   | Fourth  |
|--------------------------------------|------|---------|---------|---------|---------|
|                                      |      | Quarter | Quarter | Quarter | Quarter |
| Common stock price per share<br>2016 | high | 10.50   | 12.50   | 11.89   | 11.24   |
|                                      | Low  | 9.05    | 10.50   | 10.30   | 10.36   |
| Common stock price per share<br>2015 | high | 16.60   | 16.75   | 14.10   | 12.30   |
|                                      | Low  | 14.16   | 14.02   | 10.60   | 9.42    |

The Company has changed the manner in which it determines whether a dividend will be declared. The Company will no longer have a "regular" or "extra" dividend as have been defined in prior filings. In determining whether a dividend will be declared, the Board of Directors will take into account the Company's prior fiscal year's cash flows from operations and the current economic conditions among other information deemed relevant.

|                         | First   | Second  | Third   | Fourth  | Year  |
|-------------------------|---------|---------|---------|---------|-------|
|                         | Quarter | Quarter | Quarter | Quarter | Total |
| Cash Dividend per Share |         |         |         |         |       |
| 2016                    | \$ 0.00 | 0.00    | 0.00    | 0.00    | 0.00  |
| 2015                    | \$ 0.07 | 0.03    | 0.00    | 0.00    | 0.10  |

Pursuant to a dividend reversion clause in the Company's Articles of Incorporation, dividends not claimed within one year after a dividend becomes payable will expire and revert in full ownership to the Company and the Company's obligation to pay such dividend will cease. During 2016 and 2015, the Company received \$6,507 and \$0, respectively, in dividend reversions.

**Item 6. SELECTED FINANCIAL DATA**

Not applicable

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

CKX Lands, Inc. began operations in 1930 under the name Calcasieu Real Estate & Oil Co., Inc. It was originally organized as a spin-off by a bank operating in southwest Louisiana. The purpose of the spin-off was to form an entity to hold non-producing minerals which regulatory authorities required the bank to charge off. Over the years, as some of the mineral interests began producing, the Company used part of the proceeds to acquire land. In 1990, the Company made its largest acquisition when it was one of four purchasers who bought a fifty percent undivided interest in approximately 35,575 acres in southwest Louisiana.

Today most of the Company's income is derived from mineral royalties and timber sales from the Company lands. CKX receives income from royalty interest and mineral leases related to oil and gas production, timber sales, and surface rents. Although CKX is active in the management of its land and planting and harvesting its timber, CKX is passive in the production of income from oil and gas production in that CKX does not explore for oil and gas, or operate wells. These oil and gas activities are performed by unrelated third parties.

The Company's oil and gas income fluctuates as new oil and gas production is discovered on Company land and then ultimately depletes or becomes commercially uneconomical to produce. The volatility in the daily commodity pricing of a barrel of oil or a MCF of gas will also cause fluctuations in the Company's oil and gas income.

CKX has small royalty interests in 36 different producing oil and gas fields. The size of each royalty interest is determined by the Company's net ownership in the acreage unit for the well. CKX's royalty interests range from 0.0045% for the smallest to 7.62% for the largest. As the Company does not own or operate the wells, it does not have access to any reserve information.

Eventually, the oil and gas under the Company's current land holdings will be depleted.

Timber income is derived from timber on Company lands. The timber income will fluctuate depending on our ability to secure stumpage agreements in the regional markets, timber stand age, and/or stumpage commodity prices. Timber is a renewable resource that the Company actively manages.

Surface income is earned from various recurring and non-recurring sources. Recurring surface income is earned from lease arrangements for farming, recreational and commercial uses. Non-recurring surface income can include such activities as pipeline right of ways, and temporary worksite rentals.

In managing its lands, the Company relies on and has established relationships with real estate, forestry, environmental and agriculture consultants as well as attorneys with legal expertise in general corporate matters, real estate, and minerals.

The Company actively searches for additional real estate for purchase in Louisiana with a focus on southwest Louisiana. When evaluating unimproved real estate for purchase, the Company will consider numerous characteristics including but not limited to timber fitness, agriculture fitness, future development opportunities and/or mineral potential. When evaluating improved real estate for purchase, the Company will consider characteristics including but not limited to geographic location, quality of existing revenue streams, and/or quality of the improvements.

**Results of Operations****Fiscal Year 2016 Compared to Fiscal Year 2015**

Total revenues for 2016 were \$863,402, a decrease of 18.71% when compared with 2015 revenues of \$1,062,101. Total revenue consists of oil and gas, timber, and surface revenues.

Oil and gas revenues were 59.17% and 74.02% of total revenues for 2016 and 2015, respectively. Oil and gas revenues consist of royalty revenue and lease rental revenue. Oil and gas revenues changed between 2016 and 2015 as follows:

|              | 2016      | 2015      | \$ Change   | %<br>Change |
|--------------|-----------|-----------|-------------|-------------|
| Royalty      | \$488,947 | \$772,212 | \$(283,265) | (36.68)%    |
| Lease Rental | 21,909    | 13,992    | 7,917       | 56.58%      |
| Total        | \$510,856 | \$786,204 | \$(275,348) | (35.02)%    |

During 2016, reported gas production decreased by approximately 11,349 MCF, and the average gas sales price per MCF decreased by approximately \$0.78 resulting in a decrease in gas revenue of \$61,584. Revenue from oil production, including plants, decreased by \$221,681. This decrease was due to a decrease in the average barrel sales price of \$11.80, not including plants, and a decrease in production of approximately 2,976 barrels, not including plants, and a decrease in plants revenue of \$10,834.

The following 6 fields produced 90.29% of the Company's oil and gas revenues in 2016. The following table shows the number of barrels of oil (Bbl Oil) and MCF of gas (MCF Gas) produced from these fields.

| Field                 | Bbl<br>Oil <sup>(1)</sup> | MCF<br>Gas |
|-----------------------|---------------------------|------------|
| South Bear Head Creek | 3,032                     | 3,892      |
| South Gordon          | 708                       | 15,944     |
| South Jennings        | 627                       | 16,437     |
| Gonzales County       | 1,430                     | 1,009      |
| Cowards Gully         | 1,026                     | 1,688      |
| South Lake Charles    | 652                       | 6,502      |

Note to above schedule:

(1)Excludes plant products.

In 2015, the following 6 fields produced 89.04% of the Company's oil and gas revenues. The following table shows the number of barrels of oil (Bbl Oil) and MCF of gas (MCF Gas) produced from these fields.

| Field                 | Bbl<br>Oil (1) | MCF<br>Gas |
|-----------------------|----------------|------------|
| South Bear Head Creek | 3,337          | 2,948      |
| Gonzales County       | 3,136          | 1,553      |
| South Jennings        | 768            | 20,807     |
| South Gordon          | 886            | 17,013     |
| Cowards Gully         | 1,312          | 3,382      |
| South Lake Charles    | 696            | 6,771      |

Note to above schedule:

(1)Excludes plant products.

The Company was a lessor in the following non-producing mineral leases:

| Activity    | 2016 | 2015 |
|-------------|------|------|
| Bonus lease | 3    | 2    |
| Delay lease | 3    | 6    |
| Gross acres | 491  | 467  |
| Net acres   | 154  | 116  |

Timber revenue increased by \$73,832 from 2015. The Company actively marketed its timber during 2016, and entered into 3 stumpage agreements. Generally, weather conditions were too wet in 2016 for harvesting activity to occur on much of the acreage under contract for harvest and thinning.

Surface revenue increased by \$2,817 from 2015. Surface revenue includes revenue from farm leases, right of way grants, hunting leases and other surface leases.

General and administrative expense increased from 2015 by \$112,843 to \$614,002 primarily due to

| <u>Expense description</u>                                                                                                             | Amount    |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Increase in officer's compensation related to directing the Company's land acquisitions.                                               | \$70,864  |
| Increase in corporate legal fees related to new director orientation and filings, and review of code of ethics and committee charters. | 19,746    |
| Increase in operations legal fees related to an increase in surface lease agreement activities.                                        | 8,290     |
| Increase in director fees due to increased board size.                                                                                 | 6,100     |
| Increase in 3 <sup>rd</sup> party property management fee of our 1/6 <sup>th</sup> undivided interest lands.                           | 6,906     |
|                                                                                                                                        | \$111,906 |

Other increases and decreases were comparative to prior year expense amounts.

### **Outlook for Fiscal Year 2017**

The Company continues to actively search for timber lands with mineral potential. In 2017, the Company will consider and evaluate other types of land acquisitions such as commercial and agricultural lands that are more likely to generate recurring annual cash flows. The Company will also review its current holdings and assess whether certain properties should be divested. The Company may consider purchases outside of southwest Louisiana.

The 2016 average price per Bbl and MCF both decreased from 2015 average prices. The Company expects oil and gas average prices to increase from 2016 levels and for production levels to be lower resulting in flat oil and gas revenues for 2017 when compared to 2016 revenues.

The Company will continue to actively market its timber. In 2016, area harvesting activities were hampered by unseasonable high rain amounts which caused a backlog of timber to be harvested. We anticipate this 2016 event will be a negative factor in our ability to secure 2017 stumpage agreements at our desired volumes and pricing. We currently have four (4) stumpage agreements in force. We estimate our 2016 year end stumpage volumes on net acres for all timber age classes as follows:

| Pine                |                          |                     | Hardwood               |                     |
|---------------------|--------------------------|---------------------|------------------------|---------------------|
| Saw Timber<br>(MBF) | Chip N<br>Saw<br>(Cords) | Pulpwood<br>(Cords) | Saw<br>Timber<br>(MBF) | Pulpwood<br>(Cords) |
| 5,350,384           | 602,152                  | 1,129,423           | 752,400                | 587,423             |

The Company believes the potential for increased surface revenue in 2017 is likely due to the continuing economic activity in southwest Louisiana. The Company also anticipates using its website, [www.ckxlands.com](http://www.ckxlands.com), to market its lands for surface revenue in 2017.

In the first quarter of 2017, the Company terminated the 3<sup>rd</sup> party property management of its 1/6<sup>th</sup> undivided interest lands. The Company believes that in addition to a partial reduction in overall operating expenses, this change will allow management to improve its management over these lands.

### **Liquidity and Capital Resources**

The Company's current assets totaled \$4,537,058 and total liabilities equaled \$431,376 at December 31, 2016.

In the opinion of management, current cash flow from operations, cash and investments are adequate for projected operations and possible land purchases.

Additional sources of liquidity include the Company's available bank line of credit for \$3,000,000. The Company has no outstanding balance nor does it plan to draw on this line of credit. The Company does not include this line of credit availability when assessing the adequacy of liquidity or capital resources for projected operations or possible land purchases.

### **Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant accounting estimates inherent in the preparation of our financial statements include the following items:

Our accounts receivable consist of incomes received after year end for royalties produced prior to year-end. When there are royalties that have not been received at the time of the preparation of the financial statements for months in the prior year, we estimate the amount to be received based on the last month's royalties that were received from that particular company. We do not maintain an allowance for doubtful accounts because other than the accrual for earned but not received royalties, we have no accounts receivable.

The Company accounts for income taxes in accordance with ASC Topic 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

When land is purchased with standing timber, the cost is divided between land and timber. Reforestation costs are capitalized and added to the timber asset account. The timber asset is depleted when the timber is harvested based on

the relationship between the carrying value of the timber and the total timber volume estimated to be harvested over the harvest cycle.

### **Forward Looking Statements**

Certain matters contained in this report are forward-looking statements within the meaning of the “Safe Harbor” provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These statements include, without limitation, the information contained under the heading “Outlook for Fiscal Year 2017” in Item 7 of this report, and any statements containing forward-looking terminology including “may”, “should,” “likely,” “will,” “believe,” “expect,” “anticipate,” “estimate,” “continue,” “plan,” “intend,” “projects,” or other similar words. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors set forth in “Item 1A. Risk Factors” above, some of which are beyond our control and difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information may be obtained by reviewing the information set forth above under “Item 1A Risk Factors” and information contained in the Company’s reports periodically filed with the SEC.

**Item 7A. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**Item 8. FINANCIAL STATEMENTS AND SUPPORTING DATA**

All financial statements required by this item are listed in the Table of Contents to Financial Statements appearing immediately after the signature page of this Form 10-K and are included herein by reference.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive and financial officer to allow timely decisions regarding required disclosure.

As of December 31, 2016, an evaluation was performed under the supervision and with the participation of the Company's management, including the principal executive and financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the principal executive and financial officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

**Management's Annual Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") for the Company. In assessing the Company's ICFR, management follows the Committee of Sponsoring Organizations of the Treadway Commission's ("COSO") Internal Control - Integrated Framework (2013). Management shall determine ICFR ineffective if a material weakness exists in the controls.

Management has assessed the Company's ICFR as effective as of December 31, 2016.

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

During the quarter ending December 31, 2016, there have been no changes in the Company's ICFR that has materially affected or is reasonably likely to affect, the Company's ICFR.

#### **Item 9B. OTHER INFORMATION**

None.

**PART III****Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

The information required by Item 10 as to directors, nominees for directors, reports under Section 16 of the Securities Exchange Act of 1934, the Registrant's audit committee and an audit committee financial expert is included in the Registrant's definitive proxy statement to be filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 and is incorporated herein by reference.

Executive officers of Registrant are as follows:

| <u>Name</u>          | <u>Age</u> | <u>Position with Registrant</u>   |
|----------------------|------------|-----------------------------------|
| Brian R. Jones       | 56         | President, Treasurer and Director |
| Charles D. Viccellio | 83         | Secretary and Director            |

The occupations of such executive officers during the last five years and other principal affiliations are:

| <u>Name</u>          | <u>Occupations</u>                                                                                                                           |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Brian R. Jones       | President since April 25, 2013, Treasurer and Director since December 1, 2006; Managing member of Brian R. Jones CPA, LLC.                   |
| Charles D. Viccellio | Secretary since 1997 and Director since 1996. Retired attorney from the law firm of Stockwell, Sievert, Viccellio, Clements & Shaddock, LLP. |

Directors, principal occupation or experience, and related business name and activity follows:

| <u>Name</u>             | <u>Age</u> | <u>Experience and Qualifications</u>                                                                                                                                                                                                                                                                                                     | <u>Director Since</u> |
|-------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Lee W. Boyer<br>(2) (3) | 59         | Attorney with Stockwell, Sievert, Viccellio, Clements & Shaddock, L.L.P.; President, Second University Homesites, Inc.; Manager, Jones-Boyer, LLC; Manager, Boyer Properties, LLC; Director, Mallard Bay, Corp. Mr. Boyer's experience in land management and oil and gas leasing activities makes him qualified to serve as a director. | 2016                  |

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|                                   |    |                                                                                                                                                                                                                                                                                       |      |
|-----------------------------------|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| Max H. Hart<br>(1)                | 58 | Principal, Haas-Hirsch Interests. Mr. Hart's experience in land management, oil and gas leasing activities, forestry, farming and rights of way makes him qualified to serve as a director.                                                                                           | 2016 |
| Brian R.<br>Jones                 | 56 | President and Chairman of the Board of CKX Lands, Inc. since 2013 and Treasurer of CKX Lands, Inc. since 2006; Managing member of Brian R. Jones CPA, LLC. Mr. Jones' experience in public accounting, SEC compliance and land management makes him qualified to serve as a director. | 2007 |
| Eugene T.<br>Minvielle, IV<br>(1) | 43 | Chief Financial Officer and Treasurer of Marlin Energy, LLC. Mr. Minvielle's experience in oil and gas and financial reporting makes him qualified to serve as a director.                                                                                                            | 2017 |

## Director Schedule (continued):

| <u>Name</u>          | <u>Age</u> | <u>Experience and Qualifications</u>                                                                                                                                                                                                              | <u>Director Since</u> |
|----------------------|------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Mary Watkins Savoy   | 77         | Private investments; Director of Mallard Bay Corp. Mrs. Savoy's experience in land management and oil and gas leasing activities makes her qualified to serve as a director.                                                                      | 1998                  |
| (1) (2) (3)          |            |                                                                                                                                                                                                                                                   |                       |
| William Gray Stream  | 37         | President of Matilda Stream Management. Mr. Stream's experience in land management, oil and gas activities and forestry makes him qualified to serve as a director.                                                                               | 2007                  |
| (1) (2) (4)          |            |                                                                                                                                                                                                                                                   |                       |
| Charles D. Viccellio | 83         | Secretary of CKX Lands, Inc.; Attorney (retired), Stockwell, Sievert, Viccellio, Clements & Shaddock, L.L.P. Mr. Viccellio's extensive legal experience in land management and oil and gas activities makes him qualified to serve as a director. | 1996                  |
| Mary Leach Werner    | 49         | Vice President and Director of North American Land Co., Inc.; Vice President and Director of Sweet Lake Land & Oil Co., Inc. Mrs. Werner's experience in land management and oil and gas activities makes her qualified to serve as a director.   | 2004                  |
| (2) (3)              |            |                                                                                                                                                                                                                                                   |                       |
| Michael B. White     | 60         | Oil and gas ventures, farmland and timberland investments, sole manager of Ottley Properties, LLC. Mr. White's experience in oil and gas, farmland and timberland makes him qualified to serve as a director.                                     | 2013                  |
| (3)                  |            |                                                                                                                                                                                                                                                   |                       |

Member of the (1) Audit Committee, (2) Compensation Committee, (3) Nominating Committee.

(4) On January 31, 2017, Mr. William Gray Stream provided notice to the Company that he will not stand for re-election to the board of directors at the Company's 2017 annual meeting of stockholders so that he may pursue other interests. Mr. Stream will continue to serve on the board until the 2017 annual meeting, when his current term expires.

Stockwell, Sievert, Viccellio, Clements & Shaddock, L.L.P. is a law firm. Second University Homesites, Inc. Jones-Boyer, LLC, and Boyer Properties, LLC are residential property management companies. Mallard Bay Corp., Haas-Hirsch Interests, Matilda Stream Management, North American Land Co., Inc., and Sweet Lake Land & Oil Co., Inc. are all land management companies. Marlin Energy, LLC is an upstream oil and gas company. Ottley Properties, LLC is an investment holding company. Brian R. Jones CPA, LLC is a CPA firm.

There are no family relationships between any of our directors and executive officers or any arrangement or understanding between any of our executive officers and any other person pursuant to which any executive officer was appointed to his office.

The Board of Directors has determined that director nominees Boyer, Hart, Savoy, Stream, Werner, and White are “independent directors” as defined under the rules of the NYSE MKT.

The Company has adopted a Code of Ethics that applies to officers, directors and employees. A copy of the Code of Ethics will be provided by writing the President at P.O. Box 1864, Lake Charles, Louisiana 70602 or obtained through the Company’s website, [www.ckxlands.com](http://www.ckxlands.com).

**Item 11. EXECUTIVE  
COMPENSATION**

The information required by Item 11 is included in the Registrant’s definitive proxy statement to be filed pursuant to Section 14(a) of the Securities and Exchange Act of 1934 and is incorporated herein by reference.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is included in the Registrant's definitive proxy statement to be filed pursuant to Section 14(a) of the Securities Exchange Act of 1934 and is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by Item 13 is included in the Registrant's definitive proxy statement to be filed pursuant to Section 14(a) of the Securities and Exchange Act of 1934 and is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES**

The information required by Item 14 is included in the Registrant's definitive proxy statement to be filed pursuant to Section 14(a) of the Securities and Exchange Act of 1934 and is incorporated herein by reference.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES**

(a) Documents filed as part of this report:

Financial Statements. The financial statements filed as part of this report are listed in the Table of Contents to (1) Financial Statements appearing immediately after the signature page of this Form 10-K and are included herein by reference.

(2) Financial Statement Schedules. Financial Statement Schedules are not required.

(3) Exhibits. See (b) below

(b) Exhibits:

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3.1 Restated/Articles of Incorporation of the Registrant are incorporated by reference to Exhibit (3)-1 to Form 10 filed April 29, 1981.

3.2 Amendment to Articles of Incorporation of the Registrant is incorporated by reference to Exhibit (3.2) to Form 10-K for year ended December 31, 2003.

3.3 By-Laws of the Registrant are incorporated by reference to Exhibit (3.3) to Form 10-Q for the quarterly period ended March 31, 2013.

10 Contract to Purchase and Sell approximately 3,495 acres in Cameron Parish, Louisiana effective July 3, 2007 is incorporated by reference to Exhibit (10) to Form 10-QSB filed August 13, 2007.

10.1 Agreement to Purchase and Sell Real Estate of approximately 880 acres in Calcasieu Parish, Louisiana effective May 11, 2016 is incorporated by reference to Form 10-Q filed August 8, 2016.

31 Certification of Brian R. Jones, President and Treasurer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32 Certification of Brian R. Jones, President and Treasurer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

101.INS\*\*XBRL Instance

101.SCH\*\*XBRL Taxonomy Extension Schema

101.CAL\*\*XBRL Taxonomy Extension Calculation

101.DEF\*\*XBRL Taxonomy Extension Definition

101.LAB\*\*XBRL Taxonomy Extension Labels

101.PRE\*\*XBRL Taxonomy Extension Presentation

\*\* information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

## Item 16. FORM 10-K SUMMARY

Not applicable.



## SIGNATURES

Pursuant to the requirement of 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 on March 24, 2017.

### CKX LANDS, INC.

|               |                                |
|---------------|--------------------------------|
| <b>BY:</b>    | <b>/s/ Brian R. Jones</b>      |
| <b>Name:</b>  | <b>Brian R. Jones</b>          |
| <b>Title:</b> | <b>President and Treasurer</b> |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated with regard to CKX Lands, Inc. on March 24, 2017.

**/s/ Brian R. Jones**

President, Treasurer and Director

Brian R. Jones

(Principal Executive and Financial Officer)

**/s/ Charles D. Viccellio**

Charles D. Viccellio

Secretary and Director

**/s/ Lee W. Boyer**

Lee W. Boyer

Director

**/s/ Max H. Hart**

Max H. Hart

Director

**/s/ Eugene T. Minvielle, IV**

Eugene T. Minvielle, IV

Director

**/s/ Mary W. Savoy**

Mary W. Savoy

Director

**/s/ William Gray Stream**

William Gray Stream

Director

**/s/ Mary Leach Werner**

Mary Leach Werner                      Director

**/s/ Michael B. White**

Michael B. White                      Director

**CKX LANDS, INC.**

**Table of Contents**

|                                                            |             |
|------------------------------------------------------------|-------------|
|                                                            | <u>Page</u> |
| REPORT OF INDEPENDENT REGISTERED PUBLIC<br>ACCOUNTING FIRM | 15          |
| FINANCIAL STATEMENTS                                       |             |
| Balance Sheets                                             | 16          |
| Statements of Income                                       | 17          |
| Statements of Changes in Stockholders' Equity              | 18          |
| Statements of Cash Flows                                   | 19          |
| Notes to Financial Statements                              | 20-28       |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

CKX Lands, Inc.

Lake Charles, Louisiana

We have audited the accompanying balance sheets of CKX Lands, Inc. (the “Company”) as of December 31, 2016 and 2015, and the related statements of operations, stockholders’ equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the entity’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CKX Lands, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*/s/ MaloneBailey, LLP*

www.malonebailey.com

Houston, Texas

March 23, 2017



**CKX Lands, Inc.****Balance Sheets****December 31, 2016 and 2015**

|                                                                                                  | <b>2016</b>  | <b>2015</b>  |
|--------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>Assets</b>                                                                                    |              |              |
| Current Assets:                                                                                  |              |              |
| Cash                                                                                             | \$1,081,188  | \$2,767,424  |
| Certificates of deposit                                                                          | 3,370,000    | 3,324,000    |
| Accounts receivable                                                                              | 62,403       | 64,752       |
| Prepaid expense and other assets                                                                 | 23,467       | 44,826       |
| Total current assets                                                                             | 4,537,058    | 6,201,002    |
| Non-current Assets                                                                               |              |              |
| Certificates of deposit                                                                          | 720,000      | 1,200,000    |
| Property and equipment:                                                                          |              |              |
| Land                                                                                             | 7,075,345    | 5,209,846    |
| Timber                                                                                           | 2,072,368    | 1,546,088    |
| Building and equipment less accumulated depreciation of \$73,374 and \$84,156, respectively      | 13,553       | --           |
| Total property and equipment, net                                                                | 9,161,266    | 6,755,934    |
| Total assets                                                                                     | \$14,418,324 | \$14,156,936 |
| <b>Liabilities and Stockholders' Equity</b>                                                      |              |              |
| Current Liabilities:                                                                             |              |              |
| Trade payables and accrued expenses                                                              | \$122,464    | \$54,402     |
| Income taxes payable                                                                             | 9,993        | --           |
| Total current liabilities                                                                        | 132,457      | 54,402       |
| Non-current Liabilities:                                                                         |              |              |
| Deferred income tax payable                                                                      | 298,919      | 292,767      |
| Total liabilities                                                                                | 431,376      | 347,169      |
| Stockholders' Equity:                                                                            |              |              |
| Common stock, no par value: 3,000,000 shares authorized; 1,942,495 shares issued and outstanding | 59,335       | 59,335       |
| Retained earnings                                                                                | 13,927,613   | 13,750,432   |
| Total stockholders' equity                                                                       | 13,986,948   | 13,809,767   |
| Total liabilities and stockholders' equity                                                       | \$14,418,324 | \$14,156,936 |

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



**CKX Lands, Inc.****Statements of Income****Years Ended December 31, 2016 and 2015**

|                                                               | <b>2016</b> | <b>2015</b> |
|---------------------------------------------------------------|-------------|-------------|
| Revenues:                                                     |             |             |
| Oil and gas                                                   | \$510,856   | \$786,204   |
| Timber                                                        | 125,860     | 52,028      |
| Surface                                                       | 189,019     | 223,869     |
| Surface - related party                                       | 37,667      | --          |
| Total revenues                                                | 863,402     | 1,062,101   |
| Costs, Expenses and (Gains):                                  |             |             |
| Oil and gas                                                   | 47,212      | 70,240      |
| Timber                                                        | 11,809      | 8,026       |
| Surface                                                       | 2,552       | 4,330       |
| General and administrative                                    | 614,002     | 501,159     |
| Depreciation                                                  | 467         | --          |
| Gain on sale of land                                          | --          | (172,352 )  |
| Total cost, expenses and (gains)                              | 676,042     | 411,403     |
| Income from operations                                        | 187,360     | 650,698     |
| Other Income:                                                 |             |             |
| Interest income                                               | 34,951      | 23,108      |
| Other income                                                  | 34,951      | 23,108      |
| Income before income taxes                                    | 222,311     | 673,806     |
| Federal and State Income Taxes:                               |             |             |
| Current                                                       | 45,485      | 142,437     |
| Deferred                                                      | 6,152       | 68,341      |
| Total federal and state income taxes                          | 51,637      | 210,778     |
| Net income                                                    | \$170,674   | \$463,028   |
| Per Common Stock , basic and diluted                          |             |             |
| Net income                                                    | \$0.09      | \$0.24      |
| Dividends                                                     | \$--        | \$0.10      |
| Weighted Average Common Shares Outstanding, basic and diluted | 1,942,495   | 1,942,495   |

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



**CKX Lands,  
Inc.**

**Statements of  
Changes in  
Stockholders'  
Equity**

**Years ended  
December 31,  
2016 and  
2015**

|                                                   | Total        | Retained<br>Earnings | Capital<br>Stock<br>Issued | Treasury<br>Stock |
|---------------------------------------------------|--------------|----------------------|----------------------------|-------------------|
| December 31, 2014 Balance                         | \$13,540,989 | \$13,844,249         | \$72,256                   | \$(375,516)       |
| Net income                                        | 463,028      | 463,028              | --                         | --                |
| Dividends paid                                    | (194,250 )   | (194,250 )           | --                         | --                |
| Reclassification of treasury stock under the LBCA | --           | (362,595 )           | (12,921)                   | (375,516)         |
| December 31, 2015 Balance                         | \$13,809,767 | \$13,750,432         | \$59,335                   | \$--              |
| Net income                                        | 170,674      | 170,674              | --                         | --                |
| Dividends reversion                               | 6,507        | 6,507                | --                         | --                |
| December 31, 2016 Balance                         | \$13,986,948 | \$13,927,613         | \$59,335                   | \$--              |

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

**CKX Lands, Inc.****Statements of Cash Flows****Years Ended December 31, 2016 and 2015**

|                                                                               | <b>2016</b>  | <b>2015</b>  |
|-------------------------------------------------------------------------------|--------------|--------------|
| Cash Flows from Operating Activities:                                         |              |              |
| Net income                                                                    | \$ 170,674   | \$ 463,028   |
| Adjustments to reconcile net income to net cash used in operating activities: |              |              |
| Gain from sale of land                                                        | --           | (172,352 )   |
| Timber depletion                                                              | 1,751        | 2,872        |
| Depreciation                                                                  | 467          | --           |
| Deferred income tax expense                                                   | 6,152        | 68,341       |
| Change in operating assets and liabilities:                                   |              |              |
| Decrease in current assets                                                    | 23,708       | 86,920       |
| Increase (decrease) in current liabilities                                    | 78,055       | (6,835 )     |
| Net cash provided from operating activities                                   | 280,807      | 441,974      |
| Cash Flows from Investing Activities:                                         |              |              |
| Certificate of deposits:                                                      |              |              |
| Maturity proceeds                                                             | 3,564,000    | 3,084,000    |
| Purchase                                                                      | (3,130,000)  | (5,688,000)  |
| Land:                                                                         |              |              |
| Proceeds                                                                      | --           | 185,623      |
| Purchases and improvements                                                    | (1,865,499)  | (265,982 )   |
| Timber:                                                                       |              |              |
| Purchases                                                                     | (528,031 )   | (21,535 )    |
| Equipment:                                                                    |              |              |
| Purchases                                                                     | (14,020 )    | --           |
| Net cash used in investing activities                                         | (1,973,550)  | (2,705,894)  |
| Cash Flows from Financing Activities:                                         |              |              |
| Dividends paid                                                                | --           | (194,250 )   |
| Dividends reversion                                                           | 6,507        | --           |
| Net cash provided from (used in) financing activities                         | 6,507        | (194,250 )   |
| Net decrease in cash and cash equivalents                                     | (1,686,236)  | (2,458,170)  |
| Cash and Cash Equivalents:                                                    |              |              |
| Beginning                                                                     | 2,767,424    | 5,225,594    |
| Ending                                                                        | \$ 1,081,188 | \$ 2,767,424 |

**Supplemental Disclosures of Cash Flow Information**

## Cash payments for:

|              |           |            |
|--------------|-----------|------------|
| Interest     | \$--      | \$--       |
| Income taxes | \$ 12,420 | \$ 134,576 |

Noncash investing and financing activities:

|                                                    |      |           |
|----------------------------------------------------|------|-----------|
| Reclassification of treasury stock under the LBCA. | \$-- | \$375,516 |
|----------------------------------------------------|------|-----------|

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

**CKX Lands, Inc.**

**Notes to Financial Statements**

**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:**

The Company was incorporated in the State of Louisiana on June 27, 1930. The Company's business is the ownership and management of land. The primary activities consist of leasing its properties for minerals (oil and gas), raising and harvesting timber, and surface use (agriculture, right of ways, hunting).

**Significant accounting policies:**

**Pervasiveness of estimates:**

The preparation of financial statements in conformity with GAAP 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash equivalents:**

Cash equivalents are highly liquid debt instruments with original maturities of three months or less when purchased.

**Certificate of deposits:**

Certificates of deposit have maturities greater than three months when purchased, in amounts not greater than \$250,000. All certificates of deposit are held until maturity and recorded at cost which approximates fair value.

Certificates of deposit mature through 2018.

Property and equipment:

Property and equipment is stated at cost. Major additions are capitalized. Maintenance and repairs are charged to income as incurred. Depreciation is computed on the straight-line and accelerated methods over the estimated useful lives of the assets.

Timber:

Reforestation costs and other costs associated with the planting and growth of timber, such as site preparation, purchases of seedlings, planting, fertilization, and herbicide application, are capitalized. Timber carrying costs such as insect, wildlife and wildfire control and forest management services are expensed as incurred.

Costs attributable to timber harvested or depleted are charged against revenue as trees are harvested. Depletion rates are determined based on the relationship between the carrying value of the timber and the total timber volume estimated to be harvested over the harvest cycle. Upon the clear-cut harvest of a timber tract, the net timber asset value is expensed.

Revenue from timber is recognized upon either the thinning or clear-cut harvesting of our timber and is recorded at such time of such activity. The Company does not enter into timber deed contracts.

**CKX Lands, Inc.**

**Notes to Financial Statements (continued)**

**Impairment of long-lived assets:**

Long-lived assets, such as land, timber and buildings and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If events or circumstances arise that require a long-lived asset to be tested for potential impairment, the Company first compares undiscounted cash flows expected to be generated by the asset to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds the fair value. Fair value may be determined through various valuation techniques including quoted market prices, third-party independent appraisals and discounted cash flow models. The Company recorded no impairment charges during 2016 and 2015.

**Oil and gas:**

Oil and gas revenue is recorded when the Company is notified by the well's operator as to the Company's share of the revenue proceeds together with the withheld severance taxes or net revenue.

In addition, the Company does accrue estimated oil and gas net revenue earned but not received from these well operators as of the balance sheet date and records this accrued amount as accounts receivable. The accounts receivable balance consists solely of these accrued net revenues.

The Company does not have the ability to know the actual production volume or the oil and gas price paid for the production until the actual payment is received from the well's operator. In estimating the accrued net receivable and its collectability, the Company reviews the prior months of activity by well, available subsequent net revenue receipts by well and any other pertinent information that is available to the Company to estimate the net revenue at the balance sheet date. As of December 31, 2016 and 2015, no allowance for doubtful accounts was recorded.

**Surface:**

Surface revenue is earned through annual leases for agricultural and hunting activities and the Company records revenues from these activities at the time of a fully executed lease agreement and receipt of annual lease payment. Surface revenues from these sources are recurring on an annual basis.

Surface revenue is also earned through right of way and related temporary work space leases, both of which are not unusual in occurrence and are not recurring sources of revenue. Generally, a right of way lease relates to either a utility or pipeline right of way that is a permanent servitude or for fixed periods of time greater than thirty years. The Company retains ownership of the surface or land and is limited to the use of the surface. Revenue is recorded at the time of the agreement's execution date. For income tax purposes, these types of agreements are treated as sales of business assets.

Other sources of surface revenue can be commercial activities leases and surface mineral sales, such as dirt.

**CKX Lands, Inc.**

**Notes to Financial Statements (continued)**

**Net Income and Dividends Paid per common stock:**

Net income and dividends paid per common stock are based on the weighted average number of common stock shares outstanding during the period.

**Dividends:**

Pursuant to a dividend reversion clause in the Company's Articles of Incorporation, dividends not claimed within one year after the dividend became payable will expire and revert in full ownership to the Company and the Company's obligation to pay such dividend will cease. Any dividend reversions are recorded in equity upon receipt.

**Income taxes:**

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in federal and state income tax returns for the tax returns that remain subject

to examination, generally 3 years after filing. The Company believes that all filing positions are highly certain and that all income tax filing positions and deductions would be sustained upon a taxing jurisdiction's audit. Therefore, no reserve for uncertain tax positions is required. No interest or penalties have been levied against the Company and none are anticipated.

**Treasury Stock - Louisiana Business Corporation Act:**

Effective January 1, 2015, companies incorporated under Louisiana law became subject to the Louisiana Business Corporation Act (which replaced the Louisiana Business Corporation Law). Provisions of the Louisiana Business Corporation Act (“LBCA”) eliminate the concept of treasury stock and provide that shares reacquired by a company are to be treated as authorized but unissued shares. As a result of this change in law, shares previously classified as treasury stock are presented as a reduction to issued shares of common stock, reducing the stated value of common stock and the excess is charged to retained earnings.

#### Recent Accounting Pronouncements:

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, in an effort to reduce the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this amendment to have a material effect on its financial condition and results of operations.

In June 2016, the FASB Issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” and clarifies the objective of the collectability criterion, presentation of taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and how guidance in Topic 606 is retrospectively applied. The amendments do not change the core principle of the guidance in Topic 606. The effective dates are the same as those for Topic 606.

**CKX Lands, Inc.**

**Notes to Financial Statements (continued)**

**Recent Accounting Pronouncements (continued):**

The Company does not expect the adoption of this amendment to have a material effect on its financial condition and results of operations.

On February 24, 2016, the FASB issued ASU No. 2016-02, Leases, requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition and requires application of the new guidance at the beginning of the earliest comparative period presented. The Company does not believe this change will have an impact on its financial position, results of operations and liquidity.

In November 2015, FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This is part of FASB's simplification initiative. This ASU requires changes to the balance sheet classification of deferred taxes, which the Company immediately adopted. These changes simplify the presentation of deferred income taxes by requiring all deferred income tax assets and liabilities to be classified as noncurrent in a classified balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected by these changes. As such, all deferred income tax assets and liabilities were classified as deferred income tax payable on the December 31, 2016 and 2015 Balance Sheets.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)". This update supersedes most of the existing revenue recognition requirements in GAAP and requires (i) an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services and (ii) requires expanded disclosures regarding the nature, amount, timing, and certainty of revenue and cash flows from contracts with customers. The standard will be effective for annual and interim reporting periods beginning after December 15, 2017, with early application not permitted. The standard allows for either full retrospective adoption, meaning the standard is applied to all periods presented in the financial statements, or modified retrospective adoption, meaning the standard is applied only to the most current period presented. The Company does not believe this change will have an impact on its financial position, results of operations and liquidity.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

**CKX Lands, Inc.**

**Notes to Financial Statements (continued)**

Note 2. Oil and Gas Leases

Results of oil and gas leasing activities for the year ending December 31, 2016 and 2015 are as follows:

|                                                                              | 2016      | 2015      |
|------------------------------------------------------------------------------|-----------|-----------|
| Gross revenues                                                               |           |           |
| Royalty interests                                                            | \$488,947 | \$772,212 |
| Lease fees                                                                   | 21,909    | 13,992    |
|                                                                              | 510,856   | 786,204   |
| Production costs                                                             | 47,212    | 70,240    |
| Results before income tax expense                                            | 463,644   | 715,964   |
| Estimated income tax expense                                                 | 97,365    | 286,386   |
| Results of operations from producing activities excluding corporate overhead | \$366,279 | \$429,578 |

There were no major costs, with the exception of severance taxes, incurred in connection the Company's oil and gas leasing activities, which are located entirely within the United States, during the years ended December 31, 2016 and 2015.

Reserve quantities (unaudited):

Reserve information relating to estimated quantities of the Company's interest in proved reserves of natural gas and crude including condensate and natural gas liquids is not available. Such reserves are located entirely within the United States. A schedule indicating such reserve quantities is, therefore, not presented. All oil and gas royalties come from Company owned properties that were developed and produced by producers, unrelated to Company, under oil and gas mineral lease agreements.

Company's royalty and working interests share of oil and gas, exclusive of plant products, produced from leased properties:

2016      2015

|                        |        |        |
|------------------------|--------|--------|
| Net gas produced (MCF) | 48,959 | 50,304 |
| Net oil produced (Bbl) | 8,447  | 11,145 |

### Note 3. Income Taxes

The Company files federal and state income tax returns on a calendar year basis.

The net deferred tax liability in the accompanying balance sheets includes the following components at December 31, 2016 and 2015:

|                          | 2016               | 2015               |
|--------------------------|--------------------|--------------------|
| Deferred tax assets      | \$--               | \$--               |
| Deferred tax liabilities | (298,919)          | (292,767)          |
|                          | <u>\$(298,919)</u> | <u>\$(292,767)</u> |

**CKX Lands, Inc.****Notes to Financial Statements (continued)**

## Note 3. Income Taxes (continued)

Reconciliations between the United States Federal statutory income tax provision, using the statutory rate of 34%, and the Company's provision for income taxes at December 31, 2016 and 2015 are as follows:

|                                                        | 2016     | 2015      |
|--------------------------------------------------------|----------|-----------|
| <u>Income tax on income before extraordinary item:</u> |          |           |
| Tax at statutory rates                                 | \$75,586 | \$229,094 |
| Tax effect of the following:                           |          |           |
| Statutory depletion                                    | (24,936) | (39,383 ) |
| Section 1033 deferred gain                             | --       | (58,090 ) |
| Section 179 deduction                                  | (5,229 ) | --        |
| State income tax                                       | 808      | 10,481    |
| Other                                                  | (744 )   | 335       |
| Income tax on income                                   | \$45,485 | \$142,437 |

Deferred income taxes result from timing differences in the recognition of revenue and expenses for tax and financial statement purposes. The effect of these timing differences at December 31, 2016 and 2015 is as follows:

|                       | 2016        | 2015        |
|-----------------------|-------------|-------------|
| Casualty loss         | \$(121,239) | \$(121,239) |
| Deferred gain         | (171,528)   | (171,528)   |
| Section 179 deduction | (6,152 )    | --          |
|                       | \$(298,919) | \$(292,767) |

## Note 4. Land Purchases and Sales

**Purchases**

During the year ended December 31, 2016, the Company purchased the following 100% interest in approximate acres, land, timber and mineral rights:

| Quarter         | Acres | Louisiana<br>Parish | Timber    | Land        | Mineral<br>Rights<br>% |   |
|-----------------|-------|---------------------|-----------|-------------|------------------------|---|
| 1 <sup>st</sup> | 40    | Beauregard          | \$ 10,000 | \$59,638    | 0.00                   | % |
| 2 <sup>nd</sup> | 129   | Beauregard          | \$34,200  | \$198,874   | 50.00                  | % |
| 3 <sup>rd</sup> | 880   | Calcasieu           | \$408,000 | \$1,532,092 | 50.00                  | % |
| 3 <sup>rd</sup> | 80    | Calcasieu           | \$58,000  | \$74,895    | 100.00                 | % |

During the year ended December 31, 2015, the Company purchased the following 100% interest in approximate acres, land, timber and mineral rights:

| Quarter         | Acres | Louisiana<br>Parish | Timber | Land      | Mineral<br>Rights<br>% |   |
|-----------------|-------|---------------------|--------|-----------|------------------------|---|
| 3 <sup>rd</sup> | 200   | Natchitoches        | \$ --  | \$265,982 | 50.00                  | % |

1031 exchange proceeds of \$187,500, discussed below, were applied to purchase of the 200 acres in Natchitoches parish, Louisiana.

**CKX Lands, Inc.****Notes to Financial Statements (continued)**

## Note 4. Land Purchases and Sales (continued)

**Sales**

During the second quarter of 2015, the Company sold its 1/6<sup>th</sup> interest in approximately 155 acres of land located in Jefferson Davis Parish for \$187,500 and reported a gain of \$170,853. This transaction was structured as a “deferred exchange using a qualified intermediary” pursuant to Paragraph 1031 of the Internal Revenue Code (1031 Exchange) for income tax purposes. Due to the 1031 exchange, the gain of \$170,853 is deferred for income tax purposes. At September 30, 2015, the 1031 exchange was completed and \$187,500 in proceeds were used for the purchase of the 200 acres in Natchitoches Parish, Louisiana discussed above.

## Note 5. Company Operations

The Company’s operations are classified into three principal operating segments that are all located in the United States: oil and gas, surface and timber. The Company’s reportable business segments are strategic business units that offer income from different products. They are managed separately due to the unique aspects of each area.

Following is a summary of segmented operations information for 2016 and 2015:

|                         | 2016      | 2015      |
|-------------------------|-----------|-----------|
| Revenues                |           |           |
| Oil and Gas             | \$510,856 | \$786,204 |
| Timber                  | 125,860   | 52,028    |
| Surface                 | 189,019   | 223,869   |
| Surface – related party | 37,667    | - -       |
| Total                   | 863,402   | 1,062,101 |
| Cost and Expenses       |           |           |
| Oil and Gas             | 47,212    | 70,240    |
| Timber                  | 11,809    | 8,026     |
| Surface                 | 2,552     | 4,330     |
| Total                   | 61,573    | 82,596    |
| Income from Operations  |           |           |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Oil and Gas                                | 463,644    | 715,964    |
| Timber                                     | 114,051    | 44,002     |
| Surface                                    | 224,134    | 219,539    |
| Total                                      | 801,829    | 979,505    |
| Other Income (Expense) before Income Taxes | (579,518 ) | (305,699 ) |
| Income before Income Taxes                 | 222,311    | 673,806    |

Identifiable Assets, net of accumulated depreciation and depletion

|                          |            |            |
|--------------------------|------------|------------|
| Oil and Gas              | --         | --         |
| Timber                   | 2,072,368  | 1,546,088  |
| Surface                  | --         | --         |
| General Corporate Assets | 12,345,956 | 12,610,848 |
| Total                    | 14,418,324 | 14,156,936 |

Capital Expenditures

|                          |           |         |
|--------------------------|-----------|---------|
| Oil and Gas              | --        | --      |
| Timber                   | 528,031   | 21,535  |
| Surface                  | --        | --      |
| General Corporate Assets | 1,879,519 | 265,982 |
| Total                    | 2,407,550 | 287,517 |

**CKX Lands, Inc.****Notes to Financial Statements (continued)**

## Note 5. Company Operations (continued)

|                            | 2016    | 2015    |
|----------------------------|---------|---------|
| Depreciation and Depletion |         |         |
| Oil and Gas                | --      | --      |
| Timber                     | 1,751   | 2,872   |
| Surface                    | --      | --      |
| General Corporate Assets   | 467     | --      |
| Total                      | \$2,218 | \$2,872 |

There are no intersegment sales reported in the accompanying income statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income or loss from operations before income taxes excluding nonrecurring gains and losses on securities held available-for-sale. Income before income tax represents net revenues less costs and expenses less other income and expenses of a general corporate nature. Identifiable assets by segment are those assets used solely in the Company's operations within that segment.

Revenue from customers representing 5% or more of total revenue was:

| Count | 2016      | 2015      |
|-------|-----------|-----------|
| 1     | \$129,529 | \$167,000 |
| 2     | 117,827   | 115,000   |
| 3     | 67,307    | 113,000   |
| 4     | 66,178    | 94,000    |
| 5     | 63,449    | 82,000    |
| 6     | 63,309    | 76,000    |
| 7     | 54,697    | 64,000    |
| 8     | --        | 57,000    |

## Note 6. Line of Credit

The Company has available an unsecured line of credit in the amount of \$3,000,000. The balance on this line of credit was \$-0- at December 31, 2016 and 2015. The line of credit matures on May 13, 2017 and borrowings under the line

will bear interest at 2.75% plus the one month LIBOR rate.

Note 7. Supplementary Income Statement Information

Taxes, other than income taxes, of \$145,245 and \$159,464, were charged to expense during 2016 and 2015, respectively.

Note 8. Contingencies:

There are no material contingencies known to Management. The Company does not participate in off balance sheet arrangements.

Note 9. Concentration of Credit Risk

The Company maintains its cash balances in two financial institutions. The amount on deposit in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000.

**CKX Lands, Inc.**

**Notes to Financial Statements (continued)**

**Note 10. Related Party Transactions**

On October 16, 2016, the Company entered into a memorandum of understanding (“MOU”) with Stream Wetlands Services, LLC (“Stream”). Under the terms of the MOU, Stream paid the Company \$37,667 for a non-exclusive right to evaluate and market certain lands owned by the Company to their client for beneficial use purposes to compensate for wetlands impact. This non-exclusive right terminates in 6 months. If Stream is chosen to perform their client’s project, the Company has agreed to put forth its best efforts to negotiate and enter into a mutually acceptable lease form. Due to the uncertainty of the contract award and project scope, we are unable to estimate the potential financial benefit, if any, to the Company. William Gray Stream, Company Director, is the president of Stream Wetlands Services, LLC.

Office rent of \$4,800, was paid to a company owned by the President in both 2016 and 2015.

During 2016 and 2015, legal expenses of \$5,883 and \$792, respectively, were incurred to the President’s spouse’s law firm.

**Note 11. Disclosures about Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it was practical to estimate that value:

| <u>Class</u>               | <u>Methods and/or Assumptions</u>                                                     |
|----------------------------|---------------------------------------------------------------------------------------|
| Cash and cash equivalents: | Carrying value approximates fair value due to its readily convertible characteristic. |
| Certificate of Deposit:    | Held until maturity and recorded at amortized cost which approximates fair value.     |

The estimated fair value of the Company's financial instruments at December 31, 2016 and 2015 are as follows.

|                          |      |      |
|--------------------------|------|------|
| (Presented in thousands) | 2016 | 2015 |
|--------------------------|------|------|

|                                     | Level | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
|-------------------------------------|-------|-------------------|---------------|-------------------|---------------|
| Financial Assets:                   |       |                   |               |                   |               |
| Cash and cash equivalents           | 1     | \$1,081           | \$1,081       | \$2,767           | \$2,767       |
| Certificate of deposit – short term | 1     | 3,370             | 3,370         | 3,324             | 3,324         |
| Certificate of deposit – long term  | 1     | 720               | 720           | 1,200             | 1,200         |
|                                     |       | \$5,171           | \$5,171       | \$7,291           | \$7,291       |

Note 12. Subsequent Event – Dividend Declaration

On March 23, 2017, the Company declared a dividend of ten (10) cents per common share payable to shareholders of record date as of April 3, 2017 and payment date of April 10, 2017.