

CKX LANDS, INC.

Form 10-K

March 29, 2016

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, 2015

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

70601

Lake Charles, LA

(Zip Code)

(Address of principal executive offices)

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

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

Common Stock with no par value

NYSE MKT

Title of each class

Name of each exchange on which registered

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

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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, 2015 based on the closing price on that date of \$14.53 was \$19,773,862.

The number of shares of the registrant's Common Stock outstanding as of March 29, 2016, was 1,942,495.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement prepared in connection with the 2016 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, 2016, 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 small reporting company under the Securities 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 Securities and Exchange Commission for the registrant's most recent fiscal year. Requests should be sent to Brian Jones, President, CKX Lands, Inc., 1508 Hodges Street, Lake Charles, LA 70601.

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 is not involved in the exploration or production of oil and gas nor does it actively farm its lands.

CKX owns a 100% interest in 6,389 acres and undivided interests ranging from 0.260% to 88.889% in 38,080 acres, including a 16.667% interest in 33,715 acres and a 50.000% interest in 1,775, resulting in an ownership of approximately 13,195 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 74.023% of the Company's total revenues in 2015 and 56.660% in 2014.

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 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 approve the size & location of all oil and gas producing units.

Employees

The Company has three employees, all of whom are part-time. There are two officers, and one clerical person. The Company is subject to no 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 farm or other purposes. During 2015, the Company received approximately 72.210% of its total revenues from the following customers:

| <u>Customer</u> | Revenue Type | % of Total Revenue |
|----------------------------------|--------------|--------------------|
| EOG Resources, Inc. | Oil & Gas | 15.73% |
| Riceland Petroleum Company | Oil & Gas | 10.80% |
| Pintail Oil & Gas LLC | Oil & Gas | 10.60% |
| Midstates Petroleum Company | Oil & Gas | 8.83% |
| Swift Energy Operating, LLC | Oil & Gas | 7.71% |
| Arcadia Operating, LLC | Oil & Gas | 7.15% |
| Cameron Interstate Pipeline, LLC | Surface | 6.02% |
| Kaiser-Francis Oil Company | Oil & Gas | 5.37% |

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 2. PROPERTIES

The Company owns a total of approximately 13,195 net acres all located in Louisiana. The approximate gross and net acres located in each Louisiana parish are presented below.

| <u>Parish</u> | Gross Acres | Net Acres |
|-----------------|----------------|--------------|
| Calcasieu | 16,661 | 4,169 |
| Jefferson Davis | 9,890 | 2,293 |
| Allen | 9,188 | 2,657 |
| Beauregard | 6,277 | 3,374 |
| Cameron | 1,703 | 350 |
| LaFourche | 240 | 40 |
| Natchitoches | 200 | 200 |
| Vermilion | 180 | 30 |
| St. Landry | 80 | 32 |
| Sabine | 50 | 50 |
| Total | 44,469 | 13,195 |

Included in the 13,195 net acres presented above, are approximately 6,389 acres owned 100% by the Company. The approximate acres located in each Louisiana parish of these 100% owned parcels are presented below.

| <u>Parish</u> | Acres |
|-----------------|-------|
| Beauregard | 2,714 |
| Calcasieu | 1,498 |
| Allen | 1,121 |
| Jefferson Davis | 644 |
| Natchitoches | 200 |
| Cameron | 162 |
| Sabine | 50 |
| Total | 6,389 |

Of the total 13,195 net acres owned by CKX, timber land comprises 9,833 acres, 2,225 acres are agricultural land, 943 acres are marsh land and 194 acres are future subdivision land.

The table below shows, for the years ended December 31, 2015 and December 31, 2014, 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 Ended | Year Ended |
|--|---------------|---------------|
| | 12/31/15 | 12/31/14 |
| Net gas produced (MCF) | 55,910 | 46,457 |
| Average gas sales price (per MCF) ⁽¹⁾ | \$ 3.33 | \$ 5.05 |
| Net oil produced (Bbl) ⁽²⁾ | 10,590 | 10,593 |
| Average oil sales price (per Bbl) ^(1,2) | \$ 51.67 | \$ 98.03 |

Notes to above schedule:

(1) Before deduction of severance taxes and other charges.

(2) Excludes plant products.

Item 3. LEGAL PROCEEDINGS

The Company was not involved in any legal proceedings as of December 31, 2015.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the three months ended December 31, 2015.

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 its shareholders. On March 24, 2016, there were approximately 477 stockholders of record. There were no sales of unregistered securities of the Company and no purchases or sales of CKX equity securities during 2015 by the Company. The closing price for the Common Stock was \$10.35 on March 28, 2016. The following table sets forth the high and low sales prices for the Common Stock by quarter during 2015 and 2014.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Common stock price per share 2015 high | 16.60 | 16.75 | 14.10 | 12.30 |
| Low | 14.16 | 14.02 | 10.60 | 9.42 |
| Common stock price per share 2014 high | 16.20 | 16.80 | 17.05 | 16.30 |
| low | 14.26 | 14.58 | 15.42 | 15.40 |

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 Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year Total |
|-------------------------|------------------|-------------------|------------------|-------------------|---------------|
| Cash Dividend per Share | | | | | |
| 2015 | \$ 0.07 | 0.03 | 0.00 | 0.00 | 0.10 |
| 2014 | \$ 0.07 | 0.07 | 0.07 | 0.07 | 0.28 |

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 2015 and 2014, the Company received \$0 and \$11,414, respectively, in dividend reversions.

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.

CKX has small royalty interests in 38 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 0.0034% 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. The Company is constantly looking for additional land to be purchased in southwest Louisiana. Preferably, the Company searches for timberland that has mineral potential.

Results of Operations

Fiscal Year 2015 Compared to Fiscal Year 2014

Total revenues for 2015 were \$1,062,101, a decrease of 59.44% when compared with 2014 revenues of \$2,618,741. Total revenue consists of oil and gas, timber, and surface revenues.

Oil and gas revenues were 74.02% and 56.66% of total revenues for 2015 and 2014, respectively. Oil and gas revenues consist of royalty revenue and lease rental revenue. Oil and gas revenues changed between 2015 and 2014 as follows:

| | 2015 | 2014 | \$ Change | % Change |
|--------------|-----------|-------------|-------------|----------|
| Royalty | \$772,212 | \$1,366,281 | \$(594,069) | (43.48)% |
| Lease Rental | 13,992 | 117,499 | (103,507) | (88.09)% |
| Total | \$786,204 | \$1,483,780 | \$(697,576) | (47.01)% |

**

During 2015, gas production increased by approximately 9,403 MCF, and the average gas sales price per MCF decreased by approximately \$1.72 resulting in a decrease in gas revenue of \$48,455. Revenue from oil production, including plants, decreased by \$545,614. This decrease was due to the net effect of a decrease in the average barrel sales price of \$46.36, not including plants, and a decrease in production of approximately 14 barrels, not including plants, and a decrease in plants revenue of \$53,260.

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

| Field | Bbl Oil | MCF 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 |

Notes to above schedule:

- (1) Before deduction of severance taxes and other charges.
- (2) Excludes plant products.

In 2014, the following four fields produced 77.82% 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 Oil | MCF Gas |
|-----------------------|------------|------------|
| South Bear Head Creek | 5,149 | 3,948 |
| Cowards Gully | 2,061 | 4,602 |
| South Lake Charles | 744 | 7,935 |
| South Gordon | 672 | 4,035 |

Notes to above schedule:

- (1) Before deduction of severance taxes and other charges.
- (2) Excludes plant products.

From review of the limited information provided by the field operators, it appears that 2 new wells went into production during 2015.

In 2015, the Company was a lessor in 2 new mineral leases covering a total of 100.00 gross acres or 16.67 net acres. The new leased acres are located in 2 different parishes.

Timber income decreased by \$646,745 from 2014. The Company actively marketed its timber during 2015, however the market supply was greater than demand and the company did not close any stumpage agreements. Timber revenue in 2015 was earned under a 2014 stumpage agreement which expires in June, 2016 internal maintenance programs for age class timber and storm protection measures.

Surface income decreased by \$212,319 from 2014. Surface income includes income from farm leases, right of way grants, hunting leases and other surface leases. This decrease was primarily due to two right of way agreements executed during 2014 which are not recurring revenue.

Outlook for Fiscal Year 2016

The Company continues to actively search for lands that meet our criteria of timberland with mineral potential. During 2015, the Company purchased 200 acres of timberland and reviewed over 6,000 acres for potential acquisition. With the significant drop in oil and gas prices, the Company anticipates that finding acceptable land at reasonable fair values during 2016 is likely. The Company may consider land purchases outside of southwest Louisiana.

The average price per Bbl and MCF has dropped significantly during 2015 and the prices in the last quarter of 2015 were the lowest for the year. The Company expects oil and gas revenues to continue to be depressed during 2016. Due to these low average prices, the Company anticipates producers will decrease their exploration and production expenditures in 2016. The Company anticipates 2016 oil and gas revenues to be equal to or less than 2015 revenues.

The Company is actively marketing its timber and believes that it will be successful in executing stumpage agreement(s) during 2016. The Company anticipates higher timber revenues in 2016.

The Company believes the potential for increased surface revenue in 2016 is likely due to the economic activity in southwest Louisiana. However, at this time the Company is not able to quantify the increased revenue potential.

Liquidity and Capital Resources

The Company's current assets totaled \$6,201,002 and total liabilities equaled \$347,169 at December 31, 2015. Additional sources of liquidity include the Company's available bank line of credit for \$5,000,000.

In the opinion of management, current cash flow from operations, cash and cash equivalents, investments and the available line of credit are adequate for projected operation and 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 including, without limitation, the information contained under the heading “Outlook for Fiscal Year 2016” in Item 7 of this report. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, 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 below under “Significant Risk Factors” and information contained in the Company’s reports periodically with the SEC.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 2015, average gas prices paid to the Company were 33.98% lower than the average in 2014, and average oil prices, excluding plants, were lower in 2015 than in 2014, by 47.29%. If the average oil and gas prices in 2015 reverted to the 2014 averages, income before income tax would have increased by approximately 79.21%.

Natural Disasters

The Company has approximately 9,833 net acres of timberland (pine and hardwood) in various stages of growth. A typical timber stand will be harvested after 30 to 35 years of growth with some thinning occurring during this time. 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/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 8. FINANCIAL STATEMENTS

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 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
9. 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 officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2015, 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, 2015.

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) in assessing the effectiveness of the Company's ICFR. 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, 2015.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to 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, 2015, the Company's Management followed the COSO Internal Control - Integrated Framework (2013) when assessing the ICFR. During the quarter ending December 31, 2015, there have been no changes in the Company's internal control over financial reporting that has materially affected or is reasonably likely to affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

**Item DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;
10. COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT**

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 | 55 | President, Treasurer and Director |
| Charles D. Viccellio | 82 | 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. |

There are no family relationships between any of our directors, except Mrs. Leach and Mrs. Werner are mother and daughter, 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 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.

**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:

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.

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 |

**XBRL 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.

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 29, 2016.

CKX LANDS, INC.

BY: /s/Brian R. Jones

Name: Brian R. Jones

Title: President and Treasurer

Pursuant to the requirements of the Securities 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, 2016.

/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/Laura A. Leach

Laura A. Leach Director

/s/B. James Reaves, III

B. James Reaves, III 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

13

CKX LANDS, INC.

Table of Contents

| | <u>Page</u> |
|---|-------------|
| REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS | 15-16 |
| FINANCIAL STATEMENTS | |
| Balance Sheets | 17 |
| Statements of Income | 18 |
| Statements of Changes in Stockholders' Equity | 19 |
| Statements of Cash Flows | 20 |
| Notes to Financial Statements | 21-28 |

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

CKX Lands, Inc.

Lake Charles, Louisiana

We have audited the accompanying balance sheet of CKX Lands, Inc. as of December 31, 2015, and the related statements of income, stockholders' equity, and cash flows for the year ended December 31, 2015. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2015, and the results of its operations and its cash flows for the year ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ MaloneBailey, LLP

www.malonebailey.com

Houston, Texas

March 29, 2016

[MCELROY, QUIRK & BURCH LETTERHEAD]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To:

The Board of Directors, and

Stockholders of CKX Lands, Inc.

Lake Charles, Louisiana

We have audited the accompanying balance sheets of CKX Lands, Inc. as of December 31, 2014 and 2013, and the related statements of income, stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2014. CKX Lands, Inc.'s management is responsible for these financial statements. 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CKX Lands, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of

the years in the two year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/McElroy, Quirk & Burch

Lake Charles, Louisiana

March 23, 2015

CKX Lands, Inc.**Balance Sheets****December 31, 2015 and 2014**

| | 2015 | 2014 |
|--|--------------|--------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$2,767,424 | \$5,225,594 |
| Certificates of deposit | 3,324,000 | 1,680,000 |
| Accounts receivable | 64,752 | 146,413 |
| Prepaid expense and other assets | 44,826 | 50,085 |
| Total current assets | 6,201,002 | 7,102,092 |
| Non-current Assets | | |
| Certificates of deposit | 1,200,000 | 240,000 |
| Property and equipment: | | |
| Land | 5,209,846 | 4,957,135 |
| Timber | 1,546,088 | 1,527,425 |
| Building and equipment less accumulated depreciation of \$84,156 and \$90,432, respectively | -- | -- |
| Total property and equipment, net | 6,755,934 | 6,484,560 |
| Total assets | \$14,156,936 | \$13,826,652 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Trade payables and accrued expenses | \$54,402 | \$61,237 |
| Total current liabilities | 54,402 | 61,237 |
| Non-current Liabilities: | | |
| Deferred income tax payable | 292,767 | 224,426 |
| Total liabilities | 347,169 | 285,663 |
| Stockholders' Equity: | | |
| Common stock, no par value: 3,000,000 shares authorized; 1,942,495 and 2,100,000 shares issued, respectively | 59,335 | 72,256 |
| Retained earnings | 13,750,432 | 13,844,249 |
| Less cost of treasury stock (0 and 157,505 shares, respectively) | -- | (375,516) |
| Total stockholders' equity | 13,809,767 | 13,540,989 |
| Total liabilities and stockholders' equity | \$14,156,936 | \$13,826,652 |

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

CKX Lands, Inc.**Statements of Income****Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|-------------|-------------|
| Revenues: | | |
| Oil and gas | \$786,204 | \$1,483,780 |
| Timber | 52,028 | 698,773 |
| Surface | 223,869 | 436,188 |
| Total revenues | 1,062,101 | 2,618,741 |
| Costs, Expenses and (Gains): | | |
| Oil and gas | 70,240 | 97,702 |
| Timber | 8,026 | 84,183 |
| Surface | 4,330 | 1,325 |
| General and administrative | 501,159 | 526,781 |
| Gain on sale of land | (172,352) | (350) |
| Total cost, expenses and (gains) | 411,403 | 709,641 |
| Income from operations | 650,698 | 1,909,100 |
| Other Income: | | |
| Interest income | 23,108 | 16,907 |
| Other income | 23,108 | 16,907 |
| Income before income taxes | 673,806 | 1,926,007 |
| Federal and State Income Taxes: | | |
| Current | 142,437 | 598,524 |
| Deferred | 68,341 | 42,609 |
| Total federal and state income taxes | 210,778 | 641,133 |
| Net income | \$463,028 | \$1,284,874 |
| Per Common Stock , basic and diluted | | |
| Net income | \$0.24 | \$0.66 |
| Dividends | \$0.10 | \$0.28 |
| 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, 2015 and 2014**

| | Total | Retained Earnings | Capital Stock Issued | Treasury Stock |
|---|--------------|----------------------|----------------------------|-------------------|
| December 31, 2013 Balance | \$12,788,600 | \$13,091,860 | \$72,256 | \$(375,516) |
| Net income | 1,284,874 | 1,284,874 | -- | -- |
| Dividends paid | (543,899) | (543,899) | -- | -- |
| Dividends reversion | 11,414 | 11,414 | -- | -- |
| 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 | \$-- |

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

CKX Lands, Inc.**Statements of Cash Flows****Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|---|-------------|-------------|
| Cash Flows from Operating Activities: | | |
| Net income | \$463,028 | \$1,284,874 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Gain from sale of land | (172,352) | (350) |
| Timber depletion | 2,872 | 60,941 |
| Depreciation | -- | 6,241 |
| Deferred income tax expense | 68,341 | 42,608 |
| Change in operating assets and liabilities: | | |
| Decrease in current assets | 86,920 | 60,998 |
| Decrease in current liabilities | (6,835) | (14,951) |
| Net cash provided from operating activities | 441,974 | 1,440,361 |
| Cash Flows from Investing Activities: | | |
| Certificate of deposits: | | |
| Maturity proceeds | 3,084,000 | 3,131,000 |
| Purchase | (5,688,000) | (2,630,000) |
| Timber: | | |
| Purchases | (21,535) | (286,727) |
| Land: | | |
| Proceeds | 185,623 | 350 |
| Purchases and improvements | (265,982) | (425,956) |
| Net cash provided used in investing activities | (2,705,894) | (211,333) |
| Cash Flows from Financing Activities: | | |
| Dividends paid | (194,250) | (543,899) |
| Dividend reversions | -- | 11,414 |
| Net cash used in financing activities | (194,250) | (532,485) |
| Net increase (decrease) in cash and cash equivalents | (2,458,170) | 696,543 |
| Cash and Cash Equivalents: | | |
| Beginning | 5,225,594 | 4,529,051 |
| Ending | \$2,767,424 | \$5,225,594 |

Supplemental Disclosures of Cash Flow Information

Cash payments for:

| | | |
|--------------|-----------|-----------|
| Interest | \$-- | \$-- |
| Income taxes | \$134,576 | \$612,000 |

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.

20

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 2017.

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 2015 and 2014.

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, 2015 and 2014, 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. At this time, the Company does not have any active agreements related to these "other" sources

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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers”. 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.

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

Recent Accounting Pronouncements (continued):

In November 2015, FASB issued 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 in the Deferred income on the December 31, 2015 Balance Sheet. Additionally, no change to the December 31, 2014 Balance Sheet for these changes was necessary.

Note 2. Oil and Gas Leases

Results of oil and gas leasing activities for the year ending December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|--|-----------|-------------|
| Gross revenues | | |
| Royalty interests | \$772,212 | \$1,366,281 |
| Lease Fees | 13,992 | 117,499 |
| | 786,204 | 1,483,780 |
| Production costs | 70,240 | 97,702 |
| Results before income tax expense | 715,964 | 1,386,078 |
| Estimated income tax expense (40%) | 286,386 | 554,431 |
| Results of operations from producing activities excluding corporate overhead | \$429,578 | \$831,647 |

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, 2015 and 2014.

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:

| | 2015 | 2014 |
|------------------------|--------|--------|
| Net gas produced (MCF) | 50,304 | 46,457 |
| Net oil produced (Bbl) | 11,145 | 10,593 |

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

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, 2015 and 2014:

| | 2015 | | 2014 | |
|--------------------------|---------|---------------|---------|---------------|
| | Current | Non-Current | Current | Non-Current |
| Deferred tax assets | \$-- | \$-- | \$-- | \$-- |
| Deferred tax liabilities | -- | (292,767) | -- | (224,426) |
| | \$-- | \$ (292,767) | \$-- | \$ (224,426) |

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, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|-----------|-----------|
| Income tax on income before extraordinary item: | | |
| Tax at statutory rates | \$229,094 | \$654,842 |
| Tax effect of the following: | | |
| Statutory depletion | (39,383) | (69,680) |
| Section 1033 deferred gain | (58,090) | (36,217) |
| State income tax | 10,481 | 49,519 |
| Other | 335 | 60 |
| Income tax on income | \$142,437 | \$598,524 |

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, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|---------------|-------------|-------------|
| Casualty loss | \$(121,239) | \$(121,239) |
| Deferred gain | (171,528) | (103,187) |
| | \$(292,767) | \$(224,426) |

Note 4. 1031 and 1033 Tax Exchanges:

During the third quarter of 2015, the Company purchased approximately 200 acres of land. The purchase included fifty percent of the mineral rights and no merchantable timber value was recorded. The 1031 exchange proceeds of \$187,500, discussed below, were applied to this transaction.

During the second quarter of 2015, the Company sold its 1/6th interest in approximately 155 acres of land located in Jefferson Davis Parish for \$187,500 and reported a gain of \$172,352. 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 \$172,352 is deferred for income tax purposes. The 1031 exchange has been completed and \$187,500 in proceeds was used for the purchase of the 200 acres in Natchitoches Parish discussed above.

During the third quarter of 2014, the Company sold a right of way to a utility company under threat of expropriation for \$106,521 and the gain was \$106,521. This transaction was structured as a “deferred exchange” pursuant to Paragraph 1033 of the Internal Revenue Code (1033 Exchange) for income tax purposes and as such the gain of \$106,521 was deferred for income tax purposes. During September, 2014, the Company purchased 180 acres of timberland located in Jefferson Davis Parish, Louisiana for \$279,828 of which \$63,000 was the value of timber on the land. The land valued at \$216,828 was used as replacement property for the 1033 Exchange deferred gain above. The Company recognized a deferred income tax of \$42,609 on this transaction

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

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 2015 and 2014:

| | 2015 | 2014 |
|--|------------|-------------|
| Revenues | | |
| Oil and Gas | \$786,204 | \$1,483,780 |
| Timber | 52,028 | 698,773 |
| Surface | 223,869 | 436,188 |
| Total | 1,062,101 | 2,618,741 |
| Cost and Expenses | | |
| Oil and Gas | 70,240 | 97,702 |
| Timber | 8,026 | 84,183 |
| Surface | 4,330 | 1,325 |
| Total | 82,596 | 183,210 |
| Income from Operations | | |
| Oil and Gas | 715,964 | 1,386,078 |
| Timber | 44,002 | 614,590 |
| Surface | 219,539 | 434,863 |
| Total | 979,505 | 2,435,531 |
| Other Income (Expense) before Income Taxes | (305,699) | (509,524) |
| Income before Income Taxes | 673,806 | 1,926,007 |
| Identifiable Assets, net of accumulated depreciation and depletion | | |
| Oil and Gas | -- | -- |
| Timber | 1,546,088 | 1,527,425 |
| Surface | -- | -- |
| General Corporate Assets | 12,610,848 | 12,299,227 |
| Total | 14,156,936 | 13,826,652 |
| Capital Expenditures | | |
| Oil and Gas | -- | -- |

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| | | |
|----------------------------|---------|----------|
| Timber | 21,535 | 286,727 |
| Surface | -- | -- |
| General Corporate Assets | 265,982 | 425,956 |
| Total | 287,517 | 712,683 |
| Depreciation and Depletion | | |
| Oil and Gas | -- | -- |
| Timber | 2,872 | 60,941 |
| Surface | -- | -- |
| General Corporate Assets | -- | 6,241 |
| Total | \$2,872 | \$67,182 |

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

Note 5. Company Operations (continued)

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 | 2015 | 2014 |
|-------|-----------|---------|
| 1 | \$167,000 | 680,000 |
| 2 | 115,000 | 624,000 |
| 3 | 113,000 | 173,000 |
| 4 | 94,000 | 173,000 |
| 5 | 82,000 | 160,000 |
| 6 | 76,000 | 138,000 |
| 7 | 64,000 | -- |
| 8 | 57,000 | 116,000 |

Note 6. Line of Credit

The Company has available an unsecured line of credit in the amount of \$5,000,000. The balance on this line of credit was \$-0- at December 31, 2015 and 2014. The line of credit matures on May 15, 2016 and borrowings under the line will bear interest at 2.75% plus the ICE LIBOR rate per annum.

Note 7. Supplementary Income Statement Information

Taxes, other than income taxes, of \$159,464 and \$186,161, were charged to expense during 2015 and 2014, 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.

Note 10. Related Party Transactions

Office rent of \$4,800 and \$4,800, was paid to a company owned by the President in 2015 and 2014, respectively.

During 2015 and 2014, \$792 and \$4,517, respectively, was paid to the President's spouse's law firm.

CKX Lands, Inc.

Notes to Financial Statements (continued)

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, 2015 and 2014 are as follows.

| (Presented in thousands) | Level | 2015 | | 2014 | |
|-------------------------------------|-------|----------------|------------|----------------|------------|
| | | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets: | | | | | |
| Cash and cash equivalents | 1 | \$2,767 | \$2,767 | \$5,226 | \$5,226 |
| Certificate of deposit – short term | 1 | 3,324 | 3,324 | 1,680 | 1,680 |
| Certificate of deposit – long term | 1 | 1,200 | 1,200 | 240 | 240 |
| | | \$7,291 | \$7,291 | \$7,146 | \$7,146 |