DRIVING VALUE

WITH INTEGRATED ASSETS AND EFFICIENT OPERATIONS

DELTIC TIMBER CORPORATION 2016 ANNUAL REPORT

CONTENTS

HIGHLIGHTS

FINANCIAL

(Thousands of dollars, except per-share amounts)

For the Year		**2016**	**2015**	**2014**
Net sales	$	219,363	193,851	227,355
Operating income	$	21,640	11,018	34,396
Net income	$	9,245	2,654	19,662
Earnings per common share	$	0.76	0.21	1.56
Cash flow[1]	$	51,961	37,085	35,152
Capital expenditures	$	44,795	37,805	20,332
Timberland acquisition expenditures	$	1,757	863	118,203

At Year-End				
Adjusted working capital	$	10,180	12,171	13,120
Total assets	$	554,693	539,167	527,132
Total debt	$	240,839	223,753	202,863
Stockholders' equity	$	251,162	253,968	267,641
Common shares outstanding *(thousands)*		12,188	12,384	12,582

OPERATING

Pine sawtimber harvested from fee land *(tons)*		777,182	755,417	622,607
Pine sawtimber sales price *(per ton)*	$	28	27	24
Lumber sales volume *(MBF)*		274,606	261,813	268,462
Lumber sales price *(per MBF)*	$	361	332	383
MDF sales volume *(MSF)*		103,552	94,819	111,945
MDF sales price *(per MSF)*	$	555	561	581
Residential lot sales *(lots)*		130	100	98
Residential lot sales price *(per lot)*	$	81,500	83,500	84,200
Commercial acreage sales *(acres)*		34.0	–	1.7
Commercial acreage sales price *(per acre)*	$	207,000	N/A	500,900

Deltic Timber Corporation is a vertically integrated natural resources company focused on the efficient and environmentally responsible management of its land holdings. The Company owns approximately 530,000 acres of timberland, operates two sawmills and a medium density fiberboard plant, and engages in real estate development. Headquartered in El Dorado, Arkansas, the Company's operations are located primarily in Arkansas and north Louisiana.

[1] Defined as cash flow from operations plus Real Estate Development expenditures

TO OUR SHAREHOLDERS

During 2016, the United States' economy continued its steady recovery. The U.S. housing market also improved, with housing starts approaching 1.2 million units for the year, resulting in demand for sites to build these new homes and the lumber needed to construct them. For the year, Deltic reported net income of $9.2 million and generated $43.6 million in cash flow from its operations.

We are pleased to report another strong year for Deltic Timber. We achieved solid operating and financial performance and continued to grow shareholder value through our vertically integrated assets and efficient operations.

In February 2017, we announced the appointment of John D. Enlow as Deltic's new President and Chief Executive Officer. John is a seasoned executive with more than 25 years of industry experience and we are confident that his expertise and skill set will position Deltic to capitalize on opportunities to increase profitability and further enhance shareholder value.

During 2016, we made opportunistic share repurchases, with total repurchases for the year of 309,739 common shares, representing a return of $17 million to shareholders. In addition, we maintained our quarterly dividend, paying shareholders an additional $4.9 million during the year. Consistent with past practice, we will continue to regularly review the Company's strategic priorities and opportunities to enhance value and drive Deltic's share price beyond the record high that we achieved at the beginning of 2017.

Looking at Deltic's operating environment in 2016, the U.S. housing market improved, with housing starts approaching 1.2 million units for the year. This resulted in demand for sites to build new homes and the lumber needed to construct them. However, following the October 2015 expiration of the Softwood Lumber Agreement between the United States and Canada — which resulted in Canadian exports of softwood lumber to the United States increasing approximately 30 percent from 2015 and reaching a 10-year high — most U.S. lumber producers were not able to benefit significantly from this market opportunity and many struggled to maintain market share. Despite the issues surrounding the lumber market, companies with real estate development operations like Deltic were able to capitalize on the uptick in demand for their properties.

Deltic reported net income for 2016 of $9.2 million, or $.76 per share. Deltic also continued to generate strong cash flow from operations, which totaled $43.6 million for the year. In addition to returning value to shareholders through share repurchases and dividends, we used this cash to reinvest in Deltic's growth and productivity. We invested $44.8 million in Deltic's Manufacturing and Real Estate segments and completed timberland acquisitions totaling $1.8 million. These investments positioned us to take advantage of additional improvement in the housing market, while strategically increasing the Woodlands segment's land base.

The core of Deltic's vertically integrated assets continues to be its valuable timberland holdings. In 2016, the Woodlands segment produced operating income of $18 million, as these operations harvested a Company-record 777 thousand tons of high-quality pine sawtimber that were consumed by Deltic's two strategically located sawmills and processed into the lumber and timbers needed for new homes and other construction projects. In 2016, the Company's timberlands provided approximately 68 percent of the logs needed by Deltic's sawmill operations. Despite increased imports from Canada, area sawmills continued to generate desirable

margins for the lumber they produced and sold. In addition, the price they paid for the raw material stumpage increased only slightly as the average per-ton sales price for sawtimber harvested from the timberlands in 2016 increased four percent to $28 per ton. During the year, we also harvested and sold 508 thousand tons of pine pulpwood, an increase in volume of 29 percent over 2015, as we intensified critical pine plantation thinning activity needed for forest health maintenance.

With demand for wood products improving in the southeastern United States in 2016, our realized lumber sales price increased nearly nine percent compared to last year. Stumpage prices increased slightly during that same time, generating desirable net realizations from sales at our sawmills. As a result, Deltic's Manufacturing segment produced very solid financial results for the year, reporting operating income of $19.2 million, while producing cash flow of $33.7 million. In late 2016, the U.S. Lumber Coalition took action to seek sanctions against Canadian lumber imports that, if successful, would benefit domestic manufacturers and should increase domestic lumber sales volume. This, combined with more-than-sufficient pine sawtimber inventory in the southeastern United States, improves our outlook for domestic lumber producers for the foreseeable future.

The Company's MDF plant produced positive operating income of $1.9 million in 2016, while generating cash flow of $9.4 million. While the plant continued to incur unplanned downtime due to the wear of its original press chains, we were able to make operational improvements throughout 2016. We have continued this improvement in 2017, and we expect to further increase our productivity following the planned replacement of the press chains in the Fall of 2017. This is expected to increase plant uptime and hourly production rates, as well as increase higher margin thin board in our production mix.

Deltic's Real Estate operations achieved outstanding results in 2016. We developed 98 new residential lots in our Chenal Valley and Wildwood Place developments, and sold 130 residential lots by year-end. We also sold three separate sites zoned for commercial real estate development during the year with an average price of $207,000 per acre. As a result, the Real Estate segment reported operating income of $7.4 million and produced cash flow of $15.1 million.

Entering 2017, we continue to focus on driving additional value for our shareholders with our vertically integrated assets and efficient operations. Deltic has a strong foundation in place with operations well-positioned for our team to build on the Company's success.

On behalf of the Board of Directors, we value the input of our shareholders and thank you for your continued support of our efforts.

Robert C. Nolan, Chairman

D. Mark Leland, President and Interim Chief Executive Officer

WOODLANDS

- Harvested 777,182 tons of pine sawtimber, an increase of 3 percent over 2015
- Harvested 508,482 tons of pine pulpwood, 29 percent more than in 2015
- Continued to manage timber harvests in compliance with Sustainable Forestry Initiatives standards, while also adhering to the Company's sustainable-yield strategy
- Replanted 13,803 acres of previously harvested timberlands with genetically improved pine seedlings

REAL ESTATE

- Sold 130 residential lots, a 30 percent increase from 2015
- Sold three commercial sites in the Company's Chenal Valley development that totaled 33.95 acres
- Developed 131 residential lots in Chenal Valley and Wildwood Place
- Continued widening Rahling Road in the Chenal Valley development, enhancing the value of acreage zoned for commercial use along the expansion route

MANUFACTURING

- Sold 274.6 million board feet of lumber, an increase of 4.9 percent from 2015
- Realized an increase of 8.7 percent in the average sales price of lumber sold over 2015
- Achieved positive financial results for the Company's MDF operations due to improved operating performance
- Completed installation of the new small-log line at the Ola Mill, allowing the conversion of pine chip-n-saw and pulpwood into dimension lumber and timbers in order to realize additional value from these timber products

CORPORATE

- Generated net income of $9.2 million and $43.6 million of cash flow
- Reached all-time high for price of Deltic's common stock
- Repurchased 309,739 shares of the Company's common stock, or 2.5 percent of shares outstanding
- Retired a $40 million private-placement note and reduced the weighted average interest rate on debt outstanding
- Realized a $1.3 million income tax benefit from the capital gain treatment of income from timber harvesting due to the one-year renewal of the TREE Act

FINANCIAL REVIEW

Selected Financial Information

(Thousands of dollars, except per-share amounts)	2016	2015	2014	2013	2012
Results of Operations for the Year					
Net sales	$ 219,363	193,851	227,355	199,702	140,908
Operating income	$ 21,640	11,018	34,396	35,663	17,132
Net income	$ 9,245	2,654	19,662	26,192	9,235
Comprehensive income/(loss)	$ 11,286	2,471	10,930	37,616	4,861
Earnings per common share					
Basic	$ 0.76	0.21	1.56	2.06	0.73
Assuming dilution	$ 0.76	0.21	1.55	2.05	0.73
Cash dividends declared per common share	$ 0.40	0.40	0.40	0.40	0.30
Net cash provided/(required) by					
Operating activities	$ 43,593	29,661	31,527	42,142	24,082
Investing activities	$ (41,310)	(27,882)	(132,299)	(33,792)	(16,835)
Financing activities	$ (1,939)	889	99,159	(9,589)	(4,925)
Percentage return on					
Average stockholders' equity	3.8	1.0	7.3	10.6	4.0
Average borrowed and invested capital	4.3	2.1	5.5	9.2	4.6
Average total assets	1.7	0.5	3.9	6.6	2.7
Capital Expenditures for the Year					
Woodlands	$ 3,828	3,667	4,038	3,836	4,026
Manufacturing	32,340	24,363	12,311	16,532	2,478
Real Estate	8,479	8,071	3,934	4,267	2,996
Corporate	148	1,704	49	14	7
	$ 44,795	37,805	20,332	24,649	9,507
Timberland Acquisition Expenditures for the Year	$ 1,757	863	118,203	8,919	14,527
Financial Condition at Year End					
Adjusted working capital[1]	$ 10,180	12,171	13,120	5,484	5,566
Adjusted current ratio	1.51 to 1	1.66 to 1	1.81 to 1	1.25 to 1	1.43 to 1
Total assets	$ 554,693	539,167	527,132	441,145	352,952
Total debt	$ 240,839	223,753	202,863	89,801	62,743
Stockholders' equity	$ 251,162	253,968	267,641	266,272	232,230
Debt to stockholders' equity	.959 to 1	.881 to 1	.758 to 1	.338 to 1	.271 to 1

[1] Defined as the net of current assets less current liabilities excluding current maturities of long-term debt

STATISTICAL SUMMARY

Selected Statistical Data

	2016	2015	2014	2013	2012
Operating					
Acres owned[1]					
Woodlands	530,400	529,500	530,000	458,600	453,200
Real Estate	5,400	5,600	5,600	5,600	5,600
Woodlands					
Estimated standing pine timber inventories[1]					
Sawtimber *(tons)*	14,839,761	15,057,100	15,061,900	13,038,100	12,836,800
Pulpwood *(tons)*	6,025,813	5,727,200	5,491,400	4,906,300	4,631,900
Company-owned pine timber harvested[2]					
Sawtimber *(tons)*	777,182	755,417	622,607	605,361	606,879
Average sales price *(per ton)*	$ 28	27	24	22	22
Pulpwood *(tons)*	508,482	394,165	391,434	340,083	474,834
Average sales price *(per ton)*	$ 8	9	8	8	8
Timberland sales					
Acres sold	9	763	472	1,677	1,776
Average sales price *(per acre)*	$ 4,426	1,525	2,300	1,500	1,600
Manufacturing					
Annual production capacity					
Lumber *(MBF)*	450,000	450,000	450,000	390,000	390,000
MDF *(MSF)*	150,000	150,000	150,000	150,000	150,000
Annual production volume					
Lumber *(MBF)*	274,182	258,908	267,598	259,251	271,177
MDF *(MSF)*	104,138	92,516	113,684	112,731	119,891
Annual sales volume					
Lumber *(MBF)*	274,606	261,813	268,462	261,108	272,875
MDF *(MSF)*	103,552	94,819	111,945	107,698	120,108
Average sales price					
Lumber *(per MBF)*	$ 361	332	383	384	309
MDF *(per MSF)*	$ 555	561	581	578	523
Unit margin					
Lumber *(per MBF)*	$ 69	49	118	136	66
MDF *(per MSF)*	$ 1	(46)	13	47	10
Real Estate					
Residential lots sold	130	100	98	65	50
Average sales price *(per lot)*	$ 81,500	83,500	84,200	76,000	69,600
Commercial acres sold	34.0	–	1.7	–	–
Average sales price *(per acre)*	$ 207,000	N/A	500,900	N/A	N/A
Stockholder and Employee Data[1]					
Common shares outstanding *(thousands)*	12,188	12,384	12,582	12,679	12,672
Number of stockholders of record	701	746	788	829	871
Number of employees	547	537	542	538	432

[1] At December 31
[2] Includes intersegment transfers at market prices

BOARD OF DIRECTORS

Robert C. Nolan (1)
Chairman
Deltic Timber Corporation
El Dorado, AR / Director since 1996

Randolph C. Coley (2) (3)
Retired Partner
King & Spalding, LLP
Atlanta, GA / Director since 2007

The Very Reverend Doctor Christoph Keller, III (3) (4)
Episcopal Priest
Little Rock, AR / Director since 1996

R. Madison Murphy (1) (3) (4)
Managing Member
Murphy Family Management, LLC
El Dorado, AR / Director since 1996

J. Thurston Roach (1) (2) (3)
Retired Executive and Private Investor
Seattle, WA / Director since 2000

Robert Tudor, III (4)
Managing Partner
Tudor, Pickering, Holt & Company
Houston, TX / Director since 2007

D. Mark Leland
Interim President and Chief Executive Officer
Deltic Timber Corporation
Houston, TX / Director since 2016

Bert H. Jones (3) (4)
Owner and President
Mid-States Wood Preservers, LLC
Simsboro, LA / Director since 2015

David L. Lemmon (2) (4)
President and Chief Executive Officer, Retired
Colonial Pipeline
Las Vegas, NV / Director since 2007

R. Hunter Pierson, Jr. (2) (4)
Private Investor
Timberland, commercial real estate, and securities
New Orleans, LA / Director since 1999

Lenore M. Sullivan (2) (4)
Retired Managing Director
Texas Women Ventures Capital Management
Dallas, TX / Director since 2015

Committees of the Board

(1) Member of the Executive Committee
Chaired by Mr. Nolan

(2) Member of the Audit Committee
Chaired by Mr. Roach

(3) Member of the Nominating and Corporate Governance Committee
Chaired by Reverend Keller

(4) Member of the Executive Compensation Committee
Chaired by Mr. Murphy

COMPANY OFFICERS

D. Mark Leland
Interim President and Chief Executive Officer
Officer since 2016

Byrom L. Walker
Interim Vice President, Treasurer, and Chief Financial Officer
Controller
Officer since 2007

Jim F. Andrews, Jr.
Vice President, General Counsel, and Secretary
Officer since 2010

Kent L. Streeter
Vice President, Operations
Officer since 2003

David V. Meghreblian
Vice President, Real Estate
Officer since 2000

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

FORM 10-K

(Mark One)

[**X**] 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

Commission file number **1-12147**

DELTIC TIMBER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	71-0795870 (I.R.S. Employer Identification Number)
210 East Elm Street, P. O. Box 7200, El Dorado, Arkansas (Address of principal executive offices)	71731-7200 (Zip Code)

Registrant's telephone number, including area code: (870) 881-9400

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 Par Value	New York Stock Exchange, Inc.
Series A Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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 X

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

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 X No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date 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 for such shorter period that the registrant was required to submit and post such files). Yes X 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. **[x]**

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	X
Non-accelerated filer	___ (Do not check if a small reporting company)	Smaller reporting company	__

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing price of the Common Stock on the New York Stock Exchange as of June 30, 2016, was $292,588,253. For purposes of this computation, all officers, directors, and 5% beneficial owners of the registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors, officers, or 5% beneficial owners are, in fact, affiliates of the registrant.

Number of shares of Common Stock, $.01 Par Value, outstanding at February 15, 2017, was 12,187,315.

Documents incorporated by reference:

The Registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders on April 27, 2017.

TABLE OF CONTENTS - 2016 FORM 10-K REPORT

PART I

Item 1. Business

Introduction

Deltic Timber Corporation ("Deltic" or the "Company") is a vertically integrated natural resources company engaged primarily in the growing and harvesting of timber and the manufacture and marketing of lumber and medium density fiberboard ("MDF"). Deltic owns approximately 530,000 acres of timberland, mainly in Arkansas and north Louisiana, stocked principally with Southern Pine, known in the industry as a type of "softwood." The Company operates two lumber sawmills and one MDF plant, all located in Arkansas near the Company's timberlands. In addition to its timber, lumber, and MDF operations, the Company is engaged in real estate development in central Arkansas.

The Company is organized into four segments: (1) Woodlands, which manages all aspects of the Company's timberlands, including the harvest and sale of timber, the sales and acquisitions of timberland, the leasing of oil and gas mineral rights, royalty payments, timberland management and the leasing of hunting land; (2) Manufacturing, which consists of Deltic's two sawmills that manufacture a variety of softwood lumber products and the Del-Tin Fiber plant that produces MDF; (3) Real Estate, which includes the Company's four real estate developments and a related country club operation; and (4) Corporate, which consists of executive management and the staff functions of accounting, legal, information systems, human resources, purchasing, treasury, and income tax that provide support services to the operating business units. The Company does not allocate the cost of maintaining these support functions to its operating units. Information concerning net sales, operating income, and identifiable assets attributable to each of the Company's business segments is set forth in Part II of this report in Item 7, "Management's Discussion and Analysis," and Item 8, "Financial Statements and Supplementary Data," Note 21, "Business Segments," to the consolidated financial statements. Deltic is a calendar-year company for both financial and income tax reporting.

Forest Products Industry

Deltic is primarily a forest and wood products producer operating in a commodity-based business environment, with a diversification in real estate development. This environment is affected by a number of factors, including general economic conditions, housing starts, U.S. employment levels, interest rates, credit availability and associated costs, imports and exports of lumber and MDF, foreign exchange rates, inventories of new and existing homes, residential and commercial real estate foreclosures, residential and commercial repair and remodeling, residential and commercial construction, industry capacity and production levels of lumber producers, the availability of raw materials, natural gas pricing, utility costs, fuel costs, availability of contractors to harvest and thin timber, and weather conditions. The recovery of the housing market in the United States continued during 2016, with the number of housing starts increasing modestly during the year. Favorable construction conditions throughout much of the United States resulted in increased demand and supported higher average sales prices for Deltic's lumber. It is expected that the historically volatile nature of the building product markets will continue to affect future demand and prices. Meanwhile, sawtimber prices have generally been more stable and typically experience a lag in timing of price changes when compared to lumber markets. The main items influencing pine sawtimber prices in Deltic's operating area are demand from local mills and weather conditions. The demand in this region could increase in future years as sawmills increase capacity and production hours in anticipation of a full recovery for housing.

The southern U.S., in which all the Company's operations are located, is a major timber and lumber producing region. There are an estimated 215 million acres of forestland in the region, of which approximately 39 percent is currently growing softwood. Unlike other major timber-producing areas in North America, most of this acreage is privately held. The estimated breakdown of ownership of timberland in the southern U.S. is 88 percent private, 6 percent national forest, and 6 percent other public. Although there can be no assurance, management anticipates that the southern U.S. timber resource will be subject to strong demand for the foreseeable future and also believes that the South will have a strategic advantage over other U.S. timber-producing regions due to regulations, geography, and other factors.

Woodlands

The Company owns approximately 530,000 acres of timberland, primarily in Arkansas and north Louisiana. Management considers these timberlands to be Deltic's most valuable asset and the harvest of Company-owned stumpage to be a stable source of income. The Company follows Sustainable Forestry Initiative ("SFI") Standards that promote sustainable forest management in North America through the use of core principles, objectives, performance measures and indicators to protect water quality, biodiversity, wildlife habitat, species at risk, and forests which have exceptional conservation value. The timberlands are actively managed to maximize their long-term value and increase productivity through responsible harvest plans, a commitment to reforestation, careful road construction, and other best management practices. The timber harvested from Company timberlands is either converted to lumber in the Company's sawmills or sold in the domestic market. The Woodlands' fee timber that is supplied to the Company's sawmills is transferred at prices that approximate market in the sawmills' operating area. Deltic's strategy for growth includes the acquisition of additional timberland suitable for growing pine sawtimber in its current operating regions. This timberland management strategy also includes the identification of non-strategic timberland acres and higher and better use lands for possible sale. Timberland ownership also provides ancillary value through oil and gas lease rentals and royalties and recreational hunting land leases.

The estimated breakdown of the Company's timberland acreage at year-end 2016 consisted of the following:

	Acres
Pine plantation	344,400
Pine forest	121,100
Hardwood forest	7,900
Other	57,000
Total	530,400

The Company's timberlands are well diversified by age class. Pine plantations are primarily less than 30 years old, with the majority ranging in age from 5 to 25 years. The timberland classified as pine forest are primarily stands of natural pine and contains mature timber that is ready to be harvested over the next several years and includes streamside-management zones. At the approximate age of 20 years, pine plantations begin transitioning from pine pulpwood to pine sawtimber.

Timber Inventory. The Company's estimated pine sawtimber inventory is calculated for each tract by utilizing growth formulas based on representative sample tracts and tree counts for various diameter classifications. The calculation of pine inventory is subject to periodic adjustments based on sample cruises and actual volumes harvested. The hardwood inventory shown in the following table is an approximation; therefore, the physical quantity of such timber may vary significantly from this approximation.

Estimated inventory of standing timber as of December 31, 2016, consisted of the following:

	Estimated Volume (Tons)
Pine timber	
Sawtimber	14,840,000
Pulpwood	6,026,000
Hardwood timber	
Sawtimber	1,429,000
Pulpwood	808,000

The Company's annual harvest of pine sawtimber over the last several years has been used primarily by the sawmills of the Manufacturing segment, but at times it may be sold to third parties. Products that can be manufactured from this resource include dimension lumber, boards, and timbers, which are used mainly in residential construction. Deltic's hardwood sawtimber is sold to third parties and is primarily used in the production of railroad ties, flooring, and pallets. Logs with a diameter of less than nine inches are considered to be pulpwood. Harvests of both pine and hardwood pulpwood are sold to third parties for use primarily in the manufacture of paper products.

Timber Growth. Timber growth rate is an important variable for forest products companies since it ultimately determines how much timber can be harvested on a sustainable basis. A higher growth rate permits larger annual harvests as replacement timber regenerates. Growth rates vary depending on species, location, age, and forestry management practices. The growth rate, net of mortality, for Deltic's Southern Pine timber averages five to six percent of standing inventory per annum. The Company considers a 30 to 35 year rotation optimal for most of its pine plantations.

Timberland Management. Forestry practices vary by geographic region and depend on factors such as soil productivity, weather, terrain, and the species, size, age, and stocking of timber. The Company actively manages its timberlands based on these factors and other relevant information to increase productivity and maximize the long-term value of its timber assets. In general, the Company's timberland management involves select harvesting and thinning operations, reforestation, cull timber removal programs, and the introduction of genetically improved seedlings.

Deltic developed and currently operates its own seed orchard. Seeds from the orchard are grown by third parties to produce genetically improved seedlings for planting. These seedlings are developed through selective cross-pollination to produce trees with preferred characteristics, such as higher growth rates, fewer limbs, straighter trunks, and greater resistance to disease. However, this process does not involve genetic engineering. The seedlings are used when a site is completely replanted, as in the case of a final harvest of a mature stand. Primarily using seedlings grown from seeds produced at the orchard facility, the Company planted 13,803 acres in 2016, 15,267 acres in 2015, and 14,182 acres in 2014. In addition, the Company also replants part or all of any recently planted pine plantation acreage where there has been a high mortality rate. The Company meets or exceeds, in all material respects, the reforestation recommendations of the Arkansas Forestry Commission's Best Management Practices. In addition, the Company has been certified under the SFI program with regards to its timberland management practices.

The Company's silviculture program is designed to control undesirable, competitive vegetation in its forests and to increase pine growth rates and reproduction. The number of acres treated by Deltic under this program were 10,268, 12,133, and 8,106 in 2016, 2015, and 2014, respectively. In addition, the Company actively utilizes commercial thinning practices. Commercial thinning operations consist of the selective removal of trees within a stand, usually a plantation, to improve overall timber productivity and value by enhancing the growth of the remaining trees while generating revenues from the harvest.

Harvest Plans. Management views the timberlands as an asset with substantial inherent value beyond supplying its sawmills. The Company intends to continue to manage the timberlands on a sustainable-yield basis that permits regeneration of the timberlands over time and has no plans to harvest timber on an ongoing basis at levels that would diminish its timber inventory. In 2016, the Company harvested 777,182 tons of pine sawtimber from its timberlands. Under the current plan, Deltic intends to harvest up to 775,000 tons of pine sawtimber in 2017. The Company's harvest plans are generally designed to project multi-year harvest schedules and are updated at least annually. Harvest plans are reviewed on a monthly basis to monitor performance and to make any necessary modifications to the plans in response to changing forestry conditions, market conditions, contractual obligations, regulatory limitations, weather conditions, and other relevant factors. Harvest plans can be affected by the projections of demand, price, availability of timber from other sources, and other factors that may be outside of the Company's control; therefore, actual harvesting levels may vary. Management believes that the Company's harvest plans are sufficiently flexible to permit modification in response to fluctuations in the markets for logs and lumber.

Access. Substantially all of the timberlands are accessible by a system of low impact and low maintenance roads. Deltic generally uses third-party contractors to conduct construction and maintenance of these roads. In addition, the Company buys, sells, and exchanges access easements and cooperates with other area forest products companies, private landowners, and the U.S. Forest Service, as needed.

Wildlife Management. Deltic actively leases Company lands for recreational hunting purposes. As such, it monitors wildlife resources on Company property. The Company complies with the U.S. Endangered Species Act and strives to provide, maintain, and/or enhance habitats for all species with special biological or ecological concerns. The Company employs a wildlife biologist to manage these resources. For the years ended 2016, 2015, and 2014, the Company had hunting lease revenues totaling $3,122,000, $3,031,000, and $2,685,000, respectively. The Company leased the hunting rights on approximately 501,982, 505,000, and 517,000 acres in 2016, 2015, and 2014, respectively.

Client-Land Management. In addition to managing its own timberlands, Deltic also manages timberlands owned by others under management contracts with one-year renewable terms. This program provided harvest planning, silvicultural improvements, and maintenance work for approximately 74,849 acres in 2016.

Timberland Acquisitions. The Company has an ongoing program to acquire additional timberland suited for growing pine sawtimber in its current operating area. These acquisitions are designed to enable the Company to expand its timber inventory which will allow the Company to increase the annual harvest and could be used to maintain or increase the volume of logs supplied to its sawmills from its own timberlands when economically feasible.

Timberlands considered for purchase are evaluated based on the proximity to mills, site index, timber stocking, and growth potential and may include tracts that range from cutover to fully-stocked. Approximately 237,500 acres of strategically located pine timberlands have been added since the 1996 inception of the acquisition program. Individual land purchases have ranged in size from 3 acres to 41,400 acres. The Company intends to continue to focus its acquisition program on timberlands in its current geographic area. Unlike other timber-producing areas of North America, most of the timberland in the southern U.S. is privately held, making it potentially available for acquisition. There can be no assurance that timber properties suitable for acquisition will be identified by the Company or that, once identified, such properties will ultimately be acquired by the Company.

Land Sales. In 1999, the Company initiated a program to identify for possible sale non-strategic timberlands and higher and better use lands. Approximately 46,000 acres of non-strategic timberlands have been sold since 1999.

Oil and Gas Revenues. Timberland ownership also provides ancillary value through oil and gas lease rentals and royalties. The Company receives oil and gas lease rental revenues when it agrees to grant certain mineral rights to third parties for periods that generally range from three to five years. Once production begins on leased mineral acres, oil and gas royalty income payments are received. Deltic earned oil and gas lease rental revenues of $358,000, $780,000, and $1,662,000, in 2016, 2015, and

2014, respectively, on related leased acres of 8,400, 8,100, and 22,000, respectively. For the years ended 2016, 2015, and 2014, the Company recorded revenues of $1,750,000, $3,118,000, and $4,872,000, respectively from oil and gas royalties. Severance taxes deducted from oil and gas royalty revenues were $530,000, $537,000, and $607,000, in 2016, 2015, and 2014, respectively. The total of all net oil and gas operating income as a percentage of the Woodlands operating income was 8 percent, 17 percent, and 31 percent, in 2016, 2015, and 2014, respectively.

Manufacturing

Deltic owns and operates two sawmills and one MDF plant. The Company's sawmills are located at Ola in central Arkansas (the "Ola Mill") and at Waldo in south Arkansas (the "Waldo Mill"). Each mill is strategically located near significant portions of the Company's timberlands, which provide a stable source of raw material stumpage for use in the manufacture of dimension lumber, boards, and timbers. These lumber products are sold primarily to wholesale distributors, lumber treaters, large retailers, industrial accounts, and truss manufacturers in the South and Midwest and are used mainly in residential construction, roof trusses, remanufactured products, and laminated beams. The mills employ modern technology in order to improve efficiency, reduce labor costs, maximize utilization of the timber resource, and maintain high quality standards of production with safety being one of the highest priorities. Logs processed into lumber are obtained from the Company's timberlands and from public and private landowners. The Company selects logs for processing in its mills based on size, grade, and the prevailing market price. The Ola Mill is equipped for maximum utilization of smaller diameter logs, while the Waldo Mill can process both smaller and larger diameter logs.

Combined annual permitted capacity of the two mills at December 31, 2016, was 450 million board feet ("MMBF"). The Company's lumber output increased to 274 MMBF in 2016 compared to 259 MMBF in 2015, as production was increased to match market demand. Adapting production levels to demand, improving mill efficiencies, and controlling manufacturing costs remain as key strategies for managing the current cycle of the lumber market.

Deltic's MDF plant is located at El Dorado, Arkansas, near the Waldo Mill, and it manufactures and markets MDF under the trade name of Solidium. Construction of the plant was completed, and initial production began, in 1998. Deltic formerly owned 50 percent of this plant as a joint venture and has owned 100 percent of the plant since April 1, 2013. The plant's rated annual production capacity is 150 million square feet ("MMSF"), on a ¾-inch basis, of MDF. The plant's production of MDF was 104 MMSF in 2016, 93 MMSF in 2015, and 114 MMSF in 2014. The volume of MDF produced in 2015 was reduced due to the downtime caused by a fire in the press area in March 2015.

MDF is used primarily in furniture, kitchen cabinets, laminate flooring, store fixtures, door parts, and molding and is sold mostly to industrial distributors, wholesalers, retailers, and manufacturers. MDF is manufactured from sawmill residuals such as chips, shavings, and sawdust which are combined with an adhesive bond and are joined together under heat and pressure. Although the technology has existed for decades, continued improvements in the manufacture of MDF have increased both the quality and market acceptance of the product. MDF, with its real-wood appearance and the ability to be finely milled and to accept a variety of finishes, competes primarily with plywood and lumber.

The MDF plant provides an additional outlet for wood chip production from the Company's mills, primarily the Waldo Mill. The Company expects to continue to transfer a significant portion of its Waldo Mill's residual wood shavings and chip production to the MDF plant. During 2016, 2015, and 2014, Deltic sold approximately $6,255,000, $4,699,000, and $5,215,000, respectively of these lumber manufacturing by-products to the MDF plant at approximate market value.

Capital Projects. Deltic has invested capital in its sawmills in recent years in order to increase production capacity and efficiency, decrease costs, improve safety, and expand their product mix. Major capital projects completed at the Ola Mill over the past several years include: (1) installation of small-log line; (2) kiln replacement and conversions of some existing kilns to continuous feed; and (3) installation of second edger.

At the Waldo Mill, major capital projects over the past several years include: (1) conversion of kilns to continuous feed; and (2) modifications to boilers.

At the MDF plant, major capital projects included: (1) rebuild of face refiner; (2) replacement of heat energy refractory; and (3) replacement of press belts.

Raw Materials. In 2016, the Company's two sawmills processed 1,191,880 tons of logs, either harvested from its timberlands or purchased from private landowners and the U.S. Forest Service. Essentially all of the Woodlands segment's harvest of pine sawtimber was transferred to the mills and provided 68 percent of the sawmills' total raw material requirements.

Various factors, including environmental and endangered species concerns, have limited, and will likely continue to limit, the amount of timber offered for sale by the U.S. Forest Service. Because of this reduced availability of federal timber for harvesting, the Company believes that its supply of timber from its timberlands is a significant competitive advantage. Deltic has historically supplied a significant portion of the timber processed in the sawmills from its timberlands.

In order to operate its sawmills economically, the Company relies on purchases of timber from third parties to supplement timber harvests from its own timberlands. The Company has an active timber procurement function for each of its sawmills. As of December 31, 2016, the Company had under contract 197,599 tons of timber on land owned by other parties, including the U.S. Forest Service, which is expected to be harvested over the next three years. During 2016, the Company harvested third-party stumpage and purchased logs from third parties totaling 396,892 tons. Of this volume, purchases from the U.S. Forest Service represented eight percent. The balance of such purchased volume was acquired from private lands.

There is a substantial amount of privately owned pine timber acreage in proximity to each of Deltic's sawmills; therefore, the sources of private timber are many and diverse. As additional sawmills in the area come into production, the demand will likely increase and may lead to higher stumpage prices. The key factors in a landowner's determination of whether to sell timber to the Company are price, the Company's relationships with logging contractors, and the ability of the Company to demonstrate the quality of its logging practices to landowners. Typically, a landowner will be more likely to sell timber to a forest products company whose own land has been responsibly managed and harvested.

The MDF plant uses wood chips and shavings from Deltic's sawmills as well as from other area lumber producers. The plant used 276,234 tons of fiber in 2016 of which 153,501 tons, or 56 percent, was provided by the sawmills. Other raw materials used by the plant include resins and wax. The sources, availability, and pricing of these materials are considered reliable.

Residual Wood Products. The Company pursues waste minimization practices at both of its sawmills and seeks to sell all marketable by-products. Wood chips and shavings are usually sold to paper mills, particle board mills, or transferred to the MDF plant, and bark is frequently sold for use as fuel. Bark, sawdust, shavings, and wood chips that cannot be sold are used as fuel to fire the boilers that heat the drying kilns. The Company expects to continue to use a significant portion of its Waldo Mill's residual wood shavings and chip production at the MDF plant.

Transportation. Each mill facility and the MDF plant have the capability to ship lumber and MDF products by truck or rail.

Cyclical Market. While the cyclicality of the lumber market may occasionally require the interruption or reduction of operations at one or both of the Company's sawmills and MDF plant, suspension of manufacturing activities is unusual. Management is not currently anticipating any interruption of operations at any of Deltic's manufacturing facilities, but no assurance can be given that market conditions or other factors will not render such an action economically advisable in the future.

Real Estate

The Company’s real estate operations were initiated to add value to former timberland which is strategically located in the growth corridor of west Little Rock, Arkansas. Development activities began in 1985 with the construction of Chenal Ridge, the initial, 85-lot neighborhood in Chenal Valley on the western edge of the Little Rock city limits. Since that time, the Company has been developing the remainder of Chenal Valley, a premier upscale planned community, with approximately 4,300 acres of residential and commercial properties centered around a country club with two championship golf courses designed by Robert Trent Jones, Jr. The property has been developed in stages, and real estate sales to-date have consisted primarily of residential lots sold to builders or individuals and commercial acreage sold to area businesses or developers. All developed acreage in Chenal Valley has been annexed by the City of Little Rock. In 2014, Wildwood Place, a small-lot development located near Chenal Valley consisting of approximately 100 acres, was opened for development. Outside of Chenal Valley, Deltic created Chenal Downs, a 400-acre equestrian themed residential development with controlled access, featuring secluded five-acre lots, located just outside the Little Rock city limits. Red Oak Ridge, Deltic’s first development outside the Little Rock area, is located in Hot Springs, Arkansas and is an 800-acre upscale community being developed for residential, resort, or retirement living, that has been annexed by that city.

Residential Development. Residential lots were first offered for sale in Chenal Valley during the second half of 1986 with closings beginning in 1987. As of December 31, 2016, 2,980 lots have been developed in 37 neighborhoods, and 2,903 lots have been sold, with about 2,788 residences constructed or under construction. When fully developed, Chenal Valley could include approximately 4,600 single-family residences. However, the actual number of residences in Chenal Valley will depend on final land usages and lot densities. The Company has developed lots in a wide variety of market segments. Lot size has ranged from 0.2 acres to 2.25 acres, and the lot sales price over the life of the development has ranged from $25,000 per lot to over $335,000 per lot. Residential lots in Wildwood Place, Deltic’s new development located near Chenal Valley, were offered beginning in 2014 and all were sold as of December 31, 2016, with addition lot development plans for 2017 and 2018.

The first phase of Chenal Downs was opened in December 1997, followed by a second phase in November 2000. By the end of 2016, 66 of the 76 developed lots were sold. Lot prices in Chenal Downs range from $89,000 to approximately $187,000. In Red Oak Ridge, the first two neighborhoods were offered for sale in 1998, with a third neighborhood offered in late 2005. Many of these lots overlook one of two private lakes. These neighborhoods offer a choice of either estate-sized home sites or garden-home sized lots. As of the end of 2016, 96 of the 135 lots offered have been sold, with prices ranging from $30,000 per lot to $195,000 per lot.

Commercial Development. Commercial development activity to-date has consisted of the sale of approximately 426 acres, including approximately 33.9 acres in 2016 and 2 acres in 2014, while there were no commercial acreage sales in 2015. Commercial property sales have consisted of retail store locations, an office building constructed by the Company on a nine-acre site, multi-family residence sites, convenience store locations, a bank office building site, a site for a 38-acre open-air shopping center, a 37-acre site for a medical center, and outparcels surrounding a retail center constructed and owned by the Company. Under current development plans, Chenal Valley will include approximately 826 acres of commercial development when fully completed.

In 1998 construction was completed on the initial section of Rahling Road, a major connector street to Chenal Parkway, and it provided greater access to Chenal Valley’s commercial acreage. Located at the center of this commercial property is a Company-owned 35,000-square-foot retail center. The retail center was completed in early 2000 and offers retail and office space for lease. The center is surrounded by 17 outparcels, ranging in size from 0.2 to 1.8 acres, and 12 of these outparcels have been sold to date. St. Vincent Hospital opened its Chenal-based medical center in 2011, and the success of the shopping center known as “The Promenade at Chenal” continues to stimulate interest in the Company’s nearby available commercial property.

No commercial acreage is included in Chenal Downs, and a small amount of commercial property is planned for Red Oak Ridge. The Company will begin to develop and offer commercial sites in Red Oak Ridge as population density increases.

Infrastructure. Infrastructure and other improvements to support the development and sale of residential and commercial properties are funded directly by the Company or through real property improvement districts. Such properties are developed only when sufficient demand exists and substantially all infrastructure is completed. Future infrastructure investments are primarily for the development and sale of additional property.

Development Amenities. In connection with its Chenal Valley development, the Company developed Chenal Country Club, consisting of the earlier-described golf courses, a clubhouse, and related facilities for use by club members. Since its original construction, Deltic has undertaken substantial remodeling and expansion of the clubhouse to fulfill membership needs. In addition, the Company has built three community parks within the Chenal Valley development for the benefit of the residents of the developed residential areas.

Chenal Downs has been developed around an equestrian center, consisting of stables and a training facility, and also includes bridle trails throughout the development. Red Oak Ridge's primary amenities currently consist of two lakes and a community park constructed by the Company.

Home Construction. Historically, the Company's focus with regards to residential real estate development has been on lot development only. However, Deltic has constructed a limited number of speculative homes within its Red Oak Ridge development located in Hot Springs, Arkansas. At December 31, 2016, Deltic had three of these constructed homes available for sale.

Future Development. A number of factors have added significant value to the undeveloped portion of Chenal Valley. Such factors include: (1) the overall success of Chenal Valley as a residential development and its image as one of the premier developments in central Arkansas; (2) the continued westward growth of Little Rock; (3) the Company's investment in infrastructure in the area; and (4) the established residential base which is now large enough to support commercial development. Management expects the undeveloped portion of Chenal Valley to provide growth and development opportunities in the future.

Chenal Downs has been fully developed, but development of Red Oak Ridge is in the early stages, currently consisting of the first three of several planned neighborhoods, the initial infrastructure placement, and two man-made lakes that serve as the core amenity.

Undeveloped Acreage. The success of Chenal Valley has increased the value of the Company's undeveloped real estate surrounding and within the development, though there were no sales of undeveloped real estate in the most recent three-year period.

Products and Competition

The Company's principal products are timber, timberland, softwood lumber products (primarily finished lumber), MDF, residual wood products, hunting land leases, oil and gas lease rentals and royalties, and real estate.

Timber. Timber harvested from the timberlands is utilized by the Company's sawmills or sold to third parties. The Company's sales of timber to third parties accounted for approximately two percent of consolidated net sales in 2016, 2015, and 2014. The Company competes in the domestic timber market with numerous private industrial and non-industrial land and timber owners. Competitive factors with respect to the domestic timber market generally include price, species and grade, proximity to wood manufacturing facilities, and accessibility.

Land Sales. Timberland sold by the Company to third parties consists of both non-strategic timberland, including hardwood bottomland suitable for recreational use, and lands with potential for higher and better use and amounted to less than one percent of consolidated net sales in 2016, 2015 and 2014.

Lumber and MDF Products. The Company's sawmills produce a wide variety of products, including dimension lumber, boards, and timbers. Lumber is sold primarily to wholesaler distributors, lumber treaters, and truss manufacturers in the South and Midwest and is used in residential construction, roof trusses, and laminated beams. Lumber sales as a percentage of consolidated net sales were approximately 45 percent, in 2016, 2015 and 2014. MDF is sold primarily to wholesalers, industrial distributors, retailers, and manufacturers in the United States and is used in residential remodeling and the manufacturing of flooring, cabinets, molding, furniture, and store fixtures. Deltic began reporting MDF sales effective April 1, 2013, when it acquired 100 percent of the Del-Tin Fiber plant, formerly a joint venture reported as an equity method investment. MDF sales as a percentage of consolidated net sales were 26 percent in 2016, 27 percent in 2015, and 29 percent in 2014.

The forest products market is highly competitive with respect to price and quality of products. In particular, competition in the commodity-grade lumber and MDF markets in which the Company competes is primarily based on price and availability. Deltic competes with larger publicly held forest products companies operating in the U.S., many of which have significantly greater financial resources than the Company, as well as privately held lumber producers. The Company also competes with producers in Canada and overseas.

Deltic's management expects the Company's products to experience additional increased competition from engineered wood products and other substitute products. However, due to the geographic location of Deltic's timberlands and its high-quality timber, the Company's active timber management program, strategically located and efficient sawmill operations, and highly motivated workforce, Deltic has been able to compete effectively.

Residual Wood Products. The Company's sawmills produce wood chips, shavings, sawdust, and bark as by-products of the conversion process. During both 2016 and 2015, third-party sales of these residual products accounted for five percent of Deltic's consolidated net sales compared to four percent in 2014. Wood chips are the primary source of residual sales and are typically used at the MDF plant or sold to paper mills. In 2016 Deltic's sawmills produced 340,841 tons of wood chips and a significant portion of these wood chips are used by the Company in its manufacture of MDF.

Hunting Land Leases. Deltic leases hunting rights for its Woodlands to individuals and groups with its main competitors being other landowners. Per-acre price and location are the primary factors in leasing woodland hunting rights. Hunting lease revenues accounted for one percent of consolidated net sales in 2016, 2015, and 2014.

Oil and Gas. The Company has approximately 16,600 net mineral acres of Company-owned land either currently under lease or held by production. Once production begins, oil and gas royalty payments are received. Oil and gas lease rental payments are recognized as income over the term of the lease, and oil and gas royalty payments are recognized as income when received. Oil and gas lease rental income accounted for less than one percent of consolidated net sales in both 2016 and 2015, and one percent in 2014. Oil and gas royalty revenue accounted for less than one percent in 2016 and two percent of consolidated net sales in both 2015 and 2014. Oil and gas royalty income is dependent upon the number of producing wells, volume extracted, and market prices, none of which are controlled by the Company.

Real Estate. The Company develops and markets residential lots and commercial sites and also sells undeveloped acreage. Residential lots are sold to homebuilders and individuals, while commercial sites are sold to developers and businesses. Deltic generally provides the supporting infrastructure as part of the development. Other landowners or developers are Deltic's competitors in its real estate markets and are seeking the same customer base, with each competitor marketing the benefits of its site locations, related infrastructure, or amenities. During 2016, the sales of residential lots and commercial sites as a percentage of consolidated net sales were eight percent, and were four percent in 2014 and 2015. The sale of commercial property can have a significant impact on the Company's sales but is unpredictable and sporadic.

Seasonality

The Company's operating segments are subject to variances in financial results due to several seasonal factors. Increased housing starts and home remodeling projects during the spring usually push up lumber prices. Forestry operations generally incur silvicultural treatment expenses in the third quarter, because they are applied during the fall season in order to achieve maximum effectiveness.

Environmental Matters

The Company is subject to extensive and changing federal, state, and local environmental laws and regulations relating to the protection of human health and the environment, including laws relating to air and water quality, greenhouse gas emissions, the use of herbicides on timberlands, regulation of "wetlands," and the protection of endangered species. Environmental legislation and regulations, and the interpretation and enforcement thereof, are expected to become increasingly stringent. The Company has made, and will continue to make, expenditures to comply with such requirements in the ordinary course of its operations. Historically, these expenditures have not been material, and the Company expects that this will continue to be the case. Liability under certain environmental regulations may be imposed without regard to fault or the legality of the original actions and may be joint and several with other responsible parties. As a result, in addition to ongoing compliance costs, the Company may be subject to liability for activities undertaken on its properties prior to its ownership or operation and for activities by third parties, including tenants. The Company is not involved with any such sites at this time. The Company leases the rights to drill for oil and gas on some of its lands to third parties. Pursuant to these leases, the lessee is to indemnify the Company from environmental liability relating to the lessee's operations. Based on its present knowledge, the Company is not aware of any facts that indicate the Company will be required to incur any material costs relating to environmental matters. Under currently applicable laws and regulations, the Company believes environmental matters are not likely to have a material adverse effect on the Company's financial condition, results of operations, or liquidity.

The federal Endangered Species Act ("the Act") protects species threatened with possible extinction and restricts timber harvesting activities on private and federal lands. Certain of the Company's timberlands are subject to such restrictions due to the presence on the lands of the red-cockaded woodpecker, a species protected under the Act. The presences of numerous endangered and/or threated aquatic species occur across Deltic's timberlands in both operational regions. At this time there are no significant restrictions, however, there can be no assurance that the presence of these species or the discovery of other protected species will not subject the Company to future harvesting restrictions.

Congress has been considering certain climate control legislation for some time. Due to uncertainties with any proposed legislation, it is difficult to make an assessment of the impact of such legislation upon the Company's operations until such time as such legislation has been passed, codified, and the appropriate regulation promulgated. The Company will continue to monitor the legislative process and any possible future legislation or regulatory actions and their effects upon its operations.

Access to SEC Filings

The Company maintains an internet website at www.deltic.com. The Company makes available free of charge under the Investor Relations section of its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to any of those reports, and other filings as soon as reasonably practicable after providing such reports to the Securities and Exchange Commission.

Employees

As of January 31, 2017, the Company and consolidated subsidiaries had 547 employees.

Item 1A. Risk Factors

Cyclicality of Forest Products Industry

The Company's results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and manufactured wood products have been, and in the future can be expected to be, subject to cyclical fluctuations. The demand for logs and lumber is primarily affected by the level of new residential construction activity. This activity is subject to fluctuations due to changes in economic conditions, availability and cost of financing for developers, mortgage interest rates, new and existing housing inventory levels, foreclosure rates, population growth, weather conditions, and other factors. Decreases in the level of residential construction activity usually will be reflected in reduced demand for logs and lumber resulting in lower prices for the Company's products and lower revenues, profits, and cash flows. In addition to housing starts, demand for wood products is also significantly affected by repair and remodeling activities and industrial uses, demand for which has historically been less cyclical. Furthermore, changes in industry supply of timber affect prices. Although the Company believes sales of timber by United States government agencies will remain at relatively low levels for the foreseeable future, any reversal of policy that substantially increases such sales could significantly reduce prices for logs and lumber, which could have a material adverse effect on the Company. Furthermore, increased imports from foreign countries could reduce the prices the Company receives for its products. Meanwhile, possible reductions of Canadian imports due to mountain pine beetle infestation could increase prices the Company receives for its products.

Limitations on the Company's Ability to Harvest Timber

Revenues from the Company's future operations will depend to a significant extent on its ability to harvest timber pursuant to its harvest plans from its 530,000 acres of timberlands (the "Timberlands"). Harvesting of the Timberlands may be affected by various natural factors, including damage by fire, insect infestation, disease, prolonged drought, severe weather conditions, ice storms, higher than normal amounts of rainfall, and other causes. The effects of these natural factors may be particularly damaging to young timber. To the extent possible, the Company implements measures to limit the risk of damage from such natural causes. The Company is a participant with state agencies and other timberland owners in cooperative firefighting and fire surveillance programs. In addition, the Timberlands' extensive system of access roads, fire lines, and the physical separation of various tracts provide some protection against fire damage. Nonetheless, one or more major fires on the Timberlands could adversely affect Deltic's operating results. The Timberlands may also be affected by insect infestation, particularly by the southern pine beetle, and by disease. Additionally, the Timberlands may be affected by severe weather conditions, especially ice storms, tornados, and heavy winds. Although damage from such natural causes usually is localized and affects only a limited percentage of the timber, there can be no assurance that any damage affecting the Timberlands will, in fact, be so limited. As is typical in the forest products industry, the Company does not maintain insurance coverage with respect to damage to the Timberlands. The Company does, however, maintain insurance for loss of logs due to fire and other occurrences following their receipt at the Company's sawmills.

Operation of Sawmills

The Company's sawmills are located at Ola in central Arkansas and Waldo in south Arkansas. The operations of the sawmills are dependent on various factors, and there can be no assurance that the Company will be able to continue such operations at current levels of production or that suspension of such operations may not be required in the future. One such factor is the ability of the Company to procure sufficient logs at suitable prices. The Company obtains logs for its sawmills from the Timberlands, other private sources, and federal lands. Prices for logs are cyclical and affected primarily by demand for lumber and other products produced from logs. Another such factor is the ability of the Company to find an outlet for the large volume of residual wood products that result from the milling process. The Company currently markets such products to third parties for the production of paper and other uses. In addition, the Company uses a significant portion of its residual wood chips at its MDF plant. The continued operation of the sawmills is subject to the risk of business interruption in the event of a fire or other natural disaster, regulatory actions, or other causes. Deltic mitigates this risk through the procurement of casualty and business interruption insurance.

MDF Plant

The Del-Tin Fiber plant manufactures and markets MDF and is located near El Dorado, Arkansas. Construction of the plant was completed and initial production began in 1998, and Deltic became the sole owner on April 1, 2013. Previously Del-Tin Fiber was a joint venture owned 50 percent by Deltic and treated as an equity investment. Demand for MDF is subject to many of the same factors as other wood products such as housing starts, furniture production, residential improvements, import fluctuations, and industry capacity. Additionally, the MDF plant operations are subject to risk of business interruption due to fire or other natural disasters, regulatory actions, or other causes. Casualty and business interruption insurance is used to mitigate this risk.

Competition

The forest products industry is highly competitive in terms of price and quality. The products of the Company are subject to increasing competition from a variety of non-wood and engineered wood products. In addition, the Company is subject to a potential increase in competition from lumber products and logs imported from foreign sources, the restarting of domestic sawmills previously idled, and foreign investment in U.S. lumber facilities throughout the Company's operating area. These sawmills compete for the same raw material stumpage, skilled labor, and markets. Any significant increase in any of these competitive pressures from substitute products or other domestic or foreign suppliers could have a material adverse effect on the Company.

Federal and State Environmental Regulations

The Company is subject to extensive and changing federal, state, and local environmental laws and regulations relating to the protection of human health and the environment, the provisions and enforcement of which are expected to become more stringent in the future. The Company has made, and will continue to make, non-material expenditures to comply with such provisions. Based on currently available information, the Company believes environmental regulation will not materially adversely affect the Company, but there can be no assurance that environmental regulation will not have a material adverse effect on the financial condition, results of operations, or liquidity of the Company in the future. In December 2012, the Environmental Protection Agency issued new Major Source Boiler Maximum Achievable Control Technology, "Boiler MACT," rules that were effective in early 2016. The Company has complied with the rules as they apply to the mill facilities. Climate control legislation being considered by Congress or potentially more restrictive guidelines issued by governmental regulatory agencies are examples of changes that, if approved, could increase compliance costs as well as direct manufacturing expenses.

Geographic Concentration and Risk Associated with Real Estate Development

The Company's real estate development projects are located in central Arkansas, specifically, in and west of Little Rock, Arkansas and in Hot Springs, Arkansas. Accordingly, the Company's real estate operations are particularly vulnerable to any economic downturns or other adverse events that may occur in this region and to competition from nearby residential housing developments. The Company's results of operations may be affected by the cyclicality of the homebuilding and real estate industries. Factors influencing these industries include changes in population growth, general and local economic conditions, employment levels, consumer confidence and income, housing demand, new and existing housing inventory levels, availability and cost of financing, mortgage interest rates and foreclosures, and changes in government regulation regarding the environment, zoning, real estate taxes, and other local government fees. In addition, the tightening of credit and economic recession could delay or deter commercial real estate activity and may affect the Company's operating results.

General Economic Conditions

The ongoing recovery of the housing industry, combined with a steady improvement in the general economy, could provide a positive impact to the operating results for the Company. Similarly, a deterioration of the global credit markets could adversely affect the Company's access to capital. Deltic's customers' and suppliers' ability to obtain financing could negatively affect the Company's business if their ability to operate or fund transactions is impaired.

Reliance on Key Personnel

The Company believes that its continued success will depend in a large part on its ability to attract and retain highly skilled and qualified personnel. The Company offers management incentives in a manner that are directly linked to the Company's performance, which the Company believes will facilitate the attraction, retention, and motivation of highly skilled and qualified personnel. In this regard, the Company has taken steps to retain its key personnel, including the provision of competitive employee benefit programs. Although the Company will seek to employ qualified individuals, in the event that officers or other key employees of the Company cease to be associated with the Company, there is no assurance that such individuals can be engaged by the Company.

Dividend and Stock Repurchase Policy

Payment of dividends is the means by which Deltic makes distributions to its shareholders of the profits and cash flows generated by the Company's business operations. These dividends are declared by the Company's Board of Directors on a quarterly basis. The Company's dividend strategy is to grow the amount of the dividend over time, at a rate of increase that is believed to be sustainable. In addition, Deltic has a stock repurchase program authorized by the Board of Directors. The timing and amount of future dividend increases and repurchases of the Company's common stock are based on the estimated trend for future earnings and cash flows, taking into account other potential uses of the Company's capital resources including, but not limited to, acquisition opportunities, capital expenditures for existing operations, and debt repayments.

Anti-Takeover Effects of Certain Statutory, Charter, Bylaw and Contractual Provisions

Several provisions of the Company's Certificate of Incorporation and Bylaws and of the Delaware General Corporation Law could discourage potential acquisition proposals and could deter or delay unsolicited changes in control of the Company, including provisions creating a classified Board of Directors, limiting the stockholders' powers to remove directors, and prohibiting the taking of action by written consent in lieu of a stockholders' meeting.

Provisions that could be adopted in the future could discourage unsolicited acquisition proposals or delay or prevent changes in control or management of the Company, including transactions in which stockholders might otherwise receive a premium for their shares over then-current market prices. In addition, these provisions could limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

Information Systems

Secure information technology systems are relied upon to provide the ability to manage effectively the business data, communications, order entry and fulfillment, and other business processes of the Company. These information technology systems and those used by the Company's third party providers may be vulnerable to damage or interruption by circumstances beyond the Company's control, including fire, natural disasters, system failures, cyber-attacks, and viruses. Deltic has made an assessment of the controls involving the information systems and the related cybersecurity issues and has concluded that the failure of the information technology systems to perform adequately may cause temporary data processing or communication inefficiencies but would not have a materially adverse effect on Deltic's business or operations.

Oil and Gas Leasing and Royalty Revenue

Deltic receives mineral revenues in the form of oil and gas lease rentals and oil and gas royalties. These properties are operated by other companies, and Deltic has no control over the operation or future development of such properties, including compliance with environmental, safety, and other regulations. Oil and natural gas prices, which are volatile, impact the amounts received in royalty revenues and amounts for selling and renewing mineral leases. Therefore, Deltic's cash flows and results of operation are to a degree dependent on oil and natural gas prices and cannot be predicted or controlled.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's properties, primarily located in Arkansas and north Louisiana, consist principally of fee timber and timberlands, sawmill property, a medium density fiberboard plant, and residential and commercial real estate held for development and sale. As of December 31, 2016, the Company's timber and timberlands, sawmills, MDF plant, and investment in real estate held for development and sale consisted of the following:

Timberland acres by state:

Arkansas	523,563
Louisiana	6,832
Texas	152

Sawmill locations and permitted annual capacity in million board feet:

Ola, Arkansas	165
Waldo, Arkansas	285

MDF plant location and design-rated annual capacity in million square feet based on ¾-inch panel thickness:

El Dorado, Arkansas	150

Real Estate properties in acres:

Little Rock, Arkansas	4,602
Hot Springs, Arkansas	791

Real Estate sales office building in Little Rock, Arkansas

Corporate headquarters office building in El Dorado, Arkansas

(For further information on the location and type of the Company's properties, see the descriptions of the Company's operations in Item 1.)

Item 3. Legal Proceedings

From time to time, the Company is involved in litigation incidental to its business. Currently, there are no material legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The age (at January 1, 2017), present corporate office, and length of service in office of each of the Company's executive officers and persons chosen to become officers are reported in the following listing. Executive officers are elected annually but may be removed from office at any time by the Board of Directors.

D. Mark Leland – Age 55; interim President and Chief Executive Officer and current member of the Company's Board of Directors, effective October 10, 2016. Prior to joining the Company, Mr. Leland was President of the Midstream Division of El Paso Corporation. Prior to his tenure as President, he served in various positions including Executive Vice President and Chief Financial Officer.

Byrom L. Walker - Age 55; interim Vice President, Treasurer, and Chief Financial Officer effective February 24, 2017 and Controller effective May 1, 2007. From March 2006 to May 2007, Mr. Walker was Manager of Financial Reporting for the Company. Prior to joining the Company, Mr. Walker was Corporate Controller for Teris, LLC, a division of Suez S.A., a position he held from 2004.

Jim F. Andrews, Jr. - Age 52; Vice President, General Counsel, and Secretary, effective October 15, 2010. From July 2001 to October 2010, Mr. Andrews served as in-house legal counsel for the Company.

Kent L. Streeter - Age 56; Vice President of Operations, effective November 16, 2003. Prior to joining the Company, Mr. Streeter was Operations Manager of a large paper mill located in the Southeastern United States from January 1997, which was owned by Temple-Inland, Inc. and prior to that by Gaylord Container Corporation.

David V. Meghreblian - Age 58; Vice President of Real Estate, effective November 16, 2003. From May 2000 to November 2003, Mr. Meghreblian was Vice President of Operations for the Company. From November 1996 to April 2000, Mr. Meghreblian was General Manager of Planning and Investor Relations for the Company. Prior to such time, Mr. Meghreblian was General Manager of Project Development, a position he held beginning in November 1995.

Ray C. Dillon - Age 60; President and Chief Executive Officer and a director of the Company, effective July 1, 2003. Prior to joining the Company, Mr. Dillon was employed at Gaylord Container Corporation where, from April 2000 through December 2002, he was Executive Vice President, and preceding his election as Executive Vice President, he was Vice President, Primary Product Operations from April 1997. Mr. Dillon retired from the Company effective October 10, 2016.

Kenneth D. Mann - Age 57; Vice President, Treasurer, and Chief Financial Officer, effective May 1, 2007. From September 2004 to April 2007, Mr. Mann was Controller for the Company. From September 2002 to September 2004, Mr. Mann was Manager of Corporate Governance and Investor Relations. From January 1997 to September 2002, Mr. Mann was Assistant Controller. Mr. Mann was terminated from the Company effective February 24, 2017.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Common stock of Deltic Timber Corporation is traded on the New York Stock Exchange under the symbol "DEL". The following table sets forth the high and low prices, along with the quarterly dividends paid, for each of the quarters indicated:

		Sales Price		Dividend per
		High	Low	Common Share
2016				
First Quarter	$	61.83	50.84	.10
Second Quarter	$	67.40	57.99	.10
Third Quarter	$	72.74	64.44	.10
Fourth Quarter	$	80.06	53.21	.10
2015				
First Quarter	$	69.24	60.45	.10
Second Quarter	$	70.29	61.00	.10
Third Quarter	$	69.92	58.58	.10
Fourth Quarter	$	67.56	57.56	.10

Common stock dividends were declared to be paid for each quarter during 2016 and 2015. As of December 31, 2016, there were approximately 701 stockholders of record of Deltic's common stock.

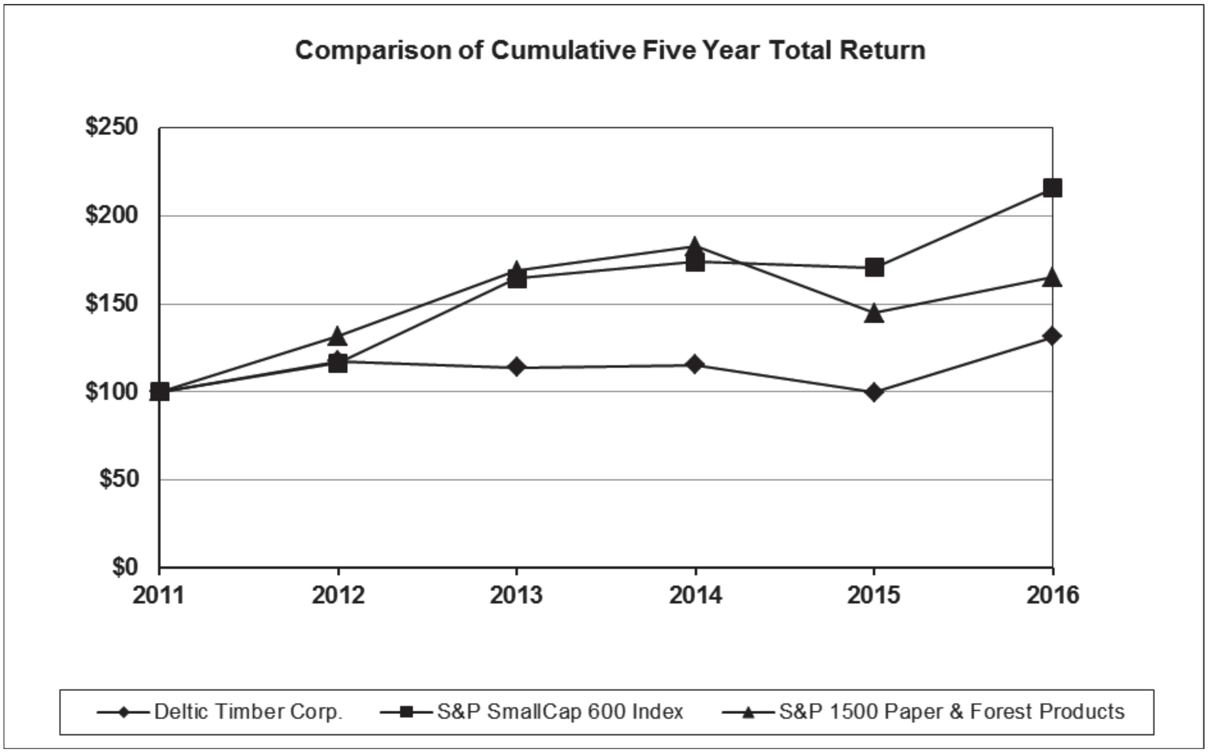
In December 2000, the Company's Board of Directors authorized a stock repurchase plan of up to $10 million of Deltic common stock. On December 13, 2007, Deltic announced an expansion of its repurchase program by $25 million. On December 18, 2014, Deltic announced another $25 million expansion of the program. On February 18, 2016, Deltic announced another $20 million extension of the program. There is no stated expiration date regarding this authorization. There were purchases of 309,739 shares under the program in 2016. Information pertaining to this plan for the fourth quarter of 2016 is presented in the table below.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 through October 31, 2016	18,804[1]	-	-	$ 24,962,333
November 1 through November 30, 2016	32,309	$57.75	32,309	$ 23,096,632
December 1 through December 31, 2016	-	-	-	$ 23,096,632

[1]Includes 18,804 shares withheld to pay taxes in connection with vesting of restricted stock awards.

Information regarding securities authorized for issuance under equity compensation plans required by this item is contained in Item 12 of this Form 10-K and is incorporated herein by reference.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities (cont.)



The graphed stock performance represents the cumulative total return for the Company's common stock compared to issuers with similar capitalization and to industry peer issuers for the period December 31, 2011, through December 31, 2016. The calculated returns assume an investment of $100 on December 31, 2011, and that all dividends were reinvested.

Item 6. Selected Financial Data

The following table presents certain selected consolidated financial data for each of the years in the five-year period ended December 31, 2016.

(Thousands of dollars, except per share amounts)		2016	2015	2014	2013	2012
Results of Operations for the Year						
Net sales	$	219,363	193,851	227,355	199,702	140,908
Operating income	$	21,640	11,018	34,396	35,663	17,132
Net income	$	9,245	2,654	19,662	26,192	9,235
Comprehensive income.	$	11,286	2,471	10,930	37,616	4,861
Earnings per common share						
Basic	$	.76	.21	1.56	2.06	.73
Assuming dilution	$	.76	.21	1.55	2.05	.73
Cash dividends declared per common share	$	.40	.40	.40	.40	.30
Net cash provided/(required) by						
Operating activities	$	43,593	29,661	31,527	42,142	24,082
Investing activities	$	(41,310)	(27,882)	(132,299)	(33,792)	(16,835)
Financing activities	$	(1,939)	889	99,159	(9,589)	(4,925)
Percentage return on						
Average stockholders' equity		3.81	1.00	7.3	10.6	4.0
Average borrowed and invested capital		4.3	2.1	5.5	9.2	4.6
Average total assets		1.7	.5	3.9	6.6	2.7
Capital Expenditures for the Year						
Woodlands	$	3,828	3,667	4,038	3,836	4,026
Manufacturing	$	32,340	24,363	12,311	16,532	2,478
Real Estate	$	8,479	8,071	3,934	4,267	2,996
Corporate	$	148	1,704	49	14	7
	$	44,795	37,805	20,332	24,649	9,507
Timberland acquisition expenditures	$	1,757	863	118,203	8,919	14,527
Financial Condition at Year-End						
Adjusted working capital[1]	$	10,184	12,171	13,120	5,484	5,566
Current ratio[2]		1.51 to 1	1.66 to 1	1.81 to 1	1.25 to 1	1.43 to 1
Total assets	$	554,693	539,167	527,132	411,145	352,952
Current maturities, long-term debt	$	-	39,917	-	-	-
Long-term debt	$	240,839	183,836	202,863	89,801	62,743
Stockholders' equity	$	251,193	253,968	267,641	266,272	232,230
Total debt to stockholders' equity ratio[3]		.959 to 1	.881 to 1	.758 to 1	.338 to 1	.271 to 1

[1] Adjusted working capital is the net of current assets less current liabilities excluding current maturities of long-term debt.

[2] Current ratio is the amount of current assets divided by current liabilities excluding current maturities of long-term debt.

[3] Total debt is the sum of current maturities of long-term debt and long-term debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Deltic Timber Corporation ("Deltic" or the "Company") is a vertically integrated natural resources company operating in a commodity-based business environment that is engaged in the growing and harvesting of timber, the manufacture and marketing of lumber and medium density fiberboard ("MDF"), with a major diversification in real estate development. The Company owns approximately 530,000 acres of timberland, mainly in Arkansas and north Louisiana. Deltic also has two sawmills and one MDF plant. One of the sawmills is located in central Arkansas at Ola (the "Ola Mill"), the other sawmill is located in south Arkansas at Waldo (the "Waldo Mill"), which is near its MDF plant ("Del-Tin Fiber") at El Dorado, Arkansas. In addition, the Company has four real estate developments that are located in central Arkansas.

The Company is organized into four segments: (1) Woodlands, which manages all aspects of the timberland, including the harvest and sale of timber, the sales and acquisitions of timberland, the leasing of oil and gas mineral rights and associated royalty payments, hunting land leases, and timberland management for third parties; (2) Manufacturing, which consists of Deltic's two sawmills that manufacture a variety of softwood lumber products and the Del-Tin Fiber plant that produces MDF; (3) Real Estate, which includes the Company's four real estate developments and a related country club operation; and (4) Corporate, which consists of executive management, accounting, information systems, human resources, purchasing, treasury, income tax, and legal staff functions that provide support services to the operating business units. The Company currently does not allocate the cost of maintaining these support functions to its operating units. Deltic is a calendar-year company for both financial and income tax reporting.

The Company's operating and financial results are affected by a number of factors, which include but are not limited to housing starts, general economic conditions, U.S. employment levels, interest rates, credit availability and associated costs, imports and exports of lumber and MDF, foreign exchange rates, new and existing home inventories, residential and commercial real estate foreclosures, residential and commercial repair and remodeling, commercial construction, industry capacity and production levels, the availability of raw materials, availability of contractors to harvest and thin timber, natural gas pricing and production volumes, utility costs, fuel costs, and weather conditions. The recovery of the housing market in the United States continued during 2016, with the number of housing starts increasing approximately five percent during the year. Favorable construction conditions within the Company's market areas allowed for increased construction activity, resulting in increased demand and a higher average sales price for Deltic's lumber. Given the nature of most commodity markets, the Company has little or no influence over the market's effect on pricing levels for its wood products. Deltic manages its vertical integration strategy to achieve the maximum performance from the Company's diverse asset base, seeks opportunities to increase the Company's timberland base, invests in capital projects to improve and increase productivity in its manufacturing facilities, manages production hours to meet market demand, and controls costs and expenses to the extent that it is possible. It also develops residential lots in its real estate development to maintain an inventory to meet buyer needs.

Significant accomplishments for the Company during the year of 2016 included: (1) the Real Estate segment sold three commercial real estate sites, totaling 33.95 acres, at an average sales price of $207,000 per acre, and also increased residential lot sales by 30 percent, to 130 lots sold at an average per-lot sales price of $81,500; (2) the Manufacturing segment improved year-over-year operating performance at the Company's MDF plant, and began lumber production from the small-log capital project at the Ola Mill that will increase production capacity while also utilizing smallwood from the Company's timberlands; and (3) Deltic continued the program to enhance shareholder value by repurchasing 309,739 shares of the Company's common stock.

The Woodlands segment is the Company's core operating segment, and its strategic pine timberlands provide the foundation for Deltic's vertically integrated structure by supplying 68 percent of the current raw material log needs of the Company's sawmills. The benefits of the vertical integration were again evident in 2016, as the Company was able to increase the harvest of pine sawtimber from company-owned timberlands and supply a larger portion of the raw material needs of its sawmills. Timberland acquisitions made by Deltic in recent years have provided the increase in inventory of pine sawtimber available to harvest, while the Company continues to maintain the sustainable-yield management of its forests. The Woodlands segment reported operating income of $18 million in 2016, a 10 percent decrease from 2015 results, primarily due to decreased revenues from oil and gas lease rentals and royalties and timberland sales, combined with a higher cost of fee timber harvested; partially offset by increased revenues from pine sawtimber and pine pulpwood harvested. The harvest volume of pine sawtimber was 777,000 tons in 2016, compared to 755,000 tons in 2015, and the pine sawtimber average sales price increased from the prior year by $1 per ton, to $28 per ton in 2016. The 2016 pine pulpwood harvest volume was 508,000 tons, or a 29 percent increase from 394,000 tons harvested in 2015, while the pine pulpwood average sales price decreased $1, to $8 per ton in 2016. The increase in harvest volume for pine sawtimber and pulpwood was primarily due to the mix of timber on the tracts harvested, and a planned increase in pine plantation thinning activities, combined with the Company's extension of the 2016 harvest plan due to favorable logging conditions in the Company's operating region.

Over the long-term, there has been some correlation between pine lumber prices and pine sawtimber prices, but in the short-term, the geographical size differential between the pine lumber and pine sawtimber markets can result in the two acting independently of each other. Pine sawtimber within Deltic's local operating area is mainly purchased by sawmills. These mills are subject to raw material requirements that are driven by their production levels. These raw material requirements, combined with the seasonal weather within a specific region, can influence the price of pine sawtimber in that region. Changes in pricing levels within the lumber market typically do not have an immediate effect on the existing demand for raw materials in the short-term; therefore, the resulting impact on pine sawtimber prices will usually lag in timing and will be less volatile than that of the market for pine lumber. Ultimately, the Company's ability to sell pine sawtimber at acceptable prices in the future will be dependent upon the size or existence of markets for manufactured lumber and other wood products.

Timberland designated as having higher and better use potential consists of tracts with market values that exceed the land's worth as a pine timber-growing platform. Deltic's approximately 57,000-acre timberland holdings in the expanding westward growth corridor of Little Rock, Arkansas, are an example of such land. Non-strategic timberland acres are primarily tracts composed of hardwood bottomland that are unsuitable for growing pine timber, tracts of pine timberland that are too small to allow efficient timber management, tracts geographically isolated from other Company fee lands, or any other acreage not deemed strategic to Deltic's operations or growth. The Company sold approximately nine acres of timberland in 2016 and continues to evaluate certain tracts as to whether they are non-strategic.

In addition to timber harvests, the Company receives other benefits from land ownership that are reported as income in the Woodlands segment. These include revenues from hunting leases, oil and gas lease rentals and royalties, land management fees, and easements and right-of-way payments. The segment reported hunting lease income of $3 million for both 2016 and 2015. The Company has under lease or held by production approximately 12,200 net mineral acres in the Fayetteville Shale Play, an unconventional natural gas reservoir being developed in the state of Arkansas. Total oil and gas income, consisting of both lease rentals and net royalties, was $1.6 million in 2016, compared to $3.4 million in 2015. The Company's total net oil and gas royalty income, inclusive of the Fayetteville Shale Play, was $1.2 million in 2016 and $2.6 million in 2015. The decrease was primarily due to lower natural gas prices and a small decrease in the volume of gas produced from natural gas wells in which the Company has a royalty interest. Total income from oil and gas lease rentals was $.4 million in 2016, compared to $.8 million in 2015, as the amortization period of the prepaid lease rental payments received for the leasing mineral rights ended, with these mineral acres becoming held by production. Deltic currently receives royalty income from 508 wells in the Fayetteville Shale Play; however, the ultimate benefit to Deltic from oil and gas leases remains speculative and unknown to the Company, and is contingent on the successful completion of producing wells on Company lands and the prices received for crude oil and natural gas as evidenced by the revenue impact of the decline in natural gas and oil prices during 2016.

The Manufacturing segment reported operating income of $19.2 million in 2016, an increase of $10.8 million from 2015, due to a higher average sales price for lumber, an increased sales volume for both lumber and MDF, and a lower average per-unit manufacturing cost of MDF due to improved operations at the facility.

The Real Estate segment reported operating income of $7.4 million in 2016, an increase of $7 million from 2015's financial results, primarily due to sales of approximately 34 acres of commercial property in 2016. Sales of residential lots increased by thirty lots from the prior year, to a total of 130 lots; with successful lot offerings during 2016 in a new phase within the Wildwood Place development, in addition to a lot offering within an existing neighborhood, and in a new neighborhood within Chenal Valley.

In 2016, the Company recorded sales of approximately 34 acres of commercial acreage located within Chenal Valley, compared to no sales of commercial acreage in 2015. The Company's commercial real estate acreage continues to receive interest from prospective buyers, as property located near the key intersection of Chenal Parkway and Rahling Road in the Chenal Valley development are areas of current and future expected activity. Deltic is nearing the completion of the widening of Rahling Road, and fufilling a commitment to the city of Little Rock to build certain infrastructure when traffic count reached agreed-upon levels. Future trends for commercial real estate sales are difficult to predict, and prices are influenced by multiple factors, which include intended use of the site, property location, and acres available. There is no commercial acreage included in the Chenal Downs development. Red Oak Ridge, the Company's Hot Springs area development, will include a small amount of commercial acreage to be determined by the actual land usages. The Company will begin to develop and offer commercial sites as the Red Oak Ridge development's population density increases.

A tabular summary of Deltic's commercial real estate activity is as follows:

Commercial Acres					
Development	Market	Acres Sold in 2016	Acres Sold Since Inception	Acres Remaining	Estimated Total Acres
Chenal Valley	Little Rock	34	426	400	826

The Company continued to focus on the long-term financial returns from the total build-out of the Chenal Valley, Wildwood Place, and Red Oak Ridge developments as the central Arkansas housing market improves.

A tabular summary of Deltic's residential real estate activity is as follows:

Residential Lots						
Development	Market	Lots Sold in 2016	Lots Sold Since Inception	Unsold Developed Lots	Future Lots to Develop	Estimated Total Lots
Chenal Valley	Little Rock	92	2,903	77	1,595	4,575
Wildwood Place	Little Rock	35	92	-	158	250
Chenal Downs	Little Rock	1	66	10	-	76
Red Oak Ridge	Hot Springs	2	96	39	1,051	1,186
Acquired lots	Various	-	7	5	-	-
		130	3,164	131	2,804	6,087

Deltic's real estate activities primarily involve development of residential lots and commercial acreage. In addition, the Company constructed a small number of speculative homes in the Red Oak Ridge development to serve as a catalyst for increasing lot sales activity. When it is appropriate this activity will be reviewed for potential triggering events that would require impairment testing. However, management is of the opinion that no such event has occurred.

A tabular summary of Deltic's speculative home activity is as follows:

Development	Market	Homes Sold in 2016	Homes Constructed Since Inception	Homes Sold Since Inception	Homes Unsold
Red Oak Ridge	Hot Springs	1	15	12	3

Significant Events

On December 18, 2016, the Company retired private placement debt, consisting of $40 million of Series A Senior Notes with American AgCredit and a syndication of other Farm Credit Banks. Funds for the retirement were provided by the Company's revolving credit facility.

Results of Operations

In the following tables, Deltic's net sales and results of operations are presented for the three years ended December 31, 2016, 2015, and 2014. Explanations of significant variances and additional analyses for the Company's consolidated and segmental operations follow the tables.

	Years Ended December 31,		
(Millions of dollars, except per share amounts)	2016	2015	2014
Net sales			
Woodlands	$ 38.3	38.8	37.0
Manufacturing	178.3	160.7	189.6
Real Estate	24.8	15.3	16.3
Eliminations	(22.0)	(20.9)	(15.5)
Net sales	$ 219.4	193.9	227.4
Cost of sales			
Woodlands	$ 11.3	10.8	11.6
Manufacturing	159.0	153.4	158.1
Real Estate	16.5	13.9	14.3
Eliminations	(36.5)	(33.6)	(27.9)
Total cost of sales	$ 150.3	144.5	156.1
Operating income			
Woodlands	$ 18.0	20.1	19.1
Manufacturing	19.2	8.4	31.5
Real Estate	7.4	.4	1.1
Corporate	(22.9)	(17.3)	(17.4)
Eliminations	(.1)	(.6)	.1
Operating income	21.6	11.0	34.4

(Millions of dollars, except per share amounts)	2016	2015	2014
Interest and other debt expense,			
net of capitalized interest	(9.4)	(7.5)	(5.4)
Other income	.3	.3	.3
Income taxes	(3.3)	(1.1)	(9.6)
Net income	$ 9.2	2.7	19.7
Earnings per common share			
Basic	$ .76	.21	1.56
Assuming dilution	$ .76	.21	1.55

Consolidated

Consolidated net income for 2016 was $9.2 million, an increase of $6.5 million when compared to 2015. Operating income increased $10.6 million due to improved financial results for the Company's Manufacturing and Real Estate segments, partially offset by decreased operating income for the Woodlands segment combined with increased operating expense in the Corporate segment. Net income was negatively impacted by increased interest and income tax expenses in 2016.

Consolidated net income for 2015 was $2.7 million, a decrease of $17 million when compared to 2014, primarily due to decreased operating income for the Manufacturing and Real Estate segments, combined with higher interest expense, partially offset by increased operating income from the Woodlands segment and decreased general and administrative expense in the Corporate segment.

Consolidated cost of sales for 2016, of $150.3 million, was $5.8 million more than in 2015, due to a higher cost of sales for the Real Estate segment, as a result of the sales of commercial real estate acreage and an increase in the number of residential lots sold, combined with increased raw material and direct operating cost in the sawmill operations, as a result of an increased volume of lumber produced.

Consolidated cost of sales for 2015 of $144.5 million was $11.6 million less than in 2014, due to a decrease in the volume of MDF sold in 2015, as the result of a fire in the Company's MDF plant and a decrease in raw material cost for Deltic's sawmills as a result of the effects of eliminating additional pine sawtimber harvested from the Company's fee timberlands that were transferred to the sawmills, partially offset by costs related to insurance deductible expense due to the fire, and increased direct operating costs at the sawmills.

Consolidated operating income for 2016 was $21.6 million, an increase of $10.6 million from 2015. The Manufacturing segment's operating income in 2016 increased $10.8 million from 2015, due to a higher average sales price for lumber, an increased sales volume for lumber and MDF, and a 12 percent decrease in the per-unit manufacturing cost of MDF. The Real Estate segment's operating income increased $7 million from 2015, primarily due to sales of commercial real estate acreage, combined with an increase in the number of residential lot sales. The Woodlands segment's operating income decreased $2.1 million in 2016 primarily due to decreased income from oil and gas net royalties, an increased cost of fee timber harvested, and reduced timberland sales; partially offset by increased revenues from pine sawtimber and pulpwood sales. Corporate general and administrative expense increased $5.6 million from 2015, mainly due to expenses related to the retirement of the Company's former President and CEO.

Consolidated operating income for 2015 was $11 million, a decrease of $23.4 million from 2014. The Manufacturing segment's operating income in 2015 decreased $23.1 million from 2014, primarily due to decreased sales revenue from sales of lumber and MDF, as the average sales price for lumber decreased 13 percent from the prior year and fire-related downtime as the MDF plant reduced production and sales volumes for 2015, combined with the deductible expense of the property and business interruption insurance policies due to fire. The Real Estate segment's operating income decreased $.7 million from 2014, primarily due to no sales of commercial acreage combined with a lower margin from residential lot sales in 2015. The Woodlands segment's operating income increased $1 million in 2015 primarily due to increased income from timber harvesting activity, partially offset by lower income from oil and gas net royalties. Corporate operating expense decreased $.1 million from 2014, primarily due to lower general and administrative expense, mainly incentive plan expenses. Elimination of intercompany profit from inventories increased $.7 million from 2014.

The main cost drivers affecting the Company's segment cost of sales, and thus consolidated operating income are as follows: (1) Woodlands – direct operating expenses (operating salaries and benefits, cull timber removal, line and road maintenance expenses, transportation expenses, etc.), oil and gas royalty expenses, cost of hauling stumpage to other mills, and cost of timberland sold; (2) Manufacturing – raw materials cost, direct manufacturing expenses (operating salaries and benefits, utilities, insurance, repairs and maintenance, etc.), and freight expense; and (3) Real Estate – cost of sales for residential lots, commercial acreage, and speculative homes sold and cost of sales at Chenal Country Club. There is generally little to no margin on hauling stumpage to other mills in our Woodlands segment or on freight activity in our Manufacturing segment since the net sales recorded for these activities are essentially offset by the cost of hauling stumpage to other mills or freight expense.

Woodlands

Selected financial and statistical data for the Woodlands segment is shown in the following table.

	2016	2015	2014
Net sales (millions of dollars)			
Pine sawtimber	$ 21.4	20.3	15.2
Pine pulpwood	4.2	3.7	3.2
Hardwood sawtimber	.1	.1	.3
Hardwood pulpwood	.6	.7	1.1
Timberland	-	1.2	1.1
Oil and gas lease rentals	.4	.8	1.7
Oil and gas royalties	1.7	3.1	4.9
Hunting leases	3.1	3.0	2.7
Hauling stumpage to other mills	6.1	5.2	6.2
Cost of sales (millions of dollars)			
Direct operating expenses	$ 4.6	4.6	4.6
Oil and gas royalty expenses	.5	.5	.6
Cost of hauling stumpage to other mills	6.1	5.2	6.2
Cost of timberland sold	-	.5	.2
Cost of fee timber harvested	$ 8.2	7.1	5.5
Sales volume (thousands of tons)			
Pine sawtimber	777	755	623
Pine pulpwood	509	394	391
Hardwood sawtimber	2	2	5
Hardwood pulpwood	41	32	58

		2016	2015	2014
Sales price (per ton)				
Pine sawtimber	$	28	27	24
Pine pulpwood		8	9	8
Hardwood sawtimber		62	59	52
Hardwood pulpwood		13	21	19
Timberland				
Sales volume (acres)		9	763	472
Sales price (per acre)	$	4,400	1,500	2,300

Net sales for the Woodlands segment decreased $.5 million, when compared to 2015, primarily due to fewer sales of non-strategic timberland acreage, combined with decreased revenues from oil and gas lease rentals and royalties; partially offset by increased revenues from pine sawtimber and pulpwood. Revenue from the harvest of pine sawtimber increased $1 million due to a three percent higher volume harvested and a $1 per ton price increase. The pine pulpwood harvest volume increased from 2015 by 29 percent, while the average sales price per ton decreased $1, or 11 percent. In the current year revenues from sales of timberland were $1.1 million less, due to a reduction in the number of acres sold. Oil and gas lease rental revenue decreased $.4 million, as the periods over which the prepaid lease rentals were recognized ended and the leased acreage became held by production. Oil and gas royalty revenues for 2016 declined $1.4 million from the prior year, due to a decrease in the volume of gas produced from the wells in which the Company has a royalty interest and a lower average sales price received for the natural gas produced in the Fayetteville Shale area. Revenue from hauling stumpage to other mills does not produce a margin since any revenue generated is offset by the cost of hauling the stumpage; however, revenue increased $.9 million from the prior year due to additional volume hauled.

Woodlands segment net sales in 2015 increased $1.8 million, or five percent, when compared to 2014 primarily due to a 21 percent increase in the volume of pine sawtimber harvested and a 13 percent increase in the average per-ton sales price for pine sawtimber. The pine pulpwood harvest volume increased slightly from 2014, and the average sales price per ton increased $1, or 13 percent. Revenues from hardwood pulpwood and hardwood sawtimber decreased $.6 million in 2015, primarily due to lower harvest volume. Oil and gas lease rental revenue decreased $.9 million, as the periods over which the prepaid lease rentals were recognized ended and the leased acreage became held by production. Oil and gas royalty revenues for 2015 declined $1.8 million from 2014, primarily due to the lower average sales price received for natural gas combined with a decrease in the volume of gas sold. Hunting lease revenue increased $.3 million from the prior year, primarily due to an increase in the average per-acre lease rate, partially offset by a decrease in the number of acres leased. Other income from well-site damages decreased $.2 million from 2014. Revenue from hauling stumpage to other mills has no margin, but there was a $1 million decrease in revenue from 2014.

Woodlands segment cost of sales in 2016 increased $.5 million or five percent, when compared to the prior year. In 2016, the cost of timberland acreage sold decreased $.5 million due to a decrease in the number of acres sold. The cost of hauling stumpage to other mills increased $.9 million from 2015, offsetting the previously noted increase in net sales from the hauling activity.

Woodlands segment cost of sales in 2015 decreased $.8 million, or seven percent, when compared to 2014. Cost of timberland sold increased $.3 million in 2015 due to the increase in the number of acres sold. The cost of hauling stumpage to other mills decreased $1 million from 2014, offsetting the decrease in net sales from the hauling activity.

Operating income for the Woodlands segment for 2016 decreased $2.1 million, or 11 percent, due to the items affecting net sales and cost of sales, combined with an increase in cost of fee timber harvested. The cost of fee timber harvested was 15 percent higher than in the previous year due to an increased volume of timber harvested and a higher average per-ton depletion rate.

Operating income for the Woodlands segment for 2015 increased $1 million, or five percent, due to the items affecting net sales and cost of sales, partially offset by the increase in cost of fee timber harvested. The cost of fee timber harvested was 28 percent higher in 2015, due to an increased timber harvest volume and a higher per-ton depletion rate.

Manufacturing

Selected financial and statistical data for the Manufacturing segment is shown in the following table.

		2016	2015	2014
Net sales (millions of dollars)				
Lumber	$	99.0	87.0	102.9
Residual by-products[1]		11.6	10.4	10.1
Medium density fiberboard (“MDF”)[2]		57.5	53.2	65.0
Freight invoiced to customer		10.3	10.4	12.6
Cost of sales – sawmill operations (millions of dollars)				
Raw materials	$	42.9	39.0	38.9
Change in inventory		(1.0)	(.3)	(.3)
Direct manufacturing expenses		31.5	29.7	27.7
Freight expense		3.5	3.9	5.0
Residual by-products		11.6	10.4	10.1
Depreciation – sawmill operations	$	6.5	5.5	4.8
Cost of sales – MDF operations (millions of dollars)				
Raw materials	$	23.6	23.7	31.1
Change in inventory		-	1.2	(1.0)
Direct manufacturing expenses		26.2	26.6	27.3
Freight expenses		6.7	6.4	7.7
Depreciation – MDF operations	$	7.5	7.3	6.8
Lumber				
Finished production (MMBF)		274	259	268
Sales volume (MMBF)		275	262	268
Sales price (per MBF)	$	361	332	383
MDF (3/4-inch basis)[1]				
Finished production (MMSF)[2]		104	92	114
Sales volume (MMSF)		104	95	112
Sales price (per MSF)	$	555	561	581

1 Residual by-product sales are reported net of intercompany eliminations.
2 On March 10, 2015, the MDF plant incurred a fire that curtailed operations for a portion of the first and second quarters. (For additional information, refer to Note 20 - Business Interruption Claim and Gain on Involuntary Conversion of Assets.)

The Manufacturing segment’s net sales in 2016 increased $17.6 million, or 11 percent, when compared to 2015. Revenue from lumber sales were $12.2 million, or 14 percent, higher when compared to 2015, due to a $29 per MBF increase in the average lumber sales price, combined with an increased sales volume. MDF sales revenues increased $4.3 million, or eight percent, when compared to 2015, due to a nine percent increase in sales volume, partially offset by a $6 per MSF decrease in the average sales price for MDF. The MDF sales volume in 2016 was higher than in 2015 by 8.7 million square feet, primarily due to increased plant uptime as 2015 production was impacted by a fire in the press area and other unplanned maintenance.

The Manufacturing segment’s net sales in 2015 decreased $28.9 million, or 15 percent, when compared to net sales in 2014. Revenue from lumber sales were $15.9 million, or 15 percent, lower when compared to 2014, due to a $51 per MBF decrease in the average lumber sales price combined with a lower sales volume. MDF sales revenues decreased $11.8 million, or 18 percent, when compared to sales in 2014 due to a lower sales volume and a decreased average sales price. The MDF sales volume in 2015 was lower than in 2014 by 17.1 million square feet, primarily due to plant downtime caused by the fire on March 10, 2015 and other unplanned maintenance. The average sales price for MDF was $20 per thousand square feet less than received in the prior year.

The cost of sales for the Manufacturing segment in 2016 increased $5.6 million when compared to 2015. The cost of sales of the sawmill operations in 2016 increased $7.4 million from 2015, due to a $3.9 million increase in raw material costs resulting from increased lumber production, and a $1.8 million increase in direct operating expenses, primarily salaries and benefits. These increases were partially offset by a $1.9 million favorable variance due to year-end inventory increases, primarily at the MDF facility, and a $.4 million reduction in freight costs. The cost of sales for MDF operations in 2016 decreased $1.4 million from 2015, due to lower direct operating costs of $.4 million, mainly reduced maintenance and utilities; partially offset by an increased salary expense. The intersegment elimination of residual sales by sawmill operations to MDF operations are not reflected in the cost of sales amounts reported above and that cost increased $1.6 million period-over-period.

The cost of sales for the Manufacturing segment in 2015 decreased $4.7 million when compared to 2014. The cost of sales of the sawmill operations in 2015 increased $.9 million from 2014, due to a $2 million increase in direct operating expenses, primarily salaries and benefits, a $.1 million increase in raw material costs, partially offset by $1.1 million reduction in freight costs. The cost of sales for MDF operations in 2015 decreased $7.3 million from 2014, due to a fire-related curtailment of production, and to other unplanned maintenance downtime, which resulted in a $7.4 million decrease in raw material costs, a $.7 million decrease in direct operating expenses and $1.3 million reduction in freight expense. These cost reductions were partially offset by a $2.2 million increase in cost of sales due to the decrease in inventory carrying value, as the Company sold more MDF in 2015 than it produced. Wood chips, resin, and wax are primary raw materials used in the manufacture of MDF. The Company had insurance coverage for the property damage and business interruption caused by the fire and recognized expenses associated with the deductibles for the policies in the first half of 2015, which amounted to $1 million for the property policy and approximately $.9 million for the business interruption policy. The intersegment elimination of residual sales by sawmill operations to MDF operations are not reflected in the cost of sales amounts reported above and that cost decreased $.5 million from 2014.

Operating income for the Manufacturing segment increased $10.8 million in 2016 when compared to 2015, due to the factors affecting net sales and cost of sales; partially offset by a decrease of $1.2 million in other operating revenues mainly due to the Company recording gains on involuntary conversion of assets and a business interruption claim associated with a fire at the MDF plant in 2015. There were no such gains in 2016.

Operating income for the Manufacturing segment decreased $23.1 million in 2015 when compared to 2014, due to the decline in average sales prices, the MDF plant incurring unscheduled downtime due to the fire in the press area, operational issues during the restart of the MDF plant after the fire, and other unplanned maintenance downtime throughout the year. Partially offsetting these decreases were other income from the settlement of a business interruption claim at the Company's MDF plant of $.5 million and gains on involuntary conversion of assets of $.7 million, compared to losses on asset disposals of $1.1 million in 2014.

Real Estate

Selected financial and statistical data for the Real Estate segment is shown in the following table.

		2016	2015	2014
Net sales (millions of dollars)				
Residential lots	$	10.6	8.4	8.2
Commercial acres		7.0	-	.9
Speculative homes		.3	-	.3
Chenal Country Club		6.2	6.4	6.3
Cost of sales (millions of dollars)				
Residential lots	$	5.7	4.6	4.3
Commercial acres		1.3	-	.4
Speculative homes		.3	-	.3
Chenal Country Club		6.3	6.4	6.6
Sales volume				
Residential lots		130	100	98
Commercial acres		34.0	-	1.7
Speculative homes		1	-	1
Average sales price (thousands of dollars)				
Residential lots – per lot	$	82	84	84
Commercial acres – per acre		207	-	501
Speculative homes – per home		291	-	300

Net sales for the Real Estate segment for 2016 increased $9.5 million when compared to 2015, primarily due to $7 million of sales of commercial real estate acreage, combined with increased residential lot sales revenues of $2.2 million, and a sale of a speculative home.

Net sales for the Real Estate segment in 2015 decreased $1 million when compared to 2014, primarily due to no sales of commercial acreage or speculative homes in 2015, partially offset by more sales of residential lots.

Cost of sales for the Real Estate segment in 2016 increased $2.6 million from 2015 due to the cost related to the sales of commercial real estate acreage and a speculative home in 2016, compared to no sales of commercial acreage or homes in 2015, combined with a $1.4 million increase in cost of residential lot sales due to the increase in the number of residential lots sold.

Cost of sales for the Real Estate segment decreased $.4 million in 2015 when compared to 2014, due to no cost of sales for commercial acreage or speculative homes combined with a $.2 million decrease in cost of sales at the Chenal Country Club, partially offset by higher costs for residential lots.

Real Estate operating income in 2016 increased $7 million from 2015, primarily due to the margin on the sales of commercial acreage and the increase in the number of residential lots sold, partially offset by increased net real estate sales commission and closing cost expenses associated with the increased residential lot sales.

Real Estate operating income in 2015 decreased $.7 million from 2014, primarily due to no sales of commercial real estate acreage combined with increased property owner's association assessment expenses and increased operating salaries and benefits expenses in the current year.

Corporate

General and administrative expense for the Corporate segment increased $5.6 million when compared to 2015. This was mainly due to $3.1 million of non-recurring salaries, benefits, and incentive plan expenses related to the retirement of the Company's former President and CEO. Other significant increases in general and administrative expense included increased charitable contributions, legal, and professional fees. Operating expense in 2015 for the Corporate segment was $.1 million lower when compared to 2014, due to decreased general and administrative expenses.

Eliminations

Intersegment sales of timber from Deltic's Woodlands segment to the Manufacturing segment were $22 million in 2016, $20.9 million in 2015, and $15.5 million in 2014. The $1.1 million increase during 2016 and the $5.4 million increase in 2015 was due primarily to a larger volume of sawtimber harvested from fee timberlands and transferred to the sawmills combined with increased per-ton transfer prices. Transfer prices are approximately that of market.

Interest Expense

Interest expense for 2016 increased $1.9 million, due to increased borrowings used to fund a portion of share repurchases and capital expenditures, combined with a higher weighted-average interest rate on debt outstanding. Interest expense increased $2.1 million in 2015 when compared to 2014. The increase was due to increased borrowings to fund share repurchases and capital expenditures, combined with the impact of a higher fixed interest rate on the $100 million term note obtained during 2015 than was incurred for the previous borrowings under the Company's revolving credit facility that were repaid with the proceeds of the term note.

Income Taxes

The effective income tax rate in 2016 was 26 percent, compared to 29 percent in 2015 and 33 percent in 2014. The lower effective income tax rate for 2016, was primarily due to the tax benefit of the passage of federal tax legislation in December 2015 that lowered the income tax rate for gains on sales of timber held longer than 15 years for the year of 2016. Current tax benefits of $1.3 million was recognized in 2016 due to the reduced rate, compared to tax benefits of $.2 million recognized in 2015 based on the amount of temporary differences that were expected to be realized on timber gains at the lower income tax rate in the 2016 tax year.

Liquidity and Capital Resources

Cash Flows and Capital Expenditures

Net cash provided by operating activities totaled $43.6 million for the year of 2016, which compares to $29.7 million for 2015 and $31.5 million for 2014. Changes in operating working capital other than cash and cash equivalents provided cash of $5.6 million in 2016, required cash of $2.9 million in 2015, and provided cash of $9.2 million in 2014. The Company's accompanying consolidated statements of cash flows and Note 17 of the consolidated financial statements identify other differences between income and cash provided by operating activities for each reported year.

Total capital expenditures, by segment, for the years ended December 31, 2016, 2015, and 2014 are presented in the following table.

(Millions of dollars)	2016	2015	2014
Woodlands	$ 3.8	3.7	4.0
Manufacturing	32.3	24.3	12.3
Real Estate, including development expenditures	8.5	7.7	3.9
Corporate	.2	1.7	.1
Total capital expenditures	44.8	37.4	20.3
Adjustment for non-cash accrued liabilities	2.3	(1.6)	(.7)
Total capital expenditures requiring cash	$ 47.1	35.8	19.6

Woodlands capital expenditures included reforestation site preparation and planting, and required $3.6 million in 2016, $3.4 million in 2015, and $3.9 million in 2014. The Company had timberland acquisition expenditures of $1.8 million in 2016 for approximately 1,000 acres, $.9 million in 2015 for approximately 500 acres, and $118.2 million in 2014 of 72,200 acres. Funds for the 2016 and 2015 timberland acquisitions were provided by the Company's operations, while most of the 2014 acquisitions were funded with Deltic's revolving credit facility.

Manufacturing capital expenditures in 2016 totaled $32.3 million, including $26.9 million at the Ola sawmill, $2 million at the Waldo sawmill, and $3.4 million at the MDF plant. Ola sawmill expenditures included $24 million towards the completion of the construction of a small-log processing line, $1.2 million for lumber drying kilns, $.3 million for an edger, and $1.4 million for various mill upgrades and equipment replacements. Waldo sawmill capital expenditures included $.5 million toward the replacement of a log loader, $.4 million for hard surfacing, and $1.1 million for various mill upgrades and equipment replacements. Capital expenditures at the MDF plant consisted of $.8 million for a diagonal saw system upgrade, $.7 million to replace bottom press chain and guides, and $2 million for various plant upgrades and equipment replacements.

Manufacturing capital expenditures in 2015 included $15.2 million at the Ola sawmill, $3 million at the Waldo sawmill, and $6.1 million at the MDF plant. Ola sawmill expenditures included $3.4 million for kilns, $2.4 million for an edger, $3.7 million toward the construction of a small-log line, $1.6 million for a sorter modification, $1.1 million for a packaging maker, and $3 million for various mill upgrades and equipment replacements. Waldo sawmill capital expenditures included $.3 million toward the conversion of the kiln to continuous-feed, $1.1 million for boiler modifications, and $1.6 million for various mill upgrades and equipment replacements. Capital expenditures at the MDF plant included amounts used to replace equipment lost in the fire and other upgrades, and consisted of $1.7 million for press belts and $.3 million for duct replacement, $.9 million to rebuild the face refiner, $.5 million to rebuild heat exchanger, and $2.7 million for various plant upgrades and equipment replacements.

Manufacturing capital expenditures during 2014 included $5.2 million at the Ola sawmill, $4 million at the Waldo sawmill, and $3.1 million at the MDF plant. Ola sawmill expenditures consisted of $2 million for an edger installation, $1 million for an OLI primary breakdown optimization upgrade, $.7 million for a trimmer sorter upgrade, $.6 million to begin work on replacing a direct-fired kiln, and $.9 million for various mill upgrades and equipment replacements. Capital expenditures at the Waldo sawmill consisted of $2.1 million for conversion to a continuous-feed kiln, $.8 million for a gang saw optimization, and $1.1 million on various mill upgrades and equipment replacements. Del-Tin Fiber's capital expenditures included $1.4 million for press belts, $.5 million to rebuild a face refiner, and $1.2 million for various plant upgrades and equipment replacements.

Capital expenditures for Real Estate operations related to the cost of residential lot development totaled $3.7 million in 2016, $2.4 million in 2015, and $1.3 million in 2014. There were no capital expenditures for commercial development in 2016, compared to $.2 million in 2015, and $.6 million in 2014. There was $.2 million in land-acquisition expenditures in 2016, but no such expenditures in either 2015 or 2014. Infrastructure-related projects required $4.5 million in 2016, due primarily to the widening of Rahling Road, a major thoroughfare in Chenal Valley; $5.2 million in 2015; and $1.7 million in 2014. Expenditures for golf course maintenance equipment at Chenal Country Club totaled $.1 million in 2016 and $.3 million for both 2015 and 2014.

Deltic had commitments of $10.1 million for capital projects in progress at December 31, 2016. The Woodlands segment had committed $.1 million for site prep and $.4 million for timberland acquisitions, the Manufacturing segment had $6.5 million committed for various projects, and the Real Estate segment had committed $3.1 million, primarily for lot development infrastructure.

Other investing cash activities included the change in purchased stumpage inventory, which required cash of $1.2 million in 2016, compared to providing cash of $.8 million in 2015. Initiation fees received from members joining Chenal Country Club are accounted for as a reduction in cost basis of the club rather than as net sales and amounted to $.1 million in 2016, compared to $.3 million in both 2015 and 2014.

The Company had net borrowings on the Company's revolving credit facility in 2016 of $17 million, and were used to fund a portion of share repurchases and capital expenditures made during 2016. In addition, the Company borrowed $40 million from its revolving credit facility to repay a $40 million private placement note that reached maturity. The Company had net borrowings of $21 million in 2015 to partially fund share repurchases and capital expenditures. Deltic also borrowed $100 million in 2015 through a new ten-year term and paid down its revolving credit facility. (For more information about the loan agreement, refer to Note 9 in the consolidated financial statements.) The Company borrowed $120 million under its revolving credit facility in 2014 and used $118 million of proceeds to finance the timberland acquisition of 72,200 acres. Cash flow from operations provided funds for the repayment of $7 million under the revolving credit facility in 2014.

Purchases of treasury stock totaled $17 million in 2016, compared to $15.3 million in 2015 and $7.9 million in 2014. Cash required to pay common stock dividends was $4.9 million in 2016, $5 million in 2015, and $5.1 million in 2014. Proceeds and tax benefits from stock option exercises amounted to $5.8 million in 2016, compared to $1.2 million in 2015 and $.4 million in 2014. Costs of $.7 million in 2016, $.8 million in 2015, and $.6 million in 2014, were paid for commitment fees related to Deltic's revolving credit facility. In 2014, the Company incurred $.7 million in fees to facilitate amendments and extensions of its unsecured and committed revolving facility, with no such fees in 2016 or 2015. In 2015, Deltic incurred $.2 million in fees to secure a $100 million ten-year term loan.

Financial Condition

At December 31, 2016, Deltic had adjusted working capital of $10.2 million, compared to $12.2 million at December 31, 2015. The Company defines adjusted working capital as the net of current assets and liabilities excluding current maturities of long-term debt. Cash and cash equivalents at the end of 2016 were $5.8 million compared to $2.8 million at the end of 2015. The total indebtedness of the Company at December 31, 2016 was $241 million. This compares to indebtedness at December 31, 2015 of $224 million, which included current maturities of long-term debt of $39.9 million. Deltic's total debt to stockholders' equity ratio at December 31, 2016 was .959 to 1, compared to .881 to 1 at the end of 2015.

Liquidity

The primary sources of the Company's liquidity are internally generated funds, access to outside financing, and working capital. The Company's current strategy for growth continues to emphasize its timberland acquisition program, expanding lumber production as market conditions allow, and developing residential and commercial properties at Chenal Valley, Wildwood Place, and Red Oak Ridge. The Company's total projected capital expenditures for 2017 are approximately $34.5 million, consisting of $9.7 million of capital committed in the prior year, combined with $24.8 million budgeted for new projects in 2017. Projected capital expenditures for timberland acquisitions total $2.2 million for 2017, $.4 million of which is committed capital from 2016. Capital, timberland acquisitions, and other expenditures are under constant review, and these budgeted amounts may be adjusted to reflect changes in the Company's estimated cash flows from operations, borrowings or repayments under credit facilities, or general economic conditions.

To facilitate its growth plans, the Company has an agreement with a group of banks that provides an unsecured and committed revolving credit facility. This agreement included (1) an option to request an increase of $50 million in revolving commitments and (2) options to request two twelve-month extensions of the facility's maturity date. On January 6, 2016, the Company exercised the first of its two options to extend the credit facility maturity date, with the new date of November 17, 2020. In addition, on February 4, 2016, Deltic elected to replace two lenders in the Credit Agreement. Accordingly, the respective rights and obligations of Wells Fargo Bank, N.A. and Branch Banking and Trust Company were assigned to one new lender, Greenstone Farm Credit Services, ACA and one existing lender, American AgCredit, PCA, in the amounts of $27 million and $123 million, respectively. The credit agreement contains restrictive covenants, including limitations on the incurrence of debt and requirements to maintain certain financial ratios. (For additional information about the Company's current financing arrangements, refer to Note 8 to the consolidated financial statements.) On July 29, 2016, the Company utilized a portion of the $50 million letter of credit component available under its revolving credit facility to replace the letter of credit that expired on August 31, 2016, that supports the Union County, Arkansas Taxable Industrial Revenue Bonds that total $29 million. As of December 31, 2016, the facility totaled $430 million, with $142 million outstanding in borrowings and letters of credit, leaving $288 million available.

The table below sets forth the ratio requirements of the covenants in both the revolving credit facility and Term Loan Credit Agreement and the status with respect to these covenants as of December 31, 2016 and 2015.

	Covenants Requirements	Actual Ratios at Dec. 31, 2016	Actual Ratios at Dec. 31, 2015
Leverage ratio should be less than:[1]	.65 to 1	.490 to 1	.469 to 1
Total outstanding debt as a percentage of total debt allowed based on the minimum timber market value covenant:[2]	–[2]	79.59%	74.01%

[1] The leverage ratio is calculated as total debt divided by total capital employed. Total debt includes indebtedness for borrowed money, secured liabilities, obligations in respect of letters of credit, and guarantees. Total capital employed is the sum of total debt and net worth. Net worth is calculated as total assets minus total liabilities, as reflected on the balance sheet. This covenant is applied at the end of each quarter.

[2] Timber market value must be greater than 175 percent of total debt (as defined in (1) above). The timber market value is calculated by multiplying the average price received for sales of timber for the preceding four quarters by the current quarter's ending inventory of timber. This covenant is applied at the end of the quarter on a rolling four-quarter basis.

Based on management's current operating projections, the Company believes it will remain in compliance with the debt covenants and have sufficient liquidity to finance operations and pay all obligations. However, depending on market conditions and in the event of economic deterioration, the Company could request amendments, waivers for the covenants, or obtain refinancing in future periods. There can be no assurance that the Company will be able to obtain amendments or waivers or negotiate agreeable refinancing terms should it become needed.

In December 2000, the Company's Board of Directors authorized a stock repurchase program of up to $10 million of Deltic common stock. The Board of Directors expanded the program by $25 million in December 2007 and by another $25 million in December 2014. On February 18, 2016, the Board of Directors expanded the program by another $20 million. As of December 31, 2016, the Company had expended a total of $56.9 million under this program, with the purchase of 1,099,054 shares at an average cost of $58.07 per share; of those, 309,739 shares at an average cost of $54.97 per share were purchased in 2016, 250,789 shares at an average cost of $60.81 per share were purchased in 2015, and 131,832 shares were purchased at an average cost of $59.61 per share in 2014. In its two previous repurchase programs, Deltic purchased 479,601 shares at an average cost of $20.89 and 419,542 shares at a $24.68 per share average cost, respectively.

Off-Balance Sheet Arrangements, Contractual Obligations, and Commitments

The Company has both funded and unfunded noncontributory defined benefit retirement plans that cover the eligible employees of Deltic, excluding employees of the subsidiaries. The plans provide defined benefits based on years of service and final average salary. Deltic also has other postretirement benefit plans covering eligible employees, except for employees of the subsidiaries. These plans consist of a health care plan, which is contributory with participants' contributions adjusted as needed, and a noncontributory life insurance plan. With regards to all of the Company's employee and retiree benefit plans, Deltic is unaware of any trends, demands, commitments, events, or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way, or which would cause the 2016 reported plan information not to be necessarily indicative of future operating performance or future financial condition. (For information about material assumptions underlying the accounting for these plans and other components of the plans, refer to Note 15 to the consolidated financial statements.)

As of December 31, 2016, the Company is not involved in any unconsolidated special-purpose entity transactions.

Tabular summaries of the Company's contractual cash payment obligations, estimated obligations, and other commercial commitment expirations, by period, are presented in the following tables.

(Millions of dollars)	Total	During 2017	2018 to 2019	2020 to 2021	After 2021
Contractual cash payment obligations					
Real estate development committed capital costs	$ 3.9	1.1	.5	2.3	-
Woodlands committed capital costs	.4	.4	-	-	-
Manufacturing committed capital costs	6.4	6.4	-	-	-
Long-term debt	241.0	-	-	112.0	129.0
Interest on debt[1]	37.7	4.3	8.6	8.6	16.2
Funded retirement plan[2]	1.6	1.6	-	-	-
Unfunded retirement plan[3]	4.4	.3	.8	.8	2.5
Other postretirement benefits[4]	5.8	.1	1.0	1.2	3.5
Other liabilities	1.6	1.6	-	-	-
	$ 302.8	15.8	10.9	124.9	151.2
Other commercial commitment expirations					
Timber cutting agreements	$ 2.3	.4	1.9	-	-
Letters of credit	.4	.1	.3	-	-
	$ 2.7	.5	2.2	-	-

[1] Interest commitments are estimated using the Company's current interest rates for the respective debt agreements over their remaining terms to expiration.

[2] The Company's funded pension plan payments are based on estimated minimum required contributions for year one as provided by the Company's consulting actuary. Deltic is not able to reliably estimate the required contributions beyond year one. Benefits paid by the funded pension plan are paid through a trust. Estimated payments from the trust to retirees are not included in this table.

[3] The Company's unfunded retirement plan payments are based on expected future benefit payments as disclosed in Note 15 − Employee and Retiree Benefit Plans in the notes to consolidated financial statements for years one through ten. Deltic cannot reliably estimate the payments beyond year ten as they are not provided by the Company's actuary and are subject to a variety of factors.

[4] Included in other postretirement benefits are payments under the Company's other postretirement benefit plan based on expected future benefit payments as disclosed in Note 15 − Employee and Retiree Benefit Plans in the notes to consolidated financial statements for years one through ten. Deltic cannot reliably estimate the payments beyond year ten as they are not provided by the Company's consulting actuary and are subject to a variety of factors.

Outlook

Deltic's management believes that cash provided from its operations, the remaining amount available under its credit facility, and its ability to access the credit markets will be sufficient to meet its expected cash needs and planned expenditures, including those of the Company's continued timberland acquisition and stock repurchase programs, and capital expenditures, for the foreseeable future.

The preceding discussion of the Company's liquidity and capital resources contains "forward-looking statements" which were made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements reflect the Company's current expectations and involve risks and uncertainties. Actual results could differ materially from those included in such forward-looking statements.

Other Matters

Impact of Inflation — General inflation has not had a significant effect on the Company's operating results during the three years ended December 31, 2016. The Company's timber operations are more significantly impacted by the forces of supply and demand in the southern United States than by changes in inflation. Lumber manufacturing operations are affected by the supply of lumber available in the North American market and by the demand for lumber by both the North American and foreign export markets. Sales of real estate are affected by changes in the general economy, employment levels, new and existing housing inventories, lending restrictions, and long-term interest rates, specifically as such may manifest themselves in the central Arkansas region.

Market Risk — Market risk represents the potential loss resulting from adverse changes in the value of financial instruments, either derivative or non-derivative, caused by fluctuations in interest rates, foreign exchange rates, commodity prices, and equity security prices. The Company handles market risks in accordance with its established policies; however, Deltic does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company does consider, on occasion, the need to enter into financial instruments to manage and reduce the impact of changes in interest rates. During the three-year period ended December 31, 2016 the Company entered into a ten-year, fixed rate term loan in August 2015. In addition, Deltic held various financial instruments at December 31, 2016 and 2015, consisting of financial assets and liabilities reported in the Company's Consolidated Balance Sheets and off-balance sheet exposures resulting from contractual debt guarantees and letters of credit issued for the benefit of Deltic, primarily in connection with its purchased stumpage procurement and real estate operations. (For additional information regarding these financial instruments, refer to the previous tabular summary of the Company's other commercial commitment expirations and to Note 12 to the consolidated financial statements.)

Interest Rate Risk — The Company is subject to interest rate risk from the utilization of financial instruments, such as term debt and other borrowings. The fair market value of long-term, fixed-interest rate debt is subject to interest rate risk. Generally, the fair value of fixed-interest rate debt will increase as interest rates fall and will decrease as interest rates rise. Conversely, for floating rate debt, interest rate changes generally do not affect the instruments' fair value but do influence future earnings and cash flows, assuming other factors are held constant. The estimated fair values of the Company's long-term debt, including current maturities, and letters of credit at December 31, 2016 were $241 million and $.4 million, respectively. A one percentage-point increase in prevailing interest rates would result in a decrease in the estimated fair value of long-term debt by $7.4 million, while the fair value of contractual guarantees and the Company's letters of credit would be unchanged. Fair values were determined using the current rates at which the Company could enter into comparable financial instruments with similar remaining maturities.

Foreign-Exchange Rate Risk — The Company currently has little exposure to foreign-exchange rate risk, because essentially all of its financial instruments, sales, and purchases are denominated in U.S. dollars.

Commodity Price Risk — The Company has no financial instruments subject to commodity price risk.

Equity Security Price Risk — None of the Company's financial instruments has potential exposure to equity security price risk.

The preceding discussion of the Company's estimated fair value of its financial instruments and the sensitivity analyses resulting from hypothetical changes in interest rates are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect the Company's current expectations and involve uncertainties. These forward-looking market risk disclosures are selective in nature and only address the potential impact from financial instruments. They do not include other potential effects that could influence Deltic's business because of changes in interest rates, foreign-exchange rates, commodity prices, or equity security prices.

Critical Accounting Policies and Estimates

The Company has identified six of its current accounting policies as being, in management's view, critical to the portrayal of the Company's financial condition and results of operations. Additionally, five of these policies require significant assumptions and/or estimates on the part of management as it pertains to certain factors inherent in the policies. The Company's senior management has discussed the development and selection of its critical accounting policies and estimates with the Company's Audit Committee. Deltic has not made any material changes to its critical accounting estimates in the last three years. These policies, along with explanations of the key assumptions and/or estimates considered by management, are described below. (For a listing of all significant accounting policies of the Company, refer to Note 1 to the consolidated financial statements.)

1) *Investment in Real Estate Held for Development and Sale* — Real estate held for development and sale includes direct costs of land, land development, and indirect costs, including amenities. Indirect and amenity costs are allocated to individual lots or acreage sold based on relative sales value. Direct costs are allocated to the specific neighborhood or commercial real estate acreage, while indirect costs for the Company's four development areas – Chenal Valley, Wildwood Place, Chenal Downs, and Red Oak Ridge – are allocated to neighborhoods over the entire respective development area based on relative retail values. Management makes the determination of future indirect development costs and the potential future retail value and in so doing considers, among other factors, the cost projections for its development plans provided by independent professional engineering consultants and retail values as provided by independent appraisers.

   The key factors involved in determining the Investment in Real Estate Held for Development and Sale are: (1) the treatment of the clubhouse and golf courses at Chenal Country Club, the amenity around which the Chenal Valley development is centered, as an amenity rather than an operating fixed asset and (2) the management estimates required to estimate the future indirect development costs and sales values of the areas of Chenal Valley yet to be developed. Due to accounting for Chenal Country Club as an amenity, the cost of the clubhouse and golf course, including the estimated cost of planned future improvements, is charged against income as real estate is sold rather than depreciating this cost. This amenity treatment also records the initiation fees received from members joining the club as a reduction in the cost basis of the club rather than as net sales. In addition, the Company's model for allocating the indirect cost to be expensed against each piece of real estate sold requires management to estimate the future indirect costs to be incurred for the entire development, primarily infrastructure costs and future improvements at Chenal Country Club (net of estimated future initiation fees to be received), as well as the potential market value of each tract of undeveloped property within the Chenal Valley development.

Deltic's Investment in Real Estate Held for Development and Sale primarily consists of residential lots, commercial acreage, and undeveloped acreage marketed to others for further development. Deltic periodically evaluates its holdings for indications of conditions that would lead to an impairment analysis as required by accounting for subsequent measurement of property, plant, and equipment. Since sales of commercial real estate acreage are both unpredictable and sporadic, assessment of the recoverability of the investment in this acreage is considered routinely by the Company. However, Deltic's residential and commercial acreage held for development and sale both consist of lands primarily composed of former legacy timberland in which the Company has a relatively low cost basis, such that sales of commercial real estate acreage and residential lots have historically yielded gross margins of approximately 83 percent and 45 percent, respectively. Based on the level of the gross margin percentage realized on commercial acreage previously sold, the Company estimates that sales prices for commercial acreage would have to decline substantially for there to be a possibility of an impairment of the investment in this asset. The difference in the gross margin percentages realized for commercial real estate acreage and residential lot sales is primarily attributable to the fact that direct development cost of a specific tract is typically incurred by the buyer/developer for commercial acreage but by Deltic for residential lots. In addition to the positive margins earned on its prior commercial acreage sales, information utilized by the Company in assessing the recoverability of its commercial real estate acreage held for sale, includes listed prices for commercial sites and sales prices for commercial acreage sale transactions in the area reported in local business publications. The indirect infrastructure required to develop residential lots to sell is shared by the commercial acreage held for sale, and as such, the Company allocates the costs incurred in the Chenal Valley development among all properties based on their estimated net realizable value. Due to this allocation process, which is updated annually, costs are not differentiated between commercial and residential property for purposes of reporting carrying value. However, based on historical percentages of costs allocated to commercial acreage sold, the carrying value of Deltic's commercial acreage approximates $22.4 million at December 31, 2016. With the current percentage of gross margin realized on sales of commercial acreage, the estimated fair value of this asset is substantially in excess of its carrying value.

2) *Timber and Timberlands* — Timber and timberlands, which include timberland, fee timber, purchased stumpage inventory, and logging facilities, are stated at cost less cost of fee timber harvested and accumulated depreciation of logging facilities and include no estimated future reforestation cost. The cost of timber consists of fee timber acquired and reforestation costs, which include site preparation, seedlings, and reforestation labor. The cost of fee timber harvested is based on the volume of timber harvested in relation to the estimated volume of timber recoverable. Logging facilities, which consist primarily of roads constructed and other land improvements, are depreciated using the straight-line method over a ten-year estimated life. The Company estimates its fee timber inventory using statistical information and data obtained from physical measurements and other information-gathering techniques. Fee timber carrying costs, commercial thinning, silviculture, and timberland management costs are expensed as incurred.

   The Company classifies its timberlands and fee timber as either strategic or non-strategic. Strategic timberlands, including pine forest and pine plantations, are prime pine sawtimber-growing platforms located within or immediately adjacent to the Company sawmills' operating regions. Deltic manages these acres using modern silviculture methods to achieve optimal volume and quality of its pine sawtimber. The Company harvests sawtimber and pulpwood in accordance with its harvest plans and generally converts sawtimber into lumber in its own sawmills and sells pulpwood in the market. Upon harvest, strategic timberlands are reforested. The Company's timberland acquisition program is focused on the acquisition of timberland in its current operating regions. The Company considers the acquisition and the occasional sale of strategic timberlands as investing activities. The Company has legacy hardwood and other acreage which either cannot be harvested for conversion in Company sawmills, reforested as pine plantations, managed efficiently using modern silviculture methods due to the size of the tract or proximity to other Deltic fee timberlands, or all three.

These timberlands have been identified as non-strategic and/or higher and better use timberlands and are expected to be sold over time. The Woodlands segment manages an annual program to sell a portion of these non-strategic timberlands and/or harvest hardwoods for the sale to third parties. The Company considers this program as an operating activity of its Woodlands segment.

In order to acquire and sell assets, primarily timberlands, in a tax efficient manner, the Company enters into like-kind exchange (“LKE”) tax-deferred transactions. The Company generally enters into forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property, and reverse transactions, in which property is acquired and similar property is subsequently sold. A qualified LKE intermediary is used to facilitate LKE transactions. Proceeds from forward LKE transactions are held by the intermediary and are classified as restricted cash, because the funds must be reinvested in similar properties. If the acquisition of suitable LKE properties is not completed within 180 days of the sale of the company-owned property, the proceeds are distributed to Deltic by the intermediary and are reclassified as available cash, and applicable income taxes are determined. Amounts deposited with a third party towards the potential future purchase of property are included in deferred charges and other assets in the consolidated balance sheets and as an investing activity shown as funds held by trustee in the consolidated statements of cash flows. There were no funds deposited with a LKE intermediary at December 31, 2016, 2015, or 2014. An exchange accommodation titleholder, a type of variable interest entity, is used to facilitate reverse like-kind exchanges. The acquired assets are held by the exchange accommodation titleholder until the exchange transactions are complete. If the Company determines that it is the primary beneficiary of the exchange accommodation titleholder, Deltic includes the assets held by the exchange accommodation titleholder in timber and timberland assets on the consolidated balance sheets and recognizes any income or expense attributed to the property in the consolidated income statements.

The key components of the Timber and Timberlands policy are: (1) management’s decision to maintain separate timber cost pools for each legal entity within the Deltic consolidated group and (2) the required estimation of timber inventory volume, by species, for each of these companies in order to calculate the cost of fee timber harvested per ton. Management has elected to maintain a separate cost pool for the timber owned by each company, thus resulting in a different cost per ton for fee timber harvested for each. The mix of harvest by company for any period can significantly affect the amount of cost of fee timber harvested expense reported. Per-ton costs for 2016 ranged from $7.48 to $20.36 per ton for pine sawtimber. Had the Company opted to use a composite depletion rate, cost of pine sawtimber harvested would have been $.3 million less in 2016, $.4 million less in 2015, and $.5 million less in 2014, ($.2 million less for 2016, $.3 million less for both 2015 and 2014 net of applicable income taxes) than as reported, due to the mix of harvest by company during the year. In determining these rates, management must estimate the volume of timber existing on its timberlands. To estimate these fee timber inventories, the Company relies on its experienced forestry personnel and their use of statistical information and data obtained by actual physical measurements and other information-gathering techniques. The recognized cost of fee timber harvested is impacted by the accuracy of this volume estimation. (For additional information about the Company’s timber and timberlands, refer to Note 4 to the consolidated financial statements.)

Assets used in the Woodlands segment shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The recoverability test is based on undiscounted future cash flows over the expected life of the asset. Impairment recognition and measurement would occur at the lowest level for which Deltic has identifiable cash flows. At December 31, 2016, the composite basis in fee timber was $9 per ton assuming no future growth. Gross margin on pine sawtimber for 2016, when the average sales price was $28 per ton, was 70 percent.

A harvest cycle (which ranges between 20 and 35 years) would be used to evaluate the recoverability of the Company's timber and timberlands. Due to the long life and low basis, the Company does not expect to incur impairment loss in the future for its timber and timberland assets.

3) *Property, Plant, and Equipment* — Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation of buildings, equipment, and other depreciable assets is primarily determined using the straight-line method. Expenditures that substantially improve and/or increase the useful life of facilities or equipment are capitalized. Maintenance and repair costs are expensed as incurred. Gains and losses on disposals or retirements are included in income as they occur.

   Property, plant, and equipment assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases.

   Management also evaluates any asset or group of assets for which potential impairment might exist and has determined that there are none requiring an impairment write-down. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process might indicate impairment exists, the appropriate asset's carrying value would be written down to fair value, and the amount of the write-down would be charged against the results of continuing operations. (For additional information about the Company's property, plant, and equipment, refer to Note 5 to the consolidated financial statements.)

4) *Share-Based Compensation* — The Company uses fair value recognition provisions for share-based payment transactions. Under the fair value recognition provisions, share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. For the valuation of stock options, Deltic uses a binomial model to estimate fair value. The fair value of restricted stock awards is determined by reference to the fair market value of the Company's common stock on the date of grant. For restricted stock performance units, the Monte Carlo simulation is used to estimate fair value. The Company recognizes compensation cost on a straight-line basis over the requisite service period.

   Deltic issues restricted stock performance units whose vesting is contingent upon meeting certain financial performance goals based upon the Company's total stockholder return compared to the total return of a Paper and Forest Products Index ("the Index") selected by the Compensation Committee and calculated by Standard and Poor's. Determining the appropriate amount to expense is based on likelihood of achievement of the stated goals and requires judgment, including forecasting future financial results. This estimate may be revised periodically due to changes in awards. The cumulative impact of any revision is reflected in the period of change.

   The Company uses historical volatility over the ten-year trading life of its stock to determine weighted expected volatility assumptions. The expected dividend yield is based on the Company's average dividend yield from 2012 to 2015. The expected option term is based on the term of the option, historical exercise, and expiration experience. Risk-free interest rates are based on historical rates and forward-looking factors. The pre-vesting forfeiture rate is based on historical rates and forward-looking factors.

Assumptions for the 2016, 2015, and 2014 valuation of stock options and restricted stock performance units consisted of the following:

	2016	2015	2014
Weighted expected volatility	38.16%	38.64%	37.38%
Dividend yield	.59%	.56%	.55%
Expected term of options (in years)	6.27	6.27	6.27
Risk-free interest rate – stock options	2.13%	1.92%	2.99%
Risk-free interest rate – restricted stock performance units	1.34%	1.15%	1.23%

5) *Revenue Recognition* — The Company recognizes revenue when the following criteria are met: (1) persuasive evidence of an agreement exists, (2) delivery has occurred or services have been rendered, (3) the price to the buyer is fixed and determinable, and (4) collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. Revenue from the sale of lumber, MDF, and wood by-products is recorded at the time of shipment due to terms of such sale being designated free on board ("f.o.b.") shipping point. Revenue from consignment sales is recorded when the customer assumes ownership of the product. Revenue from the sale of timber-cutting rights to third parties is recorded when legal title passes to the purchaser, which is generally upon delivery of a legally executed timber deed and receipt of payment for the timber. Revenue from intersegment timber sales is recorded when the timber is harvested. Such intersegment sales, which are made at prices, which generally approximate market, are eliminated in the consolidated financial statements. Revenue from timberland and real estate sales is recorded at the time the purchaser executes the real estate closing documents and makes payment to the title company handling the closing. When oil and gas lease rental agreements are signed and the amounts are received, they are recorded as either short-term or long-term deferred revenue, and the revenue is recognized on a straight-line basis over the term of the lease. The Company's share of gross oil and gas royalties is recorded as revenue when received, and any related severance tax or other deductions are included in operating expenses.

6) *Income Taxes* — The Company uses the asset and liability method of accounting for income taxes. Under this method, the provision for income taxes includes amounts currently payable and amounts deferred as tax assets and liabilities, based on differences between financial statement carrying amounts and the tax bases of existing assets and liabilities, and is measured using the enacted tax rates that are expected to be in effect when the differences reverse. Deferred tax assets may be reduced by a valuation allowance when it is established that it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax law is recognized in income in the period that includes the enactment date.

   The key management decisions related to income taxes are: (1) the determination of current taxability of transactions, (2) the election to capitalize or expense costs incurred, (3) the decision regarding the appropriate depreciation method for income tax purposes (these three factors ultimately affect the Company's cash flows for income taxes paid and determine the differences between the financial statement carrying amounts and tax bases of existing assets and liabilities), and (4) management's estimation of the appropriateness of valuation allowances to reduce any deferred tax assets that exist. Deltic's management periodically evaluates the Company's ability to realize future benefits of deferred tax assets by reviewing the expected turnaround of deferred tax liabilities and the amount of future taxable income and by evaluating tax planning strategies that could possibly be implemented to realize deferred tax assets. The Company maintains liabilities for unrecognized tax benefits for various uncertain tax positions taken in its tax return. These liabilities are estimated based on judgment of the probable outcome of the uncertain tax positions and are adjusted periodically based on changing facts and circumstances. Changes to the liabilities for unrecognized tax benefits could materially affect operating results in the period of change.

Related-Party Transactions

During 2015, Deltic acquired the office building used as the corporate headquarters from a related party for $1.5 million. The final price for this purchase was the result of negotiations based on appraisals by separate independent appraisers hired by the Company and the owner of the building.

Effect of Recently Issued Authoritative Accounting Guidance

(For information regarding the effect of recently issued authoritative accounting guidance, refer to the related section in Note 1 to the consolidated financial statements.)

Environmental Matters

Deltic is committed to protecting the environment and has certain standards with which it must comply based on federal, state, and local laws for the protection of the environment. Costs of compliance through 2016 have not been material, and the Company's management currently has no reason to believe that such costs will become material for the foreseeable future.

Contingencies

The Company is involved in litigation incidental to its business from time to time. Currently, there are no material legal proceedings outstanding.

Outlook

Pine sawtimber harvested from Deltic's fee lands in 2017 is projected to be 750,000 to 775,000 tons. Finished lumber production and resulting sales volumes are projected at 240 to 290 million board feet, and MDF production and sales volumes are estimated to be 100 to 120 million square feet for 2017. Actual lumber and MDF sales volumes are subject to market conditions. Deltic anticipates that closings for residential lots will be 120 to 140 lots for the year of 2017.

Certain statements contained in this report that are not historical in nature constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "estimates," or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements reflect the Company's current expectations and involve certain risks and uncertainties, including those disclosed elsewhere in this report. Therefore, actual results could differ materially from those included in such forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information with respect to quantitative and qualitative disclosures about market risk of the Company is set forth under the caption "Other Matters - Market Risk" in Item 7 of Part II of this report.

Item 8. Financial Statements and Supplementary Data

DELTIC TIMBER CORPORATION
AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2016 and 2015
(Thousands of dollars)

		2016	2015
Assets			
Current assets			
Cash and cash equivalents	$	5,773	5,429
Trade accounts receivable – net		8,667	6,995
Inventories		12,228	11,917
Prepaid expenses and other current assets		3,334	6,392
Total current assets		30,002	30,733
Investment in real estate held for development and sale		59,111	58,418
Timber and timberlands – net		360,183	361,856
Property, plant, and equipment – net		102,890	85,495
Deferred charges and other assets		2,507	2,665
Total assets	$	554,693	539,167
Liabilities and Stockholders' Equity			
Current liabilities			
Current maturities of long-term debt	$	-	39,917
Trade accounts payable		8,583	8,837
Accrued taxes other than income taxes		2,052	2,118
Income tax payable		679	-
Deferred revenues and other accrued liabilities		8,508	7,607
Total current liabilities		19,822	58,479
Long-term debt		240,839	183,836
Deferred tax liabilities – net		1,744	525
Other noncurrent liabilities		41,095	42,359
Commitments and contingencies		-	-
Stockholders' equity			
Cumulative preferred stock - $.01 par, authorized 20,000,000 shares, none issued		-	-
Common stock - $.01 par, authorized 50,000,000 shares, 12,813,879 shares issued		128	128
Capital in excess of par value		89,090	87,822
Retained earnings		206,344	201,959
Treasury stock		(34,816)	(24,347)
Accumulated other comprehensive loss		(9,553)	(11,594)
Total stockholders' equity		251,193	253,968
Total liabilities and stockholders' equity	$	554,693	539,167

See accompanying notes to consolidated financial statements.

DELTIC TIMBER CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Income
For the Years Ended December 31, 2016, 2015, and 2014
(Thousands of dollars, except per share amounts)

		2016	2015	2014
Net sales	$	219,363	193,851	227,355
Costs and expenses				
Cost of sales		150,326	144,489	156,135
Depreciation, amortization, and cost of fee timber harvested		23,406	21,096	18,342
General and administrative expenses		23,991	18,468	18,482
Total costs and expenses		197,723	184,053	192,959
Other income – business interruption claim		-	516	-
Gain on involuntary conversion		-	704	-
Operating income		21,640	11,018	34,396
Interest income		14	4	5
Interest and other debt expense, net of capitalized interest		(9,392)	(7,526)	(5,430)
Other income		258	258	284
Income before income taxes		12,520	3,754	29,255
Income taxes		(3,275)	(1,100)	(9,593)
Net income	$	9,245	2,654	19,662
Earnings per common share				
Basic	$	.76	.21	1.56
Assuming dilution		.76	.21	1.55
Dividends declared per common share	$	.40	.40	.40
Weighted average common shares outstanding (thousands of shares)				
Basic		12,010	12,407	12,497
Assuming dilution		12,074	12,467	12,553

See accompanying notes to consolidated financial statements.

DELTIC TIMBER CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2016, 2015, and 2014
(Thousands of dollars)

	2016	2015	2014
Net income	$ 9,245	2,654	19,662
Other comprehensive income/(loss)			
Items related to employee benefit plans:			
Net gain/(loss) arising during period (net of tax)	1,479	(1,084)	(8,895)
Reclassification adjustment for gains/(losses) included in net income (net of tax):			
Amortization of prior service credit	-	2	6
Amortization of actuarial losses	562	927	278
Amortization of plan amendment	-	(28)	(121)
Net change in other comprehensive income/(loss)	2,041	(183)	(8,732)
Comprehensive income	$ 11,286	2,471	10,930

See accompanying notes to consolidated financial statements.

DELTIC TIMBER CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016, 2015, and 2014
(Thousands of dollars)

		2016	2015	2014
Operating activities				
Net income	$	9,245	2,654	19,662
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization, and cost of fee timber harvested		23,406	21,096	18,342
Stock-based compensation expense		4,221	3,324	3,238
Deferred income taxes		(276)	(918)	(1,253)
Real estate development expenditures		(8,368)	(7,424)	(3,625)
Real estate costs recovered upon sale		7,335	4,646	4,972
Timberland costs recovered upon sale		6	486	174
Net increase in liabilities for pension and other postretirement benefits		2,222	3,794	1,251
Decrease/(increase) in operating working capital other than cash and cash equivalents		5,627	2,907	(9,174)
Other changes in assets and liabilities		175	(904)	(2,060)
Net cash provided by operating activities		43,593	29,661	31,527
Investing activities				
Capital expenditures requiring cash, excluding real estate development		(38,723)	(28,385)	(15,969)
Timberland acquisition expenditures requiring cash		(1,757)	(824)	(118,203)
Net change in purchased stumpage inventory		(1,246)	(817)	768
Proceeds from involuntary conversion		5	1,590	-
Net change in funds held by trustee		1	(1)	-
Other – net		410	555	1,105
Net cash required by investing activities		(41,310)	(27,882)	(132,299)
Financing activities				
Proceeds from borrowings		75,000	129,000	120,000
Repayments of notes payable and long-term debt		(58,000)	(108,000)	(7,000)
Treasury stock purchases		(18,286)	(15,266)	(7,866)
Common stock dividends paid		(4,859)	(5,022)	(5,055)
Proceeds from stock option exercises		5,778	1,198	253
Excess tax benefits/(provisions) from stock-based compensation expense		(500)	36	160
Other – net		-	-	(606)
Deferred financing costs		(1,072)	(1,057)	(727)
Net cash provided/(required) by financing activities		(1,939)	889	99,159
Net increase/(decrease) in cash and cash equivalents		344	2,668	(1,613)
Cash and cash equivalents at January 1		5,429	2,761	4,374
Cash and cash equivalents at December 31	$	5,773	5,429	2,761

See accompanying notes to consolidated financial statements.

DELTIC TIMBER CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2016, 2015, and 2014
(Thousands of dollars, except per share amounts)

		2016	2015	2014
Cumulative preferred stock - $.01 par, authorized 20,000,000 shares, no shares issued at end of each year	$	-	-	-
Common stock - $.01 par, authorized 50,000,000 shares,12,813,879 shares issued at end of each year		128	128	128
Capital in excess of par value				
Balance at beginning of year		87,822	86,575	84,796
Exercise of stock options		584	(116)	(37)
Stock-based compensation expense		4,222	3,324	3,238
Restricted stock awards		(3,218)	(1,678)	(1,290)
Tax effect on stock awards		(915)	(377)	(132)
Restricted stock forfeitures		595	94	-
Balance at end of year		89,090	87,822	86,575
Retained earnings				
Balance at beginning of year		201,959	204,327	189,720
Net income		9,245	2,654	19,662
Common stock dividends declared		(4,860)	(5,022)	(5,055)
Balance at end of year		206,344	201,959	204,327
Treasury stock				
Balance at beginning of year – 430,240; 231,790; and 134,609 shares, respectively		(24,347)	(11,978)	(5,693)
Shares purchased – 328,783; 251,038; and 131,947 shares, respectively		(18,286)	(15,266)	(7,866)
Forfeited restricted stock – 14,107; 1,476; and no shares, respectively		(595)	(94)	-
Shares issued for incentive plans – 147,253; 54,064; and 34,766 shares, respectively		8,412	2,991	1,581
Balance at end of year – 625,877; 430,240; and 231,790 shares, respectively, at cost		(34,816)	(24,347)	(11,978)
Accumulated other comprehensive loss				
Balance at beginning of year		(11,594)	(11,411)	(2,679)
Net change in other comprehensive income/(loss), net of income taxes		2,041	(183)	(8,732)
Balance at end of year		(9,553)	(11,594)	(11,411)
Total stockholders' equity	$	251,193	253,968	267,641
Dividends declared per common share	$	.40	.40	.40

See accompanying notes to consolidated financial statements.

Note 1 – Significant Accounting Policies

Description of Business — Deltic Timber Corporation ("Deltic" or the "Company") is a natural resources company engaged primarily in the growing and harvesting of timber and the manufacturing and marketing of lumber and medium density fiberboard ("MDF"). Deltic owns approximately 530,000 acres of timberland, primarily in Arkansas and north Louisiana. The Company's sawmill operations are located at Ola in central Arkansas and at Waldo in south Arkansas, and the MDF plant is located near El Dorado, Arkansas. In addition to its timber, lumber, and MDF operations, the Company is engaged in real estate development in central Arkansas.

Business Environment — The Company is primarily a wood products producer operating in a commodity-based business environment with a major diversification in real estate development. This environment is affected by a number of factors including general economic conditions, interest rates, credit availability, building product imports, foreign exchange rates, housing starts, new and existing housing inventory, foreclosures, residential repair and remodeling, commercial construction and repair, industry capacity and production levels, the availability of contractors for logging, hauling, and shipping, the availability of raw materials, natural gas pricing, costs of fuel, and weather conditions.

Principles of Consolidation — The consolidated financial statements of Deltic Timber Corporation include the accounts of Deltic, all majority-owned subsidiaries, and any variable interest entities of which it is the primary beneficiary. Equity investments and joint ventures are accounted for under the equity method, if it is determined that the Company does not have control of the entity. Significant intercompany transactions and accounts have been eliminated.

Business Combinations — The Company accounts for business combinations using the acquisition method. The assets acquired and liabilities assumed are measured at fair value on the acquisition date using appropriate valuation methods. The operations of the acquisitions are included in the consolidated financial statements from the date of acquisition.

Use of Estimates — In the preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America, management has made a number of estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

Cash Equivalents — Cash equivalents include investments that have a maturity of three months or less from the date of purchase.

Accounts Receivable and Allowance for Doubtful Accounts — The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and is charged to the provision for doubtful accounts. The allowance is based upon review of specific receivables outstanding and considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance, and anticipated customer performance. In the consolidated statements of income, bad debt expense is included in cost of sales. Provisions for bad debt expense were $168,000, $133,000, and $150,000, in 2016, 2015, and 2014, respectively. Charges to the allowance for doubtful accounts were $183,000, $133,000, and $188,000, in 2016, 2015, and 2014, respectively. At December 31, 2016 and 2015, the balance in the allowance account was $130,000 for both years.

Note 1 – Significant Accounting Policies (cont.)

Inventories — Inventories of logs, wood fiber, lumber, MDF, and supplies are stated at the lower of cost or market within Deltic's operating areas, primarily using the average cost method. Log costs include harvest and transportation costs as appropriate. Lumber and MDF costs include materials, labor, and production overhead. (For additional information, see Note 2 – Inventories.)

Investment in Real Estate Held for Development and Sale — Real estate held for development and sale includes direct costs of land and land development and indirect costs, including amenities. Indirect and amenity costs are allocated to individual lots or acreage sold based on relative retail sales values. Direct costs are allocated to a specific neighborhood or commercial real estate tract, while indirect costs for the Company's four developments – Chenal Valley, Wildwood Place, Chenal Downs, and Red Oak Ridge – are allocated to neighborhoods over the entire respective development area based on relative retail sales values.

Timber and Timberlands — Timber and timberlands, which include timberland, fee timber, purchased stumpage inventory, and logging facilities, are stated at cost, less the cost of fee timber harvested and accumulated depreciation of logging facilities, and include no estimated future reforestation costs. The cost of timber consists of fee timber acquired and reforestation costs, which include site preparation, seedlings, and labor. The cost of fee timber harvested is based on the volume of timber harvested in relation to the estimated volume of timber recoverable. Logging facilities, which consist primarily of roads constructed and other land improvements, are depreciated using the straight-line method over a ten-year estimated life. The Company estimates its fee timber inventory using statistical information and data obtained from physical measurements and other information gathering techniques. Fee timber carrying costs, commercial thinning, silviculture, and timberland management costs are expensed as incurred.

The Company classifies its timberlands and fee timber as either strategic or non-strategic. Strategic timberlands, including pine forest and pine plantations, are prime pine sawtimber-growing platforms located within or immediately adjacent to the Company sawmills' operating regions. Deltic manages these acres using modern silviculture methods to achieve optimal volume and quality of its pine sawtimber. The Company harvests pine sawtimber and pine pulpwood in accordance with its harvest plans and generally converts pine sawtimber into lumber in its own sawmills and sells pine pulpwood, hardwood pulpwood, and hardwood sawtimber in the market. Upon harvest, strategic timberlands are reforested. The Company's timberland acquisition program is focused on the acquisition of pine-growing timberland in its current operating regions. This investment in strategic fee timber is a "productive asset," and any occasional sale of strategic timberland or any expenditure to acquire such timber and timberlands is included in and classified as an investing activity in the Company's consolidated statements of cash flows. The Company has legacy hardwood and other acreage which cannot be harvested for conversion in Company sawmills, reforested as pine plantations, or managed efficiently using modern silviculture methods either due to the size of the tract or lack of proximity to other Deltic fee timberlands. These timberlands have been identified as non-strategic and/or higher and better use timberlands and are expected to be sold over time. The Company considers these sales to be an operating activity of its Woodlands segment.

Note 1 – Significant Accounting Policies (cont.)

In order to acquire and sell assets, primarily timberlands, in a tax efficient manner, the Company enters into tax-deferred, like-kind exchange (“LKE”) transactions when possible. The Company generally enters into forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property, and reverse transactions, in which property is acquired and similar property is subsequently sold. A qualified LKE intermediary is used to facilitate LKE transactions. Proceeds from forward LKE transactions are held by the intermediary and are classified as restricted cash, because the funds must be reinvested in similar properties. If the acquisition of suitable LKE properties is not completed within 180 days of the sale of the Company-owned property, the proceeds are distributed to Deltic by the intermediary and are reclassified as available cash, and applicable income taxes are determined. Amounts deposited with a third party towards the potential future purchase of property are included in deferred charges and other assets in the consolidated balance sheets and as an investing activity as changes in funds held by trustee in the consolidated statements of cash flows. The Company had $1,000 of proceeds from land sales deposited with an LKE intermediary at December 31, 2015 and none at December 31, 2016. An exchange accommodation titleholder, a type of variable interest entity, is used to facilitate reverse like-kind exchanges. The acquired assets are held by the exchange accommodation titleholder until the exchange transactions are complete. If the Company determines that it is the primary beneficiary of the exchange accommodation titleholder, Deltic includes the assets held by the exchange accommodation titleholder in timber and timberlands assets on the consolidated balance sheets and recognizes any income or expense attributed to the property in the consolidated income statements.

Property, Plant, and Equipment — Property, plant, and equipment assets are stated at cost less accumulated depreciation. Depreciation of buildings, equipment, and other depreciable assets is calculated primarily using the straight-line method. Expenditures that substantially improve and/or increase the useful life of facilities or equipment are capitalized. Maintenance and repair costs are expensed as incurred. Gains and losses on disposals or retirements are recognized in the period they occur.

Property, plant, and equipment assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases.

Revenue Recognition — The Company recognizes revenue when the following criteria are met: (1) persuasive evidence of an agreement exists, (2) delivery has occurred or services have been rendered, (3) the price to the buyer is fixed and determinable, and (4) collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. Revenue from the sale of lumber, MDF, and wood by-products is recorded at the time of shipment due to terms of such sale being designated free on board (“f.o.b.”) shipping point. Revenue from consignment sales is recorded when the customer assumes ownership of the product. Revenue from the sale of timber-cutting rights to third parties is recorded when legal title passes to the purchaser, which is generally upon delivery of a legally executed timber deed and receipt of payment for the timber. Revenue from intersegment timber sales is recorded when the timber is harvested; such intersegment sales, which are made at prices which generally approximate market within Deltic’s operating area, are eliminated in the consolidated financial statements.

Note 1 – Significant Accounting Policies (cont.)

Revenue from the leasing of land for hunting purposes is deferred when received and subsequently recognized over the one-year lease term, which begins September 1 of each year. At December 31, 2016 and 2015, the Company had deferred hunting lease revenue totaling $2,131,000 and $2,060,000, respectively, reflected in the consolidated balance sheets in deferred revenues and other accrued liabilities. Revenue from mineral lease rental payments is deferred when received and recognized ratably over the lease term. At December 31, 2016 and 2015, the Company had deferred mineral lease revenue of $168,000 and $446,000, respectively, of which $36,000 and $115,000 were included in other noncurrent liabilities for 2016 and 2015, respectively, and $132,000 and $331,000 were included in other current liabilities, respectively. Mineral royalty payments are recognized when received. Revenue from sales of timberland and real estate is recorded when the sale is closed and legal title is transferred and the buyer's initial and continuing investment is adequate, which is generally at the time the purchaser executes the real estate closing documents and makes payment to the title company handling the closing.

Income Taxes — The Company uses the asset and liability method of accounting for income taxes. Under this method, the provision for income taxes includes amounts currently payable and amounts deferred as tax assets and liabilities, based on differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, and is measured using the enacted tax rates that are expected to be in effect when the differences reverse. Deferred tax assets are reduced by a valuation allowance, which is established when it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax law is recognized in income in the period that includes the enactment date. The Company continuously reviews state and federal tax returns for uncertain tax provisions. Liabilities for uncertain tax positions are recorded if it is deemed more-likely-than-not that the positions will not be sustained upon examination by the taxing authorities. These liabilities are adjusted in the period in which it is determined that the issue is settled with the relevant taxing authority, or there has been an expiration of statute of limitation for a tax year in question, or a change in tax laws, or other facts become known.

Property Taxes — Property taxes applicable to the Company's assets are estimated and accrued in the period of assessment. At December 31, 2016 and 2015, the Company had accrued property tax expense totaling $1,822,000 and $1,932,000, respectively, reflected in the consolidated balance sheets in accrued taxes other than income taxes.

Share-Based Compensation — The Company applies a fair value-based measurement method in accounting for share-based payment transactions with employees, recognizing the cost as the services are performed. (For additional information, see Note 16 – Incentive Plans.)

Pensions and Other Postretirement Benefits — The Company sponsors both qualified and nonqualified, noncontributory, defined benefit retirement plans that cover all eligible employees, excluding employees of the subsidiaries. Benefits are based on years of service and final career-average-pay formulas as defined by the plans. The qualified plan is funded to accumulate sufficient assets to provide for accrued benefits and was frozen to new employees on January 1, 2015. The nonqualified plan, a supplemental executive plan, is not funded; payments to retirees due under this plan are made on a monthly basis.

The Company also sponsors a defined benefit health care plan and a life insurance benefit plan for all eligible retired employees, excluding employees of the subsidiaries. The Company measures the costs of its obligations for these plans based on its health care cost trends and actuarial assumptions, including discount rates, mortality rates, assumed rates of return, compensation increases, and turnover rates. The Company reviews its assumptions on an annual basis and makes modifications

Note 1 – Significant Accounting Policies (cont.)

to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income/(loss) and amortized to net periodic cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

Net periodic costs are recognized as employees render the services necessary to earn these post-retirement benefits. (For additional information, see Note 15 – Employee and Retiree Benefit Plans.)

Advertising Costs — Advertising costs, primarily related to marketing efforts for the Company's real estate developments, are expensed as incurred. These costs amounted to $831,000 in 2016, $784,000 in 2015, and $764,000 in 2014 and are reflected in the consolidated statements of income.

Capitalized Interest — The Company capitalizes interest for qualifying assets during construction by applying the Company's capitalization rate to the average amount of accumulated expenditures for the asset during the period. Interest is most often capitalized as an indirect cost for real estate development in the Company's real estate operations. (For additional information, see Note 17 – Supplemental Cash Flows Disclosures.)

Timberland Acquisition Expenditures — These expenditures are the costs incurred to purchase timber and timberland, and the costs which are allocated to timber, reforestation, or land are based on various factors such as age and number of trees on the acreage acquired. These expenditures are classified as investing activities in the Company's consolidated statements of cash flows.

Capital Expenditures — Capital expenditures include additions to investment in real estate held for development and sale; capitalized reforestation costs and logging facilities of timber and timberlands; and property, plant, and equipment.

Net Change in Purchased Stumpage Inventory — Purchased stumpage inventory consists of timber-cutting rights purchased from third parties specifically for use in the Company's sawmills. Depending on the timing of acquisition and usage of this acquired stumpage inventory, the net change in this inventory can either be a source or use of cash in the investing activities of the Company's consolidated statements of cash flows.

Earnings per Common Share — Basic earnings per share is computed using the two-class method and is based on earnings available to common shareholders less accrued preferred dividends, if any, and the weighted average number of common shares outstanding. The diluted earnings per share amounts are computed based on earnings available to common shareholders and the weighted average number of common shares outstanding, including shares assumed to be issued under the Company's stock incentive plans using the treasury-stock method, unless anti-dilutive. (For a reconciliation of amounts used in per share computations, see Note 18 – Earnings per Share.)

Shipping and Handling Costs — Shipping and handling costs, such as freight to the customers' destinations, are included in cost of sales in the Company's consolidated statements of income. These costs, when included in the amount invoiced to customers, are also recognized in net sales.

Off-Balance Sheet Arrangements — The Company evaluates its transactions to determine if any variable interest entities exist. If it is determined that Deltic is the primary beneficiary of a variable interest entity, that entity is consolidated into Deltic's financial statements.

Note 1 – Significant Accounting Policies (cont.)

Effect of Recently Issued Authoritative Accounting Guidance — Financial Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," requires an entity to recognize the amount of revenue it expects to be entitled to for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2018, and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company continues to evaluate the standard and has not yet selected a transition method but believes the standard is expected to have little impact on its consolidated financial statements and disclosures.

In July 2015, FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using either the last-in, first-out (LIFO) or retail inventory method. The ASU also eliminates the requirement for these entities to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The update to the standard is effective for the Company on January 1, 2017, and is expected to have little impact on its consolidated financial statements and disclosures.

In November 2015, FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as non-current. The ASU is effective for the Company on January 1, 2017. As of December 31, 2016 the Company had $1,895,000 reported as short-term deferred tax assets that will be reclassed and combined with long-term deferred tax liabilities on January 1, 2017.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, "Leases", which supersedes Topic 840 and among other things, requires lessees to recognize most leases on-balance sheet. The new standard will be effective for the Company on January 1, 2019, and is not expected to have a material impact on its financial statements.

On March 30, 2016, FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting". This ASU changes several aspects of the accounting for share-based payments award transactions, including accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, minimum statutory tax withholding requirements, and the classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes. This update will be effective for the Company on January 1, 2017. The Company has evaluated the effect ASU 2016-09 will have on its consolidated financial statements and related disclosures and deems it immaterial.

In June 2016, FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments". The ASU changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. This update will be effective for the Company on January 1, 2020, and is not expected to have a material impact on its financial statements.

Note 2 – Inventories

Inventories at December 31 consisted of the following:

(Thousands of dollars)			2016	2015
Raw materials	- Logs	$	1,920	1,975
	- Del-Tin – wood fiber		463	615
Finished goods	- Lumber		4,817	4,142
	- Medium density fiberboard (“MDF”)		2,575	2,516
	- MDF consigned to others		1,000	1,031
Supplies			1,453	1,638
		$	12,228	11,917

The Company utilizes the lower of cost or market basis for determining inventory-carrying values. Lumber and MDF inventory amounts at December 31, 2016 and 2015 are stated at the lower of cost or net realizable value.

Note 3 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets at December 31 consisted of the following:

(Thousands of dollars)		2016	2015
Short-term deferred tax assets	$	1,895	2,131
Refundable income taxes		-	3,062
Prepaid expenses		905	687
Other current assets		534	512
	$	3,334	6,392

Note 4 – Timber and Timberlands

Timber and timberlands at December 31 consisted of the following:

(Thousands of dollars)	2016	2015
Purchased stumpage inventory	$ 3,684	2,437
Timberlands	156,579	155,997
Fee timber	331,121	326,327
Logging facilities	1,231	1,221
	492,615	485,982
Less accumulated cost of fee timber harvested and facilities depreciation	(132,592)	(124,292)
Strategic timber and timberlands	360,023	361,690
Non-strategic timber and timberlands	160	166
	$ 360,183	361,856

Deltic acquired 1,009 acres of timberlands located in its current operating area in 2016 with cash payments of $1,757,000. The Company acquired 514 acres of timberland in 2015, 474 acres were acquired by cash payments totaling $824,000 and 40 acres were acquired in a non-monetary exchange transaction and in 2014 the Company acquired 72,170 acres for cash payments of $118,203,000. Deltic invests in and holds strategic fee timber as a productive asset, and any expenditure to acquire such timber and timberlands is an investing activity on the Company's Consolidated Statements of Cash Flows.

The Company actively upgrades its timberland portfolio by selling non-strategic timberlands and using the sales proceeds to purchase pine timberlands that are strategic to its operations. The Company identifies tracts of pine timberland that cannot be strategically managed due to size or location, and also tracts of hardwood bottomland that cannot be converted into pine-growing acreage, to be sold. As of December 31, 2016 and 2015, approximately 240 acres and 250 acres, respectively, were available for sale. Included in the Woodlands operating income are gains from sales of timberland of $33,000, $656,000, and $857,000 in 2016, 2015, and 2014, respectively. Occasionally Deltic engages in land-for-land exchanges that are recorded as sales due to the nature of the land involved. In 2016 and 2014, there were no gains from non-monetary exchanges included in operating income, while there were $25,000 of exchange gains in 2015.

Cost of fee timber harvested amounted to $8,207,000, $7,110,000, and $5,544,000 in 2016, 2015, and 2014, respectively. Depreciation of logging facilities was $94,000, $98,000, and $91,000 for the years 2016, 2015, and 2014, respectively.

Note 5 – Property, Plant, and Equipment

Property, plant, and equipment at December 31 consisted of the following:

(Thousands of dollars)	Range of Useful Lives		2016	2015
Land	N/A	$	947	947
Land improvements	10-20 years		20,707	10,409
Buildings and structures	10-20 years		27,801	23,900
Machinery and equipment	3-15 years		175,515	158,385
			224,970	193,641
Less accumulated depreciation			(122,080)	(108,146)
		$	102,890	85,495

Depreciation of property, plant, and equipment charged to operations was $15,106,000, $13,888,000, and $12,707,000 in 2016, 2015, and 2014, respectively. Gains or (losses) on disposals or retirements of assets included in operating income were ($239,000), $308,000, and ($1,071,000) in 2016, 2015, and 2014, respectively. The 2015 gains are inclusive of the involuntary gain on conversion of assets at the Company's MDF plant. (For additional information see Note 20 – Business Interruption Claim and Gain on Involuntary Conversion of Assets.)

Note 6 – Deferred Revenues and Other Accrued Liabilities

Deferred revenues and other accrued liabilities at December 31 consisted of the following:

(Thousands of dollars)		2016	2015
Deferred revenues – current	$	2,776	2,877
Vacation accrual		1,666	1,360
Deferred compensation		816	619
Interest and commitment fees payable		1,770	1,467
All other current liabilities		1,480	1,284
	$	8,508	7,607

Note 7 – Other Noncurrent Liabilities

Other noncurrent liabilities at December 31 consisted of the following:

(Thousands of dollars)		2016	2015
Accumulated postretirement benefit obligation	$	13,770	12,295
Excess retirement plan		7,865	12,764
Accrued pension liability		17,798	15,698
Deferred revenue – long-term portion		36	115
All other noncurrent payables		1,626	1,487
	$	41,095	42,359

Note 8 – Credit Facilities

The Company has an agreement with SunTrust Bank together with other banks, which provides an unsecured and committed revolving credit facility totaling $430,000,000 and includes an option to request an increase in the amount of aggregate revolving commitments by $50,000,000, and includes options to request two twelve-month extensions of the facility maturity date. Effective January 6, 2016, Deltic entered into a second amendment to the Company's Second Amended and Restated Revolving Credit Agreement with the consent of the lenders thereto, in which it exercised the first of its two options and extended the termination date by one year to November 17, 2020. On July 29, 2016, the Company utilized a portion of the $50,000,000 letter of credit component available under its revolving credit facility to replace the letter of credit that expired on August 31, 2016 that supported the Union County, Arkansas Taxable Industrial Revenue Bonds that total $29,000,000. With this, the borrowing capacity of the revolving credit facility was reduced by the amount of the letter of credit issued. The credit facility had $112,000,000 and $55,000,000, respectively, outstanding at December 31, 2016 and 2015 leaving $288,000,000 and $375,000,000, available in excess of all borrowings and letters of credit outstanding under or supported by the respective facilities. Borrowings under the current agreement bear interest at a base rate or an adjusted Eurodollar rate plus an applicable margin, depending upon the type of loan the Company executes. The applicable margin component of the interest rate varies with the type of loan and the Company's total debt to capital ratio. The agreement contains certain restrictive financial covenants, including a leverage ratio of no greater than .65 to 1, minimum timber market value greater than 175 percent of outstanding total senior indebtedness, and limitations on the incurrence of debt. Fees associated with the current revolving credit facility include a commitment fee of .20 to .35 percent per annum on the unused portion of the committed amount.

The Company may also borrow up to $1,000,000 under a short-term credit facility with BancorpSouth. The agreement expires December 31, 2017, with annual renewal. The amount available to the Company under this facility is reduced by any borrowings by the Company. As of December 31, 2016 and 2015, Deltic had no borrowings outstanding under this line of credit, resulting in $1,000,000 available to the Company. Borrowings bear interest based upon the New York Prime rate. Deltic also has an agreement with BancorpSouth to provide letters of credit. New letters of credit are requested by the Company and are approved and issued by BancorpSouth on a case-by-case basis. Outstanding letters of credit as of December 31, 2016 and 2015 were $394,000 and $491,000, respectively.

Note 9 – Indebtedness

The Company's indebtedness at December 31 consisted of the following:

(Thousands of dollars)	2016	2015
Notes payable, 2.24%[1], due 2020 (See Note 8 – Credit Facilities)	$ 112,000	55,000
Senior notes payable, 6.10%, due 2016	-	40,000
Term loan credit agreement, 4.05%, due 2025	100,000	100,000
Union County, Arkansas Taxable Industrial Revenue Bonds, .55%[2], due 2027	29,000	29,000
	241,000	224,000
Less unamortized debt issuance costs	(161)	(247)
Total debt, net	240,839	223,753
Less current maturities	-	(39,917)
Long term debt	$ 240,839	183,836

[1] Weighted average interest rate for Notes payable at December 31, 2016 and 2015 was 2.24% and 2.01%, respectively.

[2] Weighted average interest rate for Bonds at December 31, for both 2016 and 2015 was .55%.

The Company retired the private placement debt of $40,000,000 of Series A Senior Notes ("Notes") with Pacific Coast Farm Credit, a division of American AgCredit, on December 18, 2016. The interest rate for the Notes had been 6.10 percent since December 18, 2008.

Deltic entered into a $100,000,000 ten-year term loan credit agreement (the "Credit Agreement") with American AgCredit, PCA, effective August 27, 2015. The Credit Agreement has a 4.05 percent fixed rate of interest and a maturity date of August 27, 2025. The Credit Agreement has the same financial covenants as those found in the Company's Second Amended and Restated Revolving Credit Agreement as amended on January 4, 2016.

With consolidation of Del-Tin Fiber into the Company's financial statements on April 1, 2013, Deltic's long-term debt includes $29,000,000 in Union County, Arkansas Taxable Industrial Revenue Bonds (Del-Tin Fiber project) 1998 Series due October 1, 2027 (the "Bonds"). Neither the State of Arkansas, nor Union County, Arkansas has any liability under the Bonds. Del-Tin Fiber and Union County contemporaneously entered into a lease agreement (the "Lease Agreement") that obligated Del-Tin Fiber to make lease payments in an amount necessary to fund the debt service on the Bonds. The Company utilized the letter of credit component under its revolving credit facility to support the respective Bonds under the Loan Agreement and the Lease Agreement with Union County, Arkansas. Fees associated with the letter of credit included $557,000 in 2016 and $488,000 in 2015 and are included in interest expense in the Consolidated Statements of Income. The Company has unconditionally guaranteed the payment of all amounts owing under the Bonds to the bondholders. The Company's indebtedness has been presented in these financial statements as though the Company was directly liable for the Bonds. If the Bonds are not remarketed as allowed under the agreement, the letter of credit and the commitment of the lenders are available to support repayment. These Bonds bear interest at a variable rate determined weekly by the remarketing agent of the Bonds. Interest is due on the first business day of the month, and all unpaid interest and all principal is due on October 1, 2027. The average interest rate on the Bonds was .55 percent in 2016, .28 percent in 2015, and .29 percent in 2014.

Note 9 – Indebtedness (cont.)

As of December 31, 2016, there were no scheduled maturities of long-term debt in 2017, 2018 or 2019, $112,000,000 in 2020 and none in 2021. (For additional information regarding financial instruments, see Note 8 – Credit Facilities and Note 12 – Fair Value of Financial Instruments.)

The table below sets forth the ratio requirements of the covenants in the revolving credit facility, and the Term Loan Credit Agreement and the status with respect to these covenants as of December 31, 2016 and 2015.

	Covenants Requirements	Actual Ratios at Dec. 31, 2016	Actual Ratios at Dec. 31, 2015
Leverage ratio should be less than:[1]	.65 to 1	.490 to 1	.469 to 1
Total outstanding debt as a percentage of total debt allowed based on the minimum timber market value covenant:[2]	–[2]	79.59%	74.01%

[1] The leverage ratio is calculated as total debt divided by total capital employed. Total debt includes indebtedness for borrowed money, secured liabilities, obligations in respect of letters of credit, and guarantees. Total capital employed is the sum of total debt and net worth. Net worth is calculated as total assets minus total liabilities, as reflected on the balance sheet. This covenant is applied at the end of each quarter.

[2] Timber market value must be greater than 175 percent of total debt (as defined in (1) above). The timber market value is calculated by multiplying the average price received for sales of timber for the preceding four quarters by the current quarter's ending inventory of timber. This covenant is applied at the end of the quarter on a rolling four-quarter basis.

Based on management's current operating projections, the Company believes it will remain in compliance with the debt covenants and have sufficient liquidity to finance operations and pay all obligations. However, depending on market conditions and should there be a return of economic uncertainties, the Company could request amendments, or waivers for covenants, or obtain refinancing in future periods. There can be no assurance that the Company will be able to obtain amendments or waivers or negotiate agreeable refinancing terms should it become necessary.

Note 10 – Income Taxes

The components of income tax expense/(benefit) related to pre-tax income for the years ended December 31, 2016, 2015, and 2014 are as follows:

(Thousands of dollars)		2016	2015	2014
Federal				
Current	$	2,789	1,508	9,959
Deferred		(380)	(590)	(961)
		2,409	918	8,998
State				
Current		762	510	887
Deferred		104	(328)	(292)
		866	182	595
Total income tax expense	$	3,275	1,100	9,593

The following table provides a reconciliation of the Company's income tax expense at the statutory U.S. federal rate of 35 percent to the actual income tax expense for the years ended December 31, 2016, 2015, and 2014.

(Thousands of dollars)		2016	2015	2014
U.S. federal income tax using statutory tax rate	$	4,382	1,260	10,239
State tax, net of federal tax benefit		564	121	1,130
Permanent differences		(363)	(89)	(1,000)
Tax effects resulting from:				
Rate difference on timber gains		(1,308)	(192)	-
Reversal of uncertain state income tax position		-	-	(776)
Income tax provision as reported	$	3,275	1,100	9,593

The effective income tax rate in 2016 and 2015 benefitted from the passage in December 2015 of federal legislation which reduced the maximum income tax rate to 23.8 percent for the tax year 2016 on capital gains for timber held by the Company for longer than 15 years and harvested within the year. Income tax benefits of $192,000 were recognized in 2015 due to the change in income tax rate applied to the amount of temporary differences expected to be realized in timber gains during 2016.

The Company's deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015 consisted of the following:

(Thousands of dollars)		2016	2015
Deferred tax assets			
Investment in real estate held for development and sale	$	17,627	17,564
Postretirement and other employee benefits		20,047	21,725
Other deferred tax assets		1,630	1,861
Total deferred tax assets		39,304	41,150

Note 10 – Income Taxes (cont.)

(Thousands of dollars)		2016	2015
Deferred tax liabilities			
Timber and timberlands		(29,645)	(27,950)
Property, plant, and equipment		(9,289)	(11,370)
Other deferred tax liabilities		(219)	(224)
Total deferred tax liabilities		(39,153)	(39,544)
Net deferred tax assets	$	151	1,606

The deferred tax assets and liabilities are classified in the accompanying consolidated balance sheets as follows:

(Thousands of dollars)		2016	2015
Current tax assets	$	1,895	2,131
Long-term tax liabilities		(1,744)	(525)
Net deferred tax assets	$	151	1,606

In assessing the realizability of deferred tax assets, Deltic's management considers whether it is more-likely-than-not that some portion or all of the Company's total deferred tax assets will not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are anticipated to reverse, management believes it is more-likely-than-not that the Company will realize the benefits of its deferred tax assets at December 31, 2016, as reductions of future taxable income or by utilizing available tax planning strategies. However, the amount of the net deferred tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised. Any liabilities established for unrecognized tax benefits may not be combined with deferred tax assets or liabilities, except when offset by net operating losses. There were no unrecognized tax benefits at December 31, 2016 or 2015.

The Company is no longer subject to federal and state income tax examination by tax authorities for years before 2013.

Note 11 – Stockholders Rights Plan

The Company Stockholders Rights Plan which was in effect as amended on October 19, 2006, expired as of December 31, 2016.

Note 12 – Fair Value of Financial Instruments

Fair value measurement accounting establishes a fair value hierarchy based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets on identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

Information pertaining to the fair value of the pension plan assets is found in Note 15 – Employee and Retiree Benefit Plans.

The following is a description of the valuation methodologies used for liabilities measured at fair value.

Nonqualified Employee Savings Plan — Consists of mutual funds, which are valued at the net asset value of shares held by the plan at year-end, at quoted market prices.

The fair value measurements for the Company's financial liabilities accounted for at fair value on a recurring basis at December 31, 2016 are presented in the following table:

		Fair Value Measurements at Reporting Date Using		
(Thousands of dollars)	December 31, 2016	Quoted Prices in Active Markets for Identical Liabilities Inputs Level 1	Significant Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Liabilities				
Nonqualified employee savings plan	$ 1,626	1,626	-	-

Long-term Debt, Including Current Maturities — The fair value is estimated by discounting the scheduled debt payment streams to present value based on market rates for which the Company's debt could be refinanced.

The following table presents the carrying amounts and estimated fair values of financial instruments held by the Company at December 31, 2016 and 2015. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The table excludes financial instruments included in current assets and liabilities, except current maturities of long-term debt, all of which have fair values approximating carrying values.

	2016		2015	
(Thousands of dollars)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial liabilities				
Long-term debt, including current maturities	$ 240,839	241,213	223,753	225,123

Note 13 – Concentration of Credit Risks

Financial instruments, which potentially subject the Company to credit risk, are trade accounts receivable. These receivables normally arise from the sale of wood products, MDF, and real estate. Concentration of credit with respect to these trade accounts receivable is limited due to the large number of customers comprising the Company's customer base. No single recurring customer accounted for a significant amount of the Company's sales of wood products, MDF, or real estate in 2016, 2015, or 2014. At December 31, 2016 and 2015, there was one significant accounts receivable of $879,000 and $844,000, respectively from a single customer. The Company performs ongoing credit evaluations of its customers and generally does not require collateral to support accounts receivable.

Note 14 – Other Comprehensive Income Disclosures

The following tables detail the changes in accumulated other comprehensive loss ("AOCL") by component for the twelve months ended December 31, 2016, 2015, and 2014:

Changes in Accumulated Other Comprehensive Loss by Component (Net of Tax)

(Thousands of dollars)		Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
AOCL at January 1, 2016	$	(7,071)	(4,309)	(214)	(11,594)
Amounts reclassified from AOCL -		516	46	-	562
Net gain/(loss) arising during period		(1,086)	3,134	(569)	1,479
Net current period other comprehensive income/(loss)		(570)	3,180	(569)	2,041
AOCL at December 31, 2016	$	(7,641)	(1,129)	(783)	(9,553)

(Thousands of dollars)		Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
AOCL at January 1, 2015	$	(7,615)	(3,064)	(732)	(11,411)
Amounts reclassified from AOCL		512	369	20	901
Net gain/(loss) arising during period		32	(1,614)	498	(1,084)
Net current period other comprehensive income/(loss)		544	(1,245)	518	(183)
AOCL at December 31, 2015	$	(7,071)	(4,309)	(214)	(11,594)

Note 14 – Other Comprehensive Income Disclosures (cont.)

(Thousands of dollars)	Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
AOCL at January 1, 2014	$ (2,410)	(482)	213	(2,679)
Amounts reclassified from AOCL	111	173	(121)	163
Net loss arising during period	(5,316)	(2,755)	(824)	(8,895)
Net current period other comprehensive loss	(5,205)	(2,582)	(945)	(8,732)
AOCL at December 31, 2014	$ (7,615)	(3,064)	(732)	(11,411)

Reclassification Out of Accumulated Other Comprehensive Loss

Details about AOCL Components

	For the Year Ended December 31, 2016			
(Thousands of dollars)	Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
Amortization of actuarial losses	850	75	-	925
Income tax expense	(334)	(29)	-	(363)
Total reclassifications – net of tax	$ 516	46	-	562

	For the Year Ended December 31, 2015			
(Thousands of dollars)	Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
Amortization of prior service costs	$ 4	-	-	4
Amortization of actuarial losses	839	607	79	1,525
Amortization of plan amendment	-	-	(46)	(46)
Total before tax	843	607	33	1,483
Income tax expense	(331)	(238)	(13)	(582)
Total reclassifications – net of tax	$ 512	369	20	901

Amounts in parentheses indicate expenses. These items are included in the computation of net periodic retirement and postretirement costs. See Note 15 – Employee and Retiree Benefit Plans.

Note 14 – Other Comprehensive Income Disclosures (cont.)

Reclassification Out of Accumulated Other Comprehensive Loss (cont.)

	For the Year Ended December 31, 2014			
(Thousands of dollars)	Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Post-Retirement Benefit Plan	Total
Amortization of prior service costs	$ 17	(7)	-	10
Amortization of actuarial losses	165	292	-	457
Amortization of plan amendment	-	-	(199)	(199)
Total before tax	182	285	(199)	268
Income tax benefit/(expense)	(71)	(112)	78	(105)
Total reclassifications – net of tax	$ 111	173	(121)	163

Amounts in parentheses indicate expenses. These items are included in the computation of net periodic retirement and postretirement costs. See Note 15 – Employee and Retiree Benefit Plans.

Tax Effects by Component

	For the Year Ended December 31, 2016		
(Thousands of dollars)	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Gains/(losses) arising during the period	$ 2,433	(954)	1,479
Amortization of actuarial losses/(gains)	925	(363)	562
	$ 3,358	(1,317)	2,041

	For the Year Ended December 31, 2015		
(Thousands of dollars)	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Gains/(losses) arising during the period	$ (1,784)	700	(1,084)
Amortization of prior service costs	4	(2)	2
Amortization of actuarial losses/(gains)	1,525	(598)	927
Amortization of plan amendment	(46)	18	(28)
	$ (301)	118	(183)

Note 14 – Other Comprehensive Income Disclosures (cont.)

Tax Effects by Component (cont.)

	For the Year Ended December 31, 2014		
(Thousands of dollars)	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Gains/(losses) arising during the period	$ (14,636)	5,741	(8,895)
Amortization of prior service costs	10	(4)	6
Amortization of actuarial losses/(gains)	457	(179)	278
Amortization of plan amendment	(199)	78	(121)
	$ (14,368)	5,636	(8,732)

Note 15 – Employee and Retiree Benefit Plans

The Company has a funded, qualified defined benefit retirement plan ("Retirement Plan") that covers each employee of Deltic Timber Corporation, excluding employees of the subsidiaries, who were employed on December 31, 2014 and had completed 1,000 hours of service for a twelve-month period, once employment has commenced, and continues to meet both the 1,000 hours requirement and the employment requirement for each twelve-month period. The Retirement Plan was not open to new participants beginning January 1, 2016. An unfunded, nonqualified supplemental executive retirement plan is maintained for certain current and former employees. All contributions to both plans are made by the Company. The plans provide defined benefits based on years of benefit service and average monthly compensation as defined by the Company's Retirement Plan. The Company determines the vested benefit obligation on the actuarial present value based on the employee's expected date of retirement. For the December 31, 2016, measurement of Deltic's defined benefit obligations, the Company selected the RP-2014 Mortality Tables using Projection Scale MP-2016 as issued by the Society of Actuaries, since it was determined that those rates represented the best estimate of mortality for the participants in the Company's plans. The Company also sponsors a plan for retired employees, excluding employees of the subsidiaries, that provides comprehensive healthcare benefits (supplementing Medicare benefits, for those eligible) and life insurance benefits. Costs are accrued for this plan during the service lives of covered employees. Retirees contribute a portion of the self-funded cost of healthcare benefits and the Company contributes the remainder. The Company pays premiums for life insurance coverage arranged through an insurance company. The health care plan is funded on a pay-as-you-go basis. The Company retains the right to modify or terminate the benefits and/or cost-sharing provisions.

Note 15 – Employee and Retiree Benefit Plans (cont.)

The following table sets forth the plans' benefit obligations, fair value of plan assets, and funded status at December 31, 2016 and 2015.

		Defined Benefit Funded Retirement Plan		Defined Benefit Unfunded Retirement Plan		Other Postretirement Benefit Plan	
(Thousands of dollars)		2016	2015	2016	2015	2016	2015
Change in benefit obligation							
Benefit obligation at beginning of period	$	48,058	47,750	13,036	9,644	12,675	12,698
Service cost		1,642	1,959	212	518	379	527
Interest cost		2,097	2,021	322	494	576	559
Participant contributions		-	-	-	-	87	92
Actuarial (gain)/loss		1,180	(2,406)	(5,157)	2,655	937	(819)
Benefits paid		(1,340)	(1,266)	(276)	(275)	(456)	(382)
Benefit obligation at end of period	$	51,637	48,058	8,137	13,036	14,198	12,675
Change in plan assets							
Fair value of plan assets at beginning of period	$	32,360	32,795	-	-	-	-
Actual return on plan assets		2,104	240	-	-	-	-
Employer contributions		1,050	775	276	275	369	290
Participant contributions		-	-	-	-	87	92
Benefits paid		(1,340)	(1,266)	(276)	(275)	(456)	(382)
Expenses		(335)	(184)	-	-	-	-
Fair value of plan assets at end of period	$	33,839	32,360	-	-	-	-
Funded status of plans	$	(17,798)	(15,698)	(8,137)	(13,036)	(14,198)	(12,675)
Amounts recognized in the balance sheet							
Current liability	$	-	-	(271)	(272)	(428)	(380)
Noncurrent liability	$	(17,798)	(15,698)	(7,866)	(12,764)	(13,770)	(12,295)
Deferred income taxes − net	$	6,981	6,157	3,192	5,113	5,568	4,647
Accumulated other comprehensive (income)/loss	$	7,641	7,071	1,128	4,308	784	215
Amounts recognized in accumulated other comprehensive loss							
Net unrecognized (gain)/loss	$	12,570	11,633	1,856	7,088	1,271	334
Unrecognized prior service cost/(credit)		-	-	-	-	-	-
Tax effects		(4,929)	(4,562)	(728)	(2,780)	(487)	(119)
	$	7,641	7,071	1,128	4,308	784	215

Note 15 – Employee and Retiree Benefit Plans (cont.)

		Defined Benefit Funded Retirement Plan		Defined Benefit Unfunded Retirement Plan		Other Postretirement Benefit Plan	
(Thousands of dollars)		2016	2015	2016	2015	2016	2015
Assumptions used in measurement of benefit obligations							
Weighted average discount rate		4.16%	4.47%	4.16%	4.47%	4.19%	4.50%
Rate of compensation increase		4.00%	4.00%	5.00%	5.00%	N/A	N/A
Accumulated benefit obligations at year end	$	46,867	42,829	7,906	8,813	N/A	N/A

Components of net periodic retirement expense and other postretirement benefits expense consisted of the following:

(Thousands of dollars)		2016	2015	2014
Defined benefit funded retirement plan				
Service cost	$	1,642	1,959	1,476
Interest cost		2,097	2,021	1,839
Expected return on plan assets		(2,375)	(2,410)	(2,290)
Amortization of prior service cost		-	4	17
Amortization of actuarial loss		850	839	165
Net periodic benefit cost	$	2,214	2,413	1,207
Defined benefit unfunded retirement plan				
Service cost	$	212	518	302
Interest cost		322	494	373
Amortization of prior service credit		-	-	(7)
Amortization of actuarial loss		75	607	292
Net periodic benefit cost	$	609	1,619	960
Other postretirement benefit plan				
Service cost	$	379	527	418
Interest cost		576	559	497
Amortization of prior service credit		-	(46)	(199)
Amortization of actuarial loss		-	79	-
Net periodic benefit cost	$	955	1,119	716

Note 15 – Employee and Retiree Benefit Plans (cont.)

(Thousands of dollars)		2016	2015	2014
Assumptions used to determine net periodic benefit cost – defined benefit pension plans				
Weighted average discount rate		4.47%	4.21%	4.84%
Expected long-term rate of return on plan assets		7.50%	7.50%	7.50%
Rate of compensation increase		4.00%	4.00%	4.00%
Assumptions used to determine net periodic benefit cost – other postretirement plan				
Weighted average discount rate		4.50%	4.25%	4.85%
Other changes in plan assets and benefit obligations recognized in other comprehensive (income)/loss				
Net unrecognized loss/(gain)	$	(2,433)	1,784	14,636
Amortization of prior service credit		-	(4)	(10)
Amortization of actuarial losses		(925)	(1,525)	(457)
Amortization of plan amendment		-	46	199
Tax effect of changes		1,317	(118)	(5,636)
Total recognized in other comprehensive income	$	(2,041)	183	8,732

(Thousands of dollars)		Defined Benefit Funded Retirement Plan	Defined Benefit Unfunded Retirement Plan	Other Post-Retirement Benefit Plan
Estimated benefit payments by year				
2017	$	1,589	272	428
2018		1,729	417	478
2019		1,889	413	533
2020		2,103	408	574
2021		2,325	405	614
2022 – 2026		14,128	2,532	3,517

The estimated net loss for the defined benefit funded and unfunded retirement pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $1,093,000.

The amount of projected expense in 2017 for the defined benefit funded and unfunded retirement plans are expected to be $2,375,000 and $528,000, respectively. The Company expects to make contributions during 2017 of approximately $1,200,000 to the defined benefit funded retirement plan, $272,000 to fund benefits paid from its defined benefit unfunded retirement plan, and approximately $428,000 to fund the other postretirement benefit plan.

Note 15 – Employee and Retiree Benefit Plans (cont.)

The discount rate assumption used by the Company to measure benefit obligations and net periodic expenses is based on a spot-rate yield curve using current rates of return on high-quality fixed-income investments at the measurement date, reflect the rates at which the pension benefits can be effectively settled and is used to determine the present value of the expected future cash flows at the measurement date. Additionally, a single rate is determined so that the present value of the benefit obligations using the single rate equals the present value using the spot rate yield curve. The yield curve only includes bonds that meet the following criteria: (1) have maturities between 6 months and 30 years; (2) are noncallable, nonputable, and do not have a sinking fund provision; (3) have fixed coupon payments with a single payment at maturity; (4) have more than $250 million par outstanding; (5) are U.S. dollar-denominated bonds; and (6) have an average rating of AA- (S&P/Fitch) or Aa3 (Moody's) and higher. Any taxable municipal bond, "Build America" bonds, or bonds that are issued by any U.S. Government entity that fit under the above criteria are excluded.

To develop the expected long-term rate of return on asset assumption, the Company considered the rates of return of assets the Company's pension plan invested in and compared them to the historical rates of return on investments in similar assets. Further, these returns were compared to plans of other companies which had similar investment philosophies. After a review of the rate of inflation and its impact, management made the selection of the 7.50 percent assumption.

In determining the benefit obligation for health care at December 31, 2016, health care inflation cost was assumed to increase at an annual rate of five percent in 2016. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage-point increase in the assumed health care cost trend rate would increase the aggregate service and interest cost components of periodic benefit cost for 2016 by $184,000 and the benefit obligation by $2,343,000, while a one percentage-point decrease in the assumed rate would decrease the 2016 cost components by $143,000 and the benefit obligation by $1,851,000.

Funded Plan — The assets of the defined benefit funded retirement plan (the "Plan") are contained in a trust, sponsored by Deltic, and administered by a trustee appointed by the Company's Pension Investment and Employees Benefits Committee.

The investment policy of the Plan is to achieve growth with the preservation of principal. To achieve the goal of growth of plan assets (excluding contributions and withdrawals) at a rate that exceeds inflation, a balanced portfolio consisting of equities, fixed income, alternative investments, and cash equivalents is maintained. The components of the portfolio should be securities that have readily available prices and can be sold easily without significantly impacting the price of the securities, with an exception for professionally managed hedge funds. The minimum and maximum asset allocation levels in total, are equities, 45 to 70 percent, fixed income, 25 to 55 percent, alternative investments, zero to 15 percent, and up to 5 percent in cash equivalents. Further, the total equity minimum and maximum allocation levels at market, for large cap equity is 40 to 60 percent, mid and small cap equity is 5 to 15 percent, and international equity is zero to 25 percent, with international emerging not to exceed 40 percent of international equities allocation.

Not more than 2.5 percent of the market value of Plan assets may be held in the securities of any single issuer with the exception of the U.S. government or its agencies. As of December 31, 2016, less than 3 percent of the total market value of the Plan assets was invested in collateralized mortgage obligations and asset-backed security issues.

Note 15 – Employee and Retiree Benefit Plans (cont.)

The following types of securities are permitted in the Plan:

Equities – Common stocks, preferred stocks, convertible preferred stocks, convertible bonds, American depository receipts, proprietary funds, mutual funds, and exchange-traded funds.

Fixed income – U.S. government securities, corporate debt obligations, U.S. government agency securities, mortgage-backed security issues, international bonds, and asset-backed securities.

Cash equivalents – U.S. government securities.

Alternative investments, hedge funds – Qualified fund of funds limited partnership shares or fund of funds in a mutual fund wrapper.

Fair Value Measurement — Following is a description of the valuation methodologies used for retirement plan assets measured at fair value.

Common stock, preferred securities, and exchange-traded funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Plan at year-end, at quoted market prices.

Alternative investment funds: Valued by company or industry source.

U.S. treasuries and government agency securities: Valued using quoted prices for similar assets in active markets.

Corporate debt obligations and U.S. government and agency securities: Valued using pricing models that utilize trade, bid, and other market information; or benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.

Money market funds: Valued at par, which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value measurement accounting establishes a fair value hierarchy based on the quality of inputs used to measure fair value, with Level 1 being the highest quality and Level 3 being the lowest quality. Level 1 inputs are quoted prices in active markets on identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included in Level 1. Level 3 inputs are unobservable inputs which reflect assumptions about pricing by market participants.

Note 15 – Employee and Retiree Benefit Plans (cont.)

The following table sets forth by level within the fair value hierarchy the Plan's investments at fair value as of December 31, 2016.

	Fair Value Measurements at Reporting Date Using				
(Thousands of dollars)	Percent of Total	Total Carrying Value at Dec. 31, 2016	Level 1	Level 2	Level 3
Plan Investments					
Cash and cash equivalents	2.6	$ 871	871	-	-
Other	.1	47	47	-	-
U.S. Govt. and agency securities	13.6	4,608	2,694	1,914	-
Corporate debt obligations	10.0	3,385	-	3,385	-
Municipal debt obligations	1.2	401	-	401	-
Mutual funds:					
Dividends and growth	18.0	6,085	6,085	-	-
International and emerging markets	5.2	1,767	1,767	-	-
Fixed income	2.2	733	733	-	-
Exchange-traded funds	39.6	13,411	13,411	-	-
Alternative investment funds	7.5	2,531	-	-	2,531
Total plan investments at fair value	100.0	$ 33,839	25,608	5,700	2,531
Percent of fair value hierarchy		100	75.7	16.8	7.5

The following table sets forth the activity in the Level 3 investments for the year ended December 31, 2016.

(Thousands of dollars)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Alternative Investment Funds
Beginning balance at December 31, 2015	$ 2,567
Actual return on plan assets:	
Relating to assets still held at the reporting date	(36)
Purchases, sales, and settlements	-
Ending balance at December 31, 2016	$ 2,531

Note 15 – Employee and Retiree Benefit Plans (cont.)

The following table sets forth by level within the fair value hierarchy the Plan's investments at fair value as of December 31, 2015.

	Fair Value Measurements at Reporting Date Using				
(Thousands of dollars)	Percent of Total	Total Carrying Value at Dec. 31, 2015	Level 1	Level 2	Level 3
Plan Investments					
Cash and cash equivalents	2.3	$ 738	738	-	-
Other	.1	46	46	-	-
U.S. Govt. and agency securities	15.7	5,093	2,901	2,192	-
Corporate debt obligations	9.7	3,144	-	3,144	-
Municipal debt obligations	.3	95	-	95	-
Mutual funds:					
Dividends and growth	34.2	11,057	11,057	-	-
International and emerging markets	5.4	1,739	1,739	-	-
Fixed income	2.3	733	733	-	-
Exchange-traded funds	22.1	7,148	7,148	-	-
Alternative investment funds	7.9	2,567	-	-	2,567
Total plan investments at fair value	100.0	$ 32,360	24,362	5,431	2,567
Percent of fair value hierarchy		100	75.3	16.8	7.9

The following table sets forth the activity in the Level 3 investments for the year ended December 31, 2015.

(Thousands of dollars)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Alternative Investment Funds
Beginning balance at December 31, 2014	$	2,189
Actual return on plan assets:		
Relating to assets still held at the reporting date		(122)
Purchases, sales, and settlements		500
Ending balance at December 31, 2015	$	2,567

Note 15 – Employee and Retiree Benefit Plans (cont.)

Thrift Plan — Employees of the Company and subsidiaries may participate in its thrift plan by allotting up to a specific percentage of their base pay. The Company matches contributions at a stated percentage of each employee's allotment and also provides non-elective contributions. Company contributions to this plan were $1,079,000 in 2016, $935,000 in 2015, and $829,000 in 2014.

Note 16 – Incentive Plans

Stock Incentive Plan

On April 26, 2012, the Company's shareholders approved an amendment to extend the Deltic Timber Corporation 2002 Stock Incentive Plan ("the 2002 Plan") for ten years, giving the plan an expiration date of April 26, 2022. The 2002 Plan replaced the 1996 Stock Incentive Plan, which was terminated. The 2002 Plan permits annual awards of shares of the Company's common stock to executives, other key employees, and nonemployee directors. Under the plan, the Executive Compensation Committee ("the Committee") is authorized to grant: (1) stock options; (2) restricted stock and restricted stock units; (3) performance units; and (4) other stock-based awards, including stock appreciation rights and rights to dividends and dividend equivalents. The number of shares originally registered for issuance under the 2002 Plan was 1,800,000 shares. Additional shares may be issued if an adjustment is determined necessary by the Committee as the result of dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of common stock, or other corporate transaction in order to prevent dilution or enlargement of benefits or potential benefits intended to be made available. At December 31, 2016, 731,102 of these 1,800,000 shares were available for award under the 2002 Plan. No participant in the 2002 Plan may receive options and stock appreciation rights in any calendar year that relates to more than 50,000 shares, and the maximum number of shares, which may be awarded as restricted stock and restricted stock units or other stock-based awards, is 75,000 shares. The Company has a policy of issuing treasury stock to satisfy all share-based incentive plans.

Under the fair value recognition provisions for share-based payments, share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The fair value of stock options granted is determined using a binomial model. The fair value of restricted stock awards is determined by reference to the fair market value of the Company's common stock on the date of grant. Restricted stock performance units are valued using a Monte Carlo simulation model. Compensation cost is recognized on a straight-line basis over the requisite service period. The benefits of tax deductions in excess of recognized compensation cost is to be reported as a financing cash flow.

Deltic issues restricted stock performance units whose vesting is contingent upon meeting certain financial performance goals based upon the Company's total stockholder return compared to the total return of a Paper and Forest Products Index selected by the Committee and calculated by Standard and Poor's. Determining the appropriate amount to expense is based on likelihood of achievement of the stated goals and requires judgment, including forecasting future financial results.

Note 16 – Incentive Plans (cont.)

The expected option term is based on the term of the option and historical exercise and expiration experience. The Company uses historical volatility over a ten-year trading life to determine weighted expected volatility assumptions. The expected dividend yield is based on the Company's average dividend yield from 2012 to 2015. Risk-free interest rates are based on historical rates and forward-looking factors. The pre-vesting forfeiture rate is based on past forfeiture rates and expected trends.

Assumptions for the 2016, 2015, and 2014 valuation of stock options and restricted stock performance units consisted of the following:

		2016	2015	2014
Expected term of options (in years)		6.27	6.27	6.27
Weighted expected volatility		38.16%	38.64%	37.38%
Dividend yield		.59%	.56%	.55%
Risk-free interest rate - performance restricted shares		1.34%	1.15%	1.23%
Risk-free interest rate - stock options		2.13%	1.92%	2.99%
Stock price as of valuation date	$	55.94	65.89	63.21
Restricted performance share valuation	$	68.88	77.52	80.56
Grant date fair value - stock options	$	20.39	24.40	21.87

The consolidated statements of income for the years ended December 31, 2016, 2015, and 2014 included $4,221,000, $3,324,000, and $3,238,000, respectively, of stock-based compensation expense reflected in general and administrative expenses. The potential excess income tax benefit derived from all share-based payment arrangements with employees was $500,000, $36,000, and $160,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

Stock Options — For each option granted under the 2002 Plan, the Committee fixes the option price at not less than fair market value on the date of the grant and the option term, not to exceed ten years from date of grant. Options granted after 1998 have been issued with terms of ten years and are nonqualified. For all options granted since 2003, one-fourth vest after each one-year period over the subsequent four years from issuance. The resulting fixed stock-based compensation cost was recognized over the vesting period for these options. All outstanding options have an option price not less than the market value on the grant date, with a range in option prices of $34.41 to $71.35 per share.

Note 16 – Incentive Plans (cont.)

A summary of stock options as of December 31, 2016, and changes during the year ended are presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value $(000)
Outstanding at January 1, 2016	147,870	$ 63.86		
Granted	28,533	55.94		
Exercised	(93,427)	61.84		
Forfeited/expired	(2,941)	62.96		
Outstanding at December 31, 2016	80,035	$ 63.24	6.8	$ 1,093
Exercisable at December 31, 2016	40,057	$ 65.13	5.4	$ 725

The intrinsic value of options exercised during the years ended December 31, 2016, 2015, and 2014 was $908,000, $430,000, and $124,000, respectively. At December 31, 2016, there was $583,000 of unrecognized compensation cost related to nonvested stock options. The weighted average period remaining to vest is 1.6 years.

Additional information about stock options outstanding at December 31, 2016, consisted of the following:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Average Life in Years	Average Exercise Price	Number of Options	Average Exercise Price
$31.00 - $35.00	315	2.1	$ 34.41	315	$ 34.41
$41.00 - $45.00	2,364	3.1	$ 44.84	2,364	$ 44.84
$51.00 - $55.00	18,403	9.0	$ 55.89	220	$ 51.74
$56.00 - $65.00	20,291	6.1	$ 63.32	12,363	$ 63.39
$66.00 - $75.00	38,662	6.4	$ 68.05	24,795	$ 68.44
	80,035			40,057	

Restricted Stock and Restricted Stock Units — The Committee may grant restricted stock and restricted stock units to selected employees, with conditions to vesting for each grant established by the Committee. During the vesting period, the grantee may vote and receive dividends on the shares, but shares are subject to transfer restrictions and are all, or partially, forfeited if a grantee terminates, depending on the reason. Restricted stock and restricted stock units granted since 2003 have vested after four years, and the stock-based compensation is recognized on a straight-line basis over the requisite service period for the entire award.

Note 16 – Incentive Plans (cont.)

A summary of nonvested restricted stock as of December 31, 2016, and changes during the year then-ended are presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2016	87,105	$ 67.04
Granted	36,048	58.70
Vested	(35,125)	66.26
Forfeited	(858)	64.90
Nonvested at December 31, 2016	87,170	$ 66.54

As of December 31, 2016, there was $2,522,000 of unrecognized compensation cost related to nonvested restricted stock. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Performance Units — Performance units granted under the 2002 Plan may be denominated in cash, common shares, other securities, other awards allowed under the 2002 Plan, or other property and shall confer on the holder thereof rights valued as determined by the Committee and payable to, or exercisable by, the holder, in whole or in part, upon achievement of such performance goals during such performance periods as the Committee shall establish. Subject to the terms of the 2002 Plan, the performance goals to be achieved during any performance period, the length of any performance period, the amount of any performance unit granted, and any payment or transfer to be made pursuant to any performance unit shall be determined by the Committee. During 2016, 2015, and 2014, the Company issued performance units in the form of restricted stock with specified performance requirements. During the vesting period, the grantee may vote and receive dividends on the shares, but shares are subject to transfer restrictions and are all, or partially, forfeited if a grantee terminates, depending on the reason. Performance units granted since 2003 have vested after four years, and the stock-based compensation is recognized on a straight-line basis over the requisite service period for the entire award. During 2016 and 2015, the performance shares granted in 2012 and 2011, respectively, did not meet vesting conditions and were returned to treasury stock.

Note 16 – Incentive Plans (cont.)

A summary of nonvested restricted stock performance units as of December 31, 2016, and changes during the year then-ended are presented below:

	Shares		Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2016	63,900	$	83.24
Granted	29,041		68.35
Units not meeting vesting conditions	(11,263)		90.61
Vested	(21,279)		73.83
Forfeited	(13,249)		80.56
Nonvested at December 31, 2016	47,150	$	77.67

As of December 31, 2016, there was $1,708,000 of unrecognized compensation cost related to nonvested restricted stock performance units. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Other Stock-Based Awards — The Committee may also grant other awards, including but not limited to, stock appreciation rights and rights to dividends and dividend equivalents that are denominated, or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of the Company's common stock, including securities convertible in its common stock, as deemed by the Committee to be consistent with the purpose of the 2002 Plan. No such other stock-based awards have been granted.

Cash Incentive Compensation Plan

The Company has an incentive compensation plan that provides for annual cash awards to officers and key employees based on actual results for a year compared to objectives established at the beginning of that year by the Executive Compensation Committee, which administers the Plan. The Company recorded expenses for cash incentive awards of $1,050,000, $16,000, and $586,000 in 2016, 2015, and 2014, respectively. The Company had accrued provisions for cash incentive awards totaling $816,000 and $50,000 at December 31, 2016 and 2015, respectively, reflected in the consolidated balance sheets in deferred revenues and other accrued liabilities.

Note 17 – Supplemental Cash Flows Disclosures

Additional information concerning cash flows at December 31 consisted of the following:

(Thousands of dollars)		2016	2015	2014
Income taxes paid in cash	$	326	2,517	14,976
Interest paid		9,173	5,679	5,420
Interest capitalized		(810)	(103)	(70)

Note 17 – Supplemental Cash Flows Disclosures (cont.)

Non-cash investing and financing activities excluded from the Consolidated Statement of Cash Flows include:

(Thousands of dollars)		2016	2015	2014
Issuance of restricted stock	$	3,218	1,677	1,290
Capital expenditures, adjusted for non-cash accrued liabilities		(2,307)	1,603	738
Timberland exchanges		-	39	-

(Increases)/decreases in operating working capital, other than cash and cash equivalents, for each of the three years ended December 31 consisted of the following:

(Thousands of dollars)		2016	2015	2014
Trade accounts receivable	$	(1,672)	2,091	(1,756)
Other receivables		59	(11)	8
Inventories		(311)	(423)	945
Prepaid expenses and other current assets		2,749	(441)	(2,543)
Trade accounts payable		2,054	420	(2,123)
Accrued taxes other than income taxes		(67)	(31)	(61)
Deferred revenues and other accrued liabilities		2,815	1,302	(3,644)
	$	5,627	2,907	(9,174)

Cash flows provided by other operating activities included a decrease in deferred long-term mineral lease rental revenue of $80,000 in 2016, $267,000 in 2015, and $266,000 in 2014. Total cash payments received were $80,000 in 2016, $81,000 in 2015, and $711,000 in 2014. These payments will be recognized over the term of the lease.

Note 18 – Earnings per Share

The amounts used in computing earnings per share and the effect on income and weighted-average number of shares outstanding of dilutive potential common stock consisted of the following at December 31:

(Thousands of dollars, except per share amounts)		2016	2015	2014
Net earnings allocated to common stock	$	9,128	2,623	19,445
Net earnings allocated to participating securities		117	31	217
Net income allocated to common stock and participating securities	$	9,245	2,654	19,662

Note 18 – Earnings per Share (cont.)

(Thousands of dollars, except per share amounts)		2016	2015	2014
Weighted average number of common shares used in basic EPS		12,010	12,407	12,497
Effect of dilutive stock awards		64	60	56
Weighted average number of common shares and dilutive potential common stock used in EPS assuming dilution		12,074	12,467	12,553
Earnings per common share				
Basic	$	.76	.21	1.56
Assuming dilution	$	.76	.21	1.55

Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents using the treasury stock method.

The following table provides information about potentially dilutive securities that were outstanding but were not included in the computation of diluted earnings per share, because they were anti-dilutive or, in the case of the restricted performance shares, did not meet the metrics established for awarding:

	2016	2015	2014
Options	38,662	72,213	76,968
Restricted performance shares	10,162	63,900	56,586

Note 19 – Commitments and Contingencies

Commitments — Commitments for capital expenditures at December 31, 2016 were approximately $353,000 for timberland acquisitions, $6,626,000 for property, plant, and equipment; and $3,059,000 for investment in real estate held for development and sale.

The Company is also involved in litigation incidental to its business from time to time. Currently, there are no material legal proceedings outstanding.

Note 20 – Business Interruption Claim and Gain on Involuntary Conversion of Assets

On March 10, 2015, the Company experienced a fire at its MDF plant located in El Dorado, Arkansas. Damage was limited to the press portion of the facility and operations at the facility were temporarily suspended while repairs were made to the damaged area. Most of the repairs were completed in April 2015 and the plant became fully operational in that month. The Company maintains insurance coverage for both business interruption and property damage. Deltic settled the insurance claims during the second quarter of 2015 and recorded the applicable income from the business interruption claim and gains on involuntary conversion of assets in the operating income section of the consolidated income statement. The claim for business interruption insurance was settled for a total of $2,452,000, of which $516,000 was reported in Other Operating Income in the Company's Consolidated Statements of Income for the quarter ending June 30, 2015 and $1,936,000 was a reimbursement of business operating expenses. The total deductible for the business interruption policy was approximately $948,000, which was recognized as expense in the first half of 2015. The Company had adequate property damage insurance coverage to enable it to recover the replacement cost of its property and equipment that was destroyed by the fire. During the second quarter of 2015, the Company settled property claims of $5,969,000 for property damage. The claims for property damage included $4,379,000 for inventory, contents, and repair costs, and $1,590,000 for replacement cost of a new press belt and DPA duct. The total deductible for the property policy was $1,000,000, which was recognized as expense in the first quarter of 2015. After a write-off of basis in the amount of $886,000 for the old press belt and DPA duct in the first quarter of 2015, the Company recognized a gain from involuntary conversion of assets in the amount of $704,000 which was reported in Other Operating Income in the Company's Consolidated Statement of Income for the quarter ending June 30, 2015.

Note 21 - Subsequent Events

On February 27, 2017, the Company announced the appointment of John D. Enlow as its new President and Chief Executive Officer, effective March 8, 2017. Separately, on February 21, 2017, Kenneth D. Mann, Vice President, Finance and Administration, Treasurer and Chief Financial Officer of the Company, was placed on administrative leave and his responsibilities, including those as principal financial officer, were assigned on an interim basis to Byrom L. Walker, the Company's Controller and principal accounting officer. Mr. Mann's employment was terminated for cause by the Board of Directors on February 24, 2017 for misappropriating certain company assets for personal use, at which time the Board formally appointed Mr. Walker as interim Vice President, Finance and Administration, Treasurer and Chief Financial Officer.

Note 22 – Business Segments

The Company's four reporting segments consist of Deltic's three operating business units and its corporate function. Each reporting entity has a separate management team and infrastructure that offers different products or services.

Woodlands operations manage the Company's Southern Pine timberlands located primarily in Arkansas and north Louisiana and derive revenue from the harvest of timber from the timberlands in accordance with its harvest plans, and either sells timber to third parties in the domestic market or to the Company's sawmills for conversion into lumber. In addition, this segment may, from time to time, identify and sell a portion of its timberland holdings that are either non-strategic to future timberland management activities or that have appreciated, due primarily to location, to a level that exceeds its value as a timber-growing asset. This segment also generates revenue from oil and gas royalties and the leasing of hunting, oil and gas, and other rights on its timberlands.

The Manufacturing segment consists of Deltic's two sawmills which convert timber into lumber and Del-Tin Fiber, a plant which converts sawmill residuals and an adhesive bond into MDF. The sawmills purchase timber from third parties or the Company's Woodlands segment. The MDF plant purchases sawmill residuals from third parties and from the Company's sawmills. The mills produce a variety of products, including dimension lumber, boards, and timbers, while the MDF plant produces several different grades of MDF. The Manufacturing segment's products are sold primarily to wholesale distributors, large retailers, lumber treaters, industrial accounts, and manufacturers in the South and Midwest and are used in residential construction, roof trusses, remanufactured products, laminated beams, cabinets, flooring, and door parts.

The Real Estate operations, which include four real estate developments, add value to former legacy timberland by developing it into upscale, planned residential and commercial developments. These developments, which are generally centered on a core amenity, are being developed in stages. Historically, real estate sales have consisted primarily of residential lots sold to builders or individuals, commercial site sales, and sales of undeveloped acreage. In addition, this segment currently leases retail and office space to third parties in a retail center constructed by the Company, and held for sale, in one of its developments. This segment also manages: (1) a real estate brokerage subsidiary which generates commission revenue by reselling existing homes and (2) a country club operation, Chenal Country Club, Inc., around which the Company's Chenal Valley development is centered. This club operation derives its revenues from membership services, food and beverage sales, and membership dues.

Corporate operations consist primarily of senior management, accounting, information systems, human resources, purchasing, treasury, income tax, and legal staff functions that provide support services to the operating business units. The Company currently does not allocate the cost of maintaining these support functions to its operating units.

The accounting policies of the reportable segments are the same as those described in Note 1 – Significant Accounting Policies. The Company evaluates the performance of its segments based on operating income before results of: any equity method investee; interest income and expense; other non-operating income or expense; and income taxes. Intersegment revenues consist primarily of timber sales from the Woodlands segment to the sawmills' operations (part of the Manufacturing segment) and are transferred at rates that approximate market for the respective operating area.

Note 22 – Business Segments (cont.)

Information about the Company's business segments consisted of the following:

(Thousands of dollars)	2016	2015	2014
Net sales			
Woodlands	$ 38,260	38,770	37,008
Manufacturing[2]	178,307	160,688	189,561
Real Estate	24,796	15,276	16,283
Eliminations[1]	(22,000)	(20,883)	(15,497)
	$ 219,363	193,851	227,355
Income before income taxes			
Operating income/(loss)			
Woodlands	$ 18,016	20,141	19,113
Manufacturing[2]	19,213	8,381	31,440
Real Estate	7,428	453	1,115
Corporate	(22,941)	(17,325)	(17,405)
Eliminations	(76)	(632)	133
Operating income	21,640	11,018	34,396
Interest income	14	4	5
Interest and other debt expense, net of capitalized interest	(9,392)	(7,526)	(5,430)
Other income	258	258	284
	$ 12,520	3,754	29,255
Total assets at year-end			
Woodlands	$ 357,279	360,124	363,436
Manufacturing[2]	111,300	92,077	80,023
Real Estate	60,188	59,744	57,646
Corporate[3]	25,926	27,222	26,027
	$ 554,693	539,167	527,132
Depreciation, amortization, and cost of fee timber harvested			
Woodlands	$ 8,448	7,351	5,765
Manufacturing[2]	14,470	13,315	12,147
Real Estate	347	367	355
Corporate	141	63	75
	$ 23,406	21,096	18,342

Note 22 – Business Segments (cont.)

(Thousands of dollars)		2016	2015	2014
Capital expenditures				
Woodlands	$	3,828	3,667	4,038
Manufacturing[2]		32,340	24,363	12,311
Real Estate		8,479	8,071	3,934
Corporate		148	1,704	49
	$	44,795	37,805	20,332
Timberland acquisition expenditures	$	1,757	863	118,203

1 Primarily intersegment sales of timber from Woodlands to Manufacturing.
2 During March 2015, the Company experienced a fire in the press area at its MDF plant in El Dorado that affected the operating results.
3 Includes balance of timberland sale proceeds held by trustee of $1,000 as of December 31, 2015, and there were none as of December 31, 2016 and 2014.

Note 23 – Financial Results by Quarter (Unaudited)

(Thousands of dollars, except per share amounts)

		2016				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$	50,624	56,705	53,541	58,493	219,363
Gross profit		8,239	13,210	10,124	14,058	45,631
Operating income		3,217	8,228	4,562	5,633	21,640
Net income[1]		395	4,220	1,487	3,143	9,245
Earnings per common share						
Basic	$	.03	.35	.12	.26	.76
Assuming dilution		.03	.35	.12	.26	.76
Dividends paid per common share[2]	$	.10	.10	.10	.10	.40

		2015				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$	48,379	45,681	50,150	49,641	193,851
Gross profit		9,378	7,150	5,989	5,749	28,266
Operating income		4,516	2,933	2,034	1,535	11,018
Net income[1]		1,913	831	38	(128)	2,654
Earnings per common share						
Basic	$	.15	.07	.00	(.01)	.21
Assuming dilution		.15	.07	.00	(.01)	.21
Dividends paid per common share[2]	$	.10	.10	.10	.10	.40

Note 23 – Financial Results by Quarter (Unaudited) (cont.)

(Thousands of dollars, except per share amounts)

		2014				
		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net sales	$	55,379	58,605	58,301	55,070	227,355
Gross profit		13,930	14,455	14,046	10,447	52,878
Operating income		8,807	9,734	8,782	7,073	34,396
Net income		4,911	5,298	5,974	3,479	19,662
Earnings per common share						
Basic	$	.39	.42	.47	.28	1.56
Assuming dilution		.39	.42	.47	.28	1.55
Dividends paid per common share[2]	$	.10	.10	.10	.10	.40

[1] During March 2015, the Company experienced a fire in the press area at its MDF plant in El Dorado that affected the operating results for the second and third quarters of the year. (For additional information, see Note 20 – Business Interruption Claim and Gain of Involuntary Conversion of Assets.)

[2] Payment of dividends is the means by which Deltic Timber Corporation makes distributions to its shareholders of profits and cash flows generated by the Company's business operations. These dividends are declared by the Company's Board of Directors on a quarterly basis. The Company's dividend strategy is to grow the amount of the dividend over time, at a rate of increase that is believed to be sustainable. The timing and amount of future increases are based on the estimated trend for future earnings and cash flows, taking into account other potential uses of the Company's capital resources including, but not limited to, acquisition opportunities, capital expenditures for existing operations, debt repayments, and repurchases of the Company's common stock.

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Shareholders
Deltic Timber Corporation:

The management of Deltic Timber Corporation has prepared and is responsible for the Company’s consolidated financial statements. The statements are prepared in conformity with accounting principles generally accepted in the United States of America, appropriate in the circumstances. In preparing the financial statements, management has, when necessary, made judgments and estimates with consideration given to materiality.

The Company’s consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements in conformity with U.S. generally accepted accounting principles. Their audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States). The Audit Committee of the Board of Directors (“the Audit Committee”) appoints the independent auditors; ratification of the appointment is solicited annually from the shareholders.

The Audit Committee is composed of directors who are not officers or employees of the Company and who have been determined by the Company’s Board of Directors to meet applicable independence standards under the Securities Exchange Act of 1934. The Audit Committee meets periodically with KPMG LLP, the Company’s internal auditor, and representatives of management to review the Company’s internal controls, the quality of its financial reporting, the scope and results of audits, and the independence of the external auditors. The Company’s internal auditor and KPMG LLP have unrestricted access to the Audit Committee, without management’s presence, to discuss audit findings and other financial matters.

/s/D. Mark Leland

D. Mark Leland
Interim President and Chief Executive Officer
March 7, 2017

/s/Byrom L. Walker

Byrom L. Walker
Interim Vice President and Chief Financial Officer
March 7, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Deltic Timber Corporation:

We have audited the accompanying consolidated balance sheets of Deltic Timber Corporation and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2017 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/KPMG LLP

Shreveport, Louisiana
March 7, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Deltic Timber Corporation:

We have audited Deltic Timber Corporation's (the Company) internal control over financial reporting as of December 31, 2016 based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the cash disbursement process for certain expenditures, including ineffective segregation of duties between the initiation and authorization of cash disbursements has been identified and included in management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Deltic Timber Corporation and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of those consolidated financial statements, and this report does not affect our report dated March 7, 2017, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2016, based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/KPMG LLP

Shreveport, Louisiana
March 7, 2017

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company, with the participation of its management, including its interim Chief Executive Officer and interim Chief Financial Officer, has carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15) as of December 31, 2016. Such disclosure controls and procedures are designed to ensure that information required to be disclosed in reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to management, including the interim Chief Executive Officer and interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on and as of the date of this evaluation, the interim Chief Executive Officer and the interim Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of such date, due to the material weakness in the Company's internal control over financial reporting described below.

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control system is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management, under the supervision of the Company's interim Chief Executive Officer and interim Chief Financial Officer, and oversight of the Board of Directors, conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Management has determined that a material weakness existed at December 31, 2016, and that as a result, our internal control over financial reporting was not effective as of such date.

The Company had ineffective controls over the cash disbursements process for certain expenditures that require payment on an expedited basis, including ineffective segregation of duties between the initiation and authorization of cash disbursements. As a result, the Company's former Chief Financial Officer was able to misappropriate an immaterial amount of the Company's cash over a two year period for personal use while misrepresenting the nature of such disbursements in the Company's books and records. The misappropriation did not have a material impact on the amounts reported in previously issued financial statements.

Although no material misstatements were identified in our consolidated financial statements, this control deficiency created a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis. We have concluded that our internal control over financial reporting was not effective as of December 31, 2016.

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this annual report, has expressed an adverse report on the operating effectiveness of the Company's internal control over financial reporting which appears on page 90 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

Except for the material weakness described above, no change in our internal control over financial reporting occurred during the quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan

During the first quarter of 2017, as the result of the misappropriation of assets and related control deficiencies described above, the Company initiated comprehensive remediation efforts to ensure that the deficiencies that contributed to the material weakness are remediated. We have reviewed the design, implementation and operation of the controls and have made enhancements and identified new controls that are currently being considered for implementation as part of the remediation efforts. These efforts include establishing a segregation of duties between the initiation and authorization of cash disbursements for expenditures and enhancing documentation requirements around check authorizations. The executive involved in the misappropriation of assets has been terminated.

We believe that such efforts, once implemented and operating for a sufficient period of time, will effectively remediate the reported material weakness. However, the material weakness will not be considered remediated until the controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The sections entitled “Nominees For Election as Directors,” “Directors Whose Term of Office Continue,” and “Committees of the Board of Directors” appearing in the Registrant’s proxy statement for the annual meeting of shareholders to be held on April 27, 2017, will set forth certain information with respect to the directors of the registrant, including directors who serve on the Company’s Audit Committee and who have been designated an Audit Committee financial expert, and is incorporated herein by reference. Certain information with respect to persons who are or may be deemed to be executive officers of the Registrant is set forth under the caption “Executive Officers of the Registrant” in Part I of this report.

The sections entitled “Procedures for Stockholder Nominations and Proposals” and “Corporate Governance” appearing in the Registrant’s proxy statement for the annual meeting of stockholders to be held April 27, 2017, will set forth certain information respectively in regards to applicable procedures for stockholders to submit director nominations and proposals and the Company’s Code of Business Conduct and Ethics and is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this Item will be contained in the Registrant’s proxy statement for the annual meeting of stockholders to be held on April 27, 2017, to be filed not later than 120 days following the end of the Registrant’s fiscal year ended December 31, 2016, which will set forth certain information with respect to executive compensation of the Registrant and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 27, 2017, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2016, which will set forth certain information with respect to security ownership of certain beneficial owners and management of the Registrant and is incorporated herein by reference.

The following table sets forth information as of December 31, 2016, with respect to Deltic common stock issuable under the Company's compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)		Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	80,035	$	63.24	731,102
Equity compensation plans not approved by security holders	-		-	-
	80,035	$	63.24	731,102

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 27, 2017, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2016, which will set forth certain information with respect to certain relationships and related transactions of the Registrant and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this Item will be contained in the Registrant's proxy statement for the annual meeting of stockholders to be held on April 27, 2017, to be filed not later than 120 days following the end of the Registrant's fiscal year ended December 31, 2016, which will set forth certain information with respect to principal accountant fees and services and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

a. Financial Statements, Schedules, and Exhibits.

1. Consolidated Financial Statements.

   Consolidated Balance Sheets - December 31, 2016 and 2015.

   Consolidated Statements of Income for the Years Ended December 31, 2016, 2015, and 2014.

   Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015, and 2014.

   Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015, and 2014.

   Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2016, 2015, and 2014.

   Notes to Consolidated Financial Statements, including Consolidated Quarterly Income Information (Unaudited).

   Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements.

   Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.

2. Financial Statement Schedules.

   Other financial statement schedules are omitted, because either they are not applicable, or the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits.

Index to Exhibits

Exhibit Designation	Nature of Exhibit
3	Articles of Incorporation and Bylaws.
3.1	Amended and Restated Certificate of Incorporation of Deltic Timber Corporation as of December 17, 1996 (incorporated by reference to Exhibit 3.1 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
3.2	Amended and Restated Bylaws of Deltic Timber Corporation (incorporated by reference to Exhibit 3.2 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
3.3	Amended and Restated Bylaws of Deltic Timber Corporation (incorporated by reference to Exhibit 3.3 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2015).
4	Instruments Defining the Rights of Security Holders.
4.1	Rights Agreement dated as of December 11, 1996, between Deltic Timber Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 4 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
4.2	Amendment No. 1 to Rights Agreement dated as of October 15, 1998, between Deltic Timber Corporation and Harris Trust and Savings Bank, as Rights Agent (incorporated by reference to Exhibit 4.2 to Registrant’s Registration of Securities Report on Form 10/A dated November 11, 1998).
4.3	Amendment No. 2 to Rights Agreement dated as of October 19, 2006, between Deltic Timber Corporation and Harris N.A., as Rights Agent (incorporated by reference to Exhibit 4.3 to Registrant’s Registration of Securities Report on Form 10/A dated October 19, 2006).
10	Material Contracts.
10.1	Deltic Timber Corporation 2002 Stock Incentive Plan (incorporated by reference to the Exhibit 10.1 to Registrant’s Current Report on Form 8-K dated October 18, 2006).
10.2	Distribution Agreement (incorporated by reference to Exhibit 10.2 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
10.3	Tax Sharing Agreement (incorporated by reference to Exhibit 10.3 to Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
10.4	Credit Facility dated December 19, 1996 (incorporated by reference to Exhibit 10.4 to Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

10.5	Certificate of Designation of the Cumulative Redeemable Preferred Stock, 7.54% Series ($.01 Par Value), of Deltic Timber Corporation (incorporated by reference to Exhibit 10.5 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).
10.7	Note Purchase Agreement dated December 18, 1998 (incorporated by reference to Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.8	Selective Sections of Del-Tin Fiber L.L.C.'s Project Credit Agreement dated November 23, 1998 (incorporated by reference to Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
10.9	Revolving Credit Agreement dated June 20, 2001 (incorporated by reference to Exhibit 10.9 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
10.11	First Amended and Restated Revolving Credit Agreement dated September 30, 2003 (incorporated by reference to Exhibit 10.11 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
10.12	Guarantee Agreement between Deltic Timber Corporation and SunTrust Bank related to the Del-Tin Fiber Credit Agreement dated August 26, 2004 (incorporated by reference to Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).
10.13	Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.13 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.14	Non-Qualified Stock Option Form (incorporated by reference to Exhibit 10.14 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.15	Restricted Stock Award Agreement and Stock Power (incorporated by reference to Exhibit 10.15 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.16	Performance-Based Restricted Stock Award Agreement and Stock Power (incorporated by reference to Exhibit 10.16 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.17	Change-in-Control and Involuntary Severance Agreement with CEO (incorporated by reference to Exhibit 10.17 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.18	Change-in-Control Agreement with CEO Direct Reports (incorporated by reference to Exhibit 10.18 to Registrant's Current Report on Form 8-K dated October 18, 2006).
10.19	Revolving Credit Agreement dated September 9, 2005 (incorporated by reference to Exhibit 10.19 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005).
10.20	Deltic Timber Corporation Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.20 to the Registrant's Current Report on Form 8-K dated October 18, 2006).

10.21	Amended and Restated Note Purchase Agreement dated March 30, 2007 (incorporated by reference to Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
10.22	First Amendment to the Revolving Credit Agreement dated August 7, 2007 (incorporated by reference to Exhibit 10.21 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).
10.24	Second Amendment to the Revolving Credit Agreement dated September 9, 2005 (incorporated by reference to Exhibit 10.24 to Registrant's Current Report on Form 8-K dated February 4, 2011).
10.25	Membership Interest Purchase Agreement dated February 13, 2013 between Deltic Timber Corporation and TIN, Inc., (incorporated by reference to Exhibit 10.25 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013).
10.26	Amended and Restated Revolving Credit Agreement dated May 2, 2013 (incorporated by reference to Exhibit 10.26 to Registrant's Current Report on Form 8-K dated May 2, 2013).
10.27	Asset Purchase and Sale Agreement By and Among Hawthorn Timberlands, LLC, Deltic Timber Corporation, and First American Title Insurance Company dated March 6, 2014 (incorporated by reference to Exhibit 10.27 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.28	Asset Purchase and Sale Agreement By and Among Keystone Forest Investments, LLC, Deltic Timber Corporation, and First American Title Insurance Company dated March 6, 2014 (incorporated by reference to Exhibit 10.28 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.29	Asset Purchase and Sale Agreement By and Among Sustainable Growth, LLC, Deltic Timber Corporation, and First American Title Insurance Company dated March 6, 2014 (incorporated by reference to Exhibit 10.29 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014).
10.30	Second Amended and Restated Revolving Credit Agreement dated November 18, 2014 (incorporated by reference to Exhibit 10.30 to Registrant's Current Report on Form 8-K dated November 19, 2014).
10.31	First Amendment of Amended and Restated Note Purchase Agreement dated December 1, 2014 (incorporated by reference to Exhibit 10.31 to Registrant's Current Report on Form 8-K dated December 4, 2014).
10.32	First Amendment to Second Amended and Restated Revolving Credit Agreement dated August 25, 2015 (incorporated by reference to Exhibit 10.32 to Registrant's Current Report on Form 8-K dated August 28, 2015).
10.33	Term Loan Credit Agreement dated August 27, 2015 (incorporated by reference to Exhibit 10.33 to Registrant's Current Report on Form 8-K dated August 28, 2015).

10.34	Second Amendment to Second Amended and Restated Revolving Credit Agreement as of December 30, 2015 and effective January 6, 2016 (incorporated by reference to Exhibit 10.34 to Registrant's Current Report on Form 8-K dated January 6, 2016).
10.35	Revolving Credit Notes dated February 2, 2016 executed by Deltic Timber Corporation with Greenstone Farm Credit Services, ACA, and with American AgCredit, PCA (incorporated by reference to Exhibit 10.35 to Registrant's Current Report on Form 8-K dated February 6, 2016).
10.36	Deltic Timber Corporation Retirement Agreement and General Release (incorporated by reference to the Exhibit 10.1 to Registrant's Current Report on Form 8-K dated October 10, 2016).
21	Subsidiaries of the Registrant, included elsewhere herein.
23	Consent of Independent Registered Public Accounting Firm.
23.1	Consent of Independent Registered Public Accounting Firm related to reports on consolidated financial statements and internal control over financial reporting of Deltic Timber Corporation, included elsewhere herein.
31.1	Chief Executive Officer Certification Required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification Required by Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Required by Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Data: The following financial information from Deltic Timber Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in Extensible Business Reporting Language: (1) the Consolidated Balance Sheets; (2) the Consolidated Statements of Income; (3) the Consolidated Statements of Comprehensive Income; (4) the Consolidated Statements of Cash Flows; (5) the Consolidated Statements of Stockholders' Equity; and (6) the Notes to Consolidated Financial Statements.

Exhibits other than those listed above have been omitted, since they either are not required or are not applicable.

SIGNATURES

Pursuant to the requirements 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.

DELTIC TIMBER CORPORATION

By: /s/D. Mark Leland
D. Mark Leland, Interim President

Date: March 7, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 7, 2017 by the following persons on behalf of the registrant and in the capacities indicated.

/s/Robert C. Nolan Robert C. Nolan, Chairman and Director	/s/D. Mark Leland D. Mark Leland, Interim President and Chief Executive Officer and Director (Principal Executive Officer)
/s/Randolph C. Coley Randolph C. Coley, Director	/s/David L. Lemmon David L. Lemmon, Director
/s/Christoph Keller, III Christoph Keller, III, Director	/s/R. Hunter Pierson, Jr. R. Hunter Pierson, Jr., Director
/s/R. Madison Murphy R. Madison Murphy, Director	/s/Robert B. Tudor Robert B. Tudor, Director
/s/J. Thurston Roach J. Thurston Roach, Director	/s/Lenore M. Sullivan Lenore M. Sullivan, Director
/s/Bert H. Jones Bert H. Jones, Director	/s/Byrom L. Walker Byrom L. Walker, Interim Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer) Controller (Principal Accounting Officer)

EXHIBIT 21

Deltic Timber Corporation
Subsidiaries of the Registrant
As of December 31, 2016

Subsidiaries	State of Incorporation
Deltic Timber Purchasers, Inc.	Arkansas
Chenal Properties, Inc.	Arkansas
Chenal Country Club, Inc.	Arkansas
Del-Tin Fiber, L.L.C.	Arkansas

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Deltic Timber Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-76294 and No. 333-90026) on Form S-8 of Deltic Timber Corporation of our reports dated March 7, 2017, with respect to the consolidated balance sheets of Deltic Timber Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016 and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of Deltic Timber Corporation.

Our report dated March 7, 2017, on the effectiveness of internal control over financial reporting as of December 31, 2016, expresses our opinion that Deltic Timber Corporation did not maintain effective internal control over financial reporting as of December 31, 2016 because of the effect of a material weakness on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states that a material weakness related to the cash disbursement process for certain expenditures, including ineffective segregation of duties between the initiation and authorization of cash disbursements has been identified and included in management's assessment.

/s/KPMG LLP

Shreveport, Louisiana
March 7, 2017

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION
REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, D. Mark Leland, certify that:

1. I have reviewed this annual report on Form 10-K of Deltic Timber Corporation;

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

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

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

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

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

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

/s/D. Mark Leland

D. Mark Leland
Interim Chief Executive Officer
March 7, 2017

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION
REQUIRED BY SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Byrom L. Walker, certify that:

1. I have reviewed this annual report on Form 10-K of Deltic Timber Corporation;

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

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

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

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

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

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

/s/Byrom L. Walker

Byrom L. Walker
Interim Chief Financial Officer
March 7, 2017

EXHIBIT 32

CERTIFICATION REQUIRED BY SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

The certification set forth below is being submitted in connection with this annual report on Form 10-K of Deltic Timber Corporation ("the report") for the purpose of complying with Rule 13a–14(b) or Rule 15d–14(b) of the Securities Exchange Act of 1934 ("the Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

D. Mark Leland, the Chief Executive Officer, and Byrom L. Walker, the Chief Financial Officer, each certifies that, to the best of his knowledge:

(1) the report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act; and

(2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Deltic Timber Corporation.

/s/D. Mark Leland

D. Mark Leland
Interim Chief Executive Officer
March 7, 2017

/s/Byrom L. Walker

Byrom L. Walker
Interim Chief Financial Officer
March 7, 2017

THIS PAGE INTENTIONALLY LEFT BLANK

CORPORATE INFORMATION

Corporate Offices
210 East Elm, P. O. Box 7200
El Dorado, Arkansas 71731-7200
(870) 881-9400
www.deltic.com

Stock Exchange Listing
Trading symbol: DEL
New York Stock Exchange

Transfer Agent and Registrar
Computershare Investor Services
P.O. Box 30170
College Station, TX 77842-3170

Overnight correspondence should be sent to:
Computershare
211 Quality Circle, Suite 210
College Station, TX 77845

Shareholder website:
www.computershare.com/investor

Shareholder online inquiries:
https://www-us.computershare.com/investor/Contact

Telephone inquiries:
Shareholder Services – (312) 360-5391

Annual Meeting
The annual meeting of the Company's shareholders will be held at 10 a.m. on April 27, 2017, at the South Arkansas Arts Center, 110 East 5th Street, El Dorado, Arkansas. A formal notice of the meeting, together with a proxy statement and proxy form, are enclosed with this report.

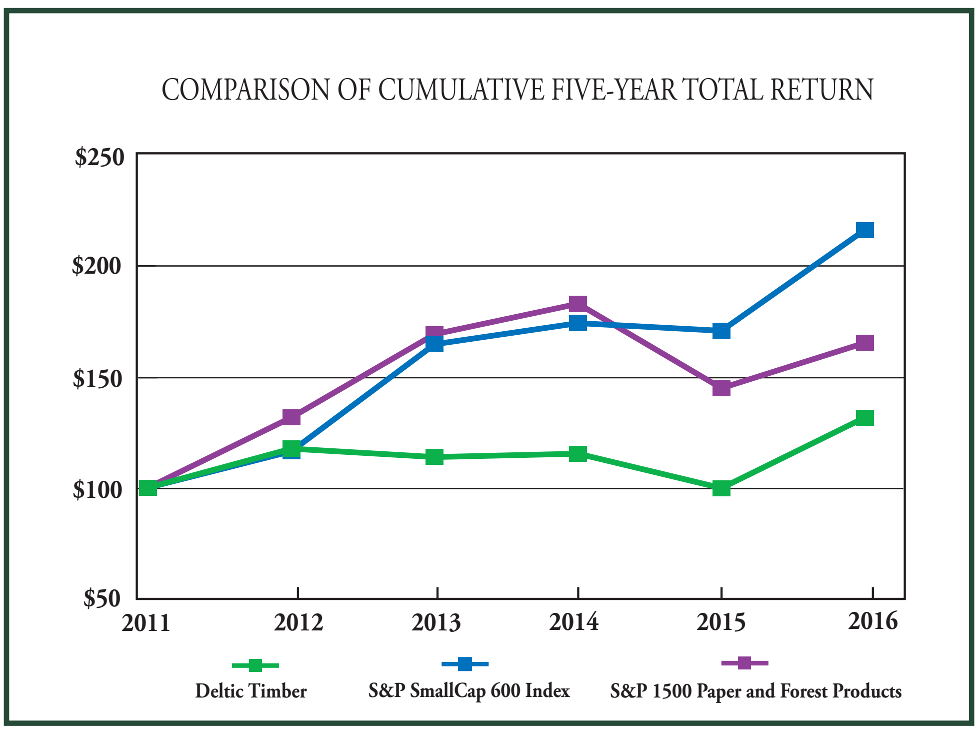
Form 10-K
A copy of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is contained herein and may also be obtained from Deltic's website at www.deltic.com.

Inquiries
Inquiries regarding shareholder account matters should be addressed to:
Jim F. Andrews, Jr., Secretary
Deltic Timber Corporation
P. O. Box 7200
El Dorado, Arkansas 71731-7200

Members of the financial community should direct their inquiries to:
Investor Relations
Deltic Timber Corporation
P. O. Box 7200
El Dorado, Arkansas 71731-7200
(870) 881-6432

The Company has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of its public disclosures as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2016.

STOCK INFORMATION



The graphed stock performance represents the cumulative total return for the Company's common stock compared to issuers with similar capitalization and to peer industry issuers for the period December 31, 2011, through December 31, 2016. The calculated returns assume an investment of $100 on December 31, 2011, and that all dividends were reinvested.

Deltic Timber Corporation

210 East Elm, P. O. Box 7200
El Dorado, Arkansas 71731-7200
www.deltic.com