

TEJON RANCH CO  
Form 10-Q  
November 07, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number: 1-7183

**TEJON RANCH CO.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0196136**  
(IRS Employer

Identification No.)

**P.O. Box 1000, Lebec, California 93243**

(Address of principal executive offices)

**Registrant's telephone number, including area code:(661) 248-3000**

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

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

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. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of the Company's outstanding shares of Common Stock on November 1, 2011 was 19,975,706.

**Table of Contents**

TEJON RANCH CO. AND SUBSIDIARIES

INDEX

|  | Page No. |
|--|----------|
| <b>PART I. <u>FINANCIAL INFORMATION</u></b>  |          |
| Item 1. <u>Financial Statements</u>  |          |
| <u>Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2011 and September 30, 2010</u> | 1        |
| <u>Consolidated Balance Sheets as of September 30, 2011 (unaudited) and December 31, 2010</u>  | 2        |
| <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and September 30, 2010</u>           | 3        |
| <u>Unaudited Consolidated Statements of Equity for the Nine Months Ended Septemeber 30, 2011</u>                                     | 4        |
| <u>Notes to Unaudited Consolidated Financial Statements</u>  | 5        |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                 | 19       |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 28       |
| Item 4. <u>Controls and Procedures</u>   | 30       |
| <b>PART II. <u>OTHER INFORMATION</u></b>   |          |
| Item 1. <u>Legal Proceedings</u>   | 30       |
| Item 1A. <u>Risk Factors</u>   | 30       |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 31       |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 31       |
| Item 4. <u>Reserved</u>  | 31       |
| Item 5. <u>Other Information</u>   | 31       |
| Item 6. <u>Exhibits</u>  | 31       |
| <b><u>SIGNATURES</u></b>   |          |

**Table of Contents**

## PART I - FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS**

## TEJON RANCH CO. AND SUBSIDIARIES

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

|  | Three Months Ended<br>September 30 |                 | Nine Months Ended<br>September 30 |                 |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|
|  | 2011                               | 2010            | 2011                              | 2010            |
| <b>Revenues:</b>   |                                    |                 |                                   |                 |
| Real estate - commercial/industrial  | \$ 5,760                           | \$ 3,853        | \$ 15,152                         | \$ 11,497       |
| Real estate - resort/residential   | 88                                 | 228             | 15,966                            | 278             |
| Farming  | 8,917                              | 12,198          | 12,165                            | 12,855          |
| <b>Total revenues</b>  | <b>14,765</b>                      | <b>16,279</b>   | <b>43,283</b>                     | <b>24,630</b>   |
| <b>Costs and Expenses:</b>   |                                    |                 |                                   |                 |
| Real estate - commercial/industrial  | 3,249                              | 2,205           | 9,435                             | 7,692           |
| Real estate - resort/residential   | 1,001                              | 23              | 2,878                             | 2,150           |
| Farming  | 4,825                              | 4,058           | 8,015                             | 5,549           |
| Corporate expenses   | 2,655                              | (2,036)         | 8,253                             | 2,086           |
| <b>Total expenses</b>  | <b>11,730</b>                      | <b>4,250</b>    | <b>28,581</b>                     | <b>17,477</b>   |
| <b>Operating income</b>  | <b>3,035</b>                       | <b>12,029</b>   | <b>14,702</b>                     | <b>7,153</b>    |
| <b>Other Income (Expense)</b>  |                                    |                 |                                   |                 |
| Investment income  | 317                                | 246             | 927                               | 708             |
| Interest expense   |                                    | (7)             |                                   | (77)            |
| Other income   | 17                                 | 8               | 77                                | 34              |
| <b>Total other income</b>  | <b>334</b>                         | <b>247</b>      | <b>1,004</b>                      | <b>665</b>      |
| <b>Income from operations before equity in earnings of unconsolidated joint ventures</b> | <b>3,369</b>                       | <b>12,276</b>   | <b>15,706</b>                     | <b>7,818</b>    |
| <b>Equity in earnings of unconsolidated joint ventures, net</b>                          | <b>613</b>                         | <b>647</b>      | <b>583</b>                        | <b>660</b>      |
| <b>Income before income tax expense</b>  | <b>3,982</b>                       | <b>12,923</b>   | <b>16,289</b>                     | <b>8,478</b>    |
| <b>Income tax expense</b>  | <b>1,442</b>                       | <b>5,071</b>    | <b>5,710</b>                      | <b>3,233</b>    |
| <b>Net income</b>  | <b>2,540</b>                       | <b>7,852</b>    | <b>10,579</b>                     | <b>5,245</b>    |
| <b>Net income (loss) attributable to non-controlling interest</b>                        | <b>(18)</b>                        | <b>2</b>        | <b>(77)</b>                       | <b>(123)</b>    |
| <b>Net income attributable to common stockholders</b>                                    | <b>\$ 2,558</b>                    | <b>\$ 7,850</b> | <b>\$ 10,656</b>                  | <b>\$ 5,368</b> |
| <b>Net income per share attributable to common stockholders, basic</b>                   | <b>0.13</b>                        | <b>\$ 0.40</b>  | <b>0.54</b>                       | <b>\$ 0.30</b>  |
| <b>Net income per share attributable to common stockholders, diluted</b>                 | <b>0.13</b>                        | <b>\$ 0.40</b>  | <b>0.54</b>                       | <b>\$ 0.30</b>  |

See Notes to Unaudited Consolidated Financial Statements.



**Table of Contents**

## TEJON RANCH CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

|   | September 30, 2011<br>(unaudited) | December 31,<br>2010 |
|---|-----------------------------------|----------------------|
| <b>ASSETS</b>   |                                   |                      |
| Current Assets:   |                                   |                      |
| Cash and cash equivalents   | \$ 16,143                         | \$ 22,027            |
| Marketable securities - available-for-sale  | 67,527                            | 48,985               |
| Accounts receivable   | 8,971                             | 9,812                |
| Inventories   | 5,267                             | 2,982                |
| Prepaid expenses and other current assets   | 3,361                             | 5,011                |
| Total current assets  | 101,269                           | 88,817               |
| Property and equipment - net of depreciation  | 125,211                           | 117,275              |
| Investments in unconsolidated joint ventures  | 51,321                            | 48,302               |
| Long-term water assets  | 28,695                            | 28,774               |
| Long-term deferred tax assets   | 4,307                             | 3,985                |
| Other assets  | 893                               | 938                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 311,696</b>                 | <b>\$ 288,091</b>    |
| <b>LIABILITIES AND EQUITY</b>   |                                   |                      |
| Current Liabilities:  |                                   |                      |
| Trade accounts payable  | \$ 3,030                          | \$ 2,187             |
| Other accrued liabilities   | 1,847                             | 1,334                |
| Income taxes payable  | 2,072                             |                      |
| Deferred income   | 2,144                             | 601                  |
| Current portion of long-term debt   | 36                                | 35                   |
| Total current liabilities   | 9,129                             | 4,157                |
| Long-term debt, less current portion  | 262                               | 290                  |
| Long-term deferred gains  | 2,248                             | 2,277                |
| Other liabilities   | 3,534                             | 3,196                |
| Pension liability   | 1,251                             | 1,519                |
| Total liabilities   | 16,424                            | 11,439               |
| Commitments and contingencies   |                                   |                      |
| Equity:   |                                   |                      |
| Tejon Ranch Co. Stockholders' Equity  |                                   |                      |
| Common stock, \$.50 par value per share:  |                                   |                      |
| Authorized shares - 30,000,000 Issued and outstanding shares -19,973,926 at September 30, 2011<br>and 19,747,470 at December 31, 2010 | 9,987                             | 9,874                |
| Additional paid-in capital  | 191,979                           | 183,816              |
| Accumulated other comprehensive loss  | (2,426)                           | (2,191)              |
| Retained earnings   | 55,871                            | 45,215               |
| Total Tejon Ranch Co. Stockholders' Equity  | 255,411                           | 236,714              |
| Non-controlling interest  | 39,861                            | 39,938               |

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|                                     |  |                   |                   |
|-------------------------------------|--|-------------------|-------------------|
| Total equity                        |  | 295,272           | 276,652           |
| <b>TOTAL LIABILITIES AND EQUITY</b> |  | <b>\$ 311,696</b> | <b>\$ 288,091</b> |

See Notes to Unaudited Consolidated Financial Statements.

**Table of Contents**

## TEJON RANCH CO. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Nine Months Ended<br>September 30 |                  |
|---|-----------------------------------|------------------|
|   | 2011                              | 2010             |
| <b>OPERATING ACTIVITIES</b>   |                                   |                  |
| Net income  | \$ 10,579                         | \$ 5,245         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |                  |
| Depreciation and amortization   | 3,066                             | 1,846            |
| Equity in earnings of unconsolidated joint ventures, net                          | (583)                             | (660)            |
| Non-cash retirement plan expense  | 70                                | 600              |
| Amortization of stock compensation expense  | 3,846                             | (4,583)          |
| Gains on sale of easements  | (15,730)                          |                  |
| Deferred income taxes   | (144)                             | 773              |
| Non-cash straight line loss   | 98                                | 116              |
| Excess tax benefit of stock based compensation                                    |                                   | (243)            |
| Distribution of earnings from unconsolidated joint ventures                       |                                   | 1,440            |
| Changes in operating assets and liabilities:                                      |                                   |                  |
| Receivables, inventories and other assets, net                                    | 439                               | (6,024)          |
| Current liabilities, net  | 4,102                             | 1,335            |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                        | <b>5,743</b>                      | <b>(155)</b>     |
| <b>INVESTING ACTIVITIES</b>   |                                   |                  |
| Maturities and sales of marketable securities                                     | 9,768                             | 13,447           |
| Funds invested in marketable securities   | (28,739)                          | (23,726)         |
| Property and equipment expenditures   | (9,509)                           | (10,279)         |
| Investment in long-term water assets  |                                   | (323)            |
| Proceeds from sale of easements   | 15,750                            |                  |
| Investment in unconsolidated joint ventures                                       | (2,282)                           | (3,424)          |
| Distribution of equity from unconsolidated joint venture                          |                                   | 4,100            |
| Investment in pistachio processor   | (485)                             |                  |
| Reimbursement proceeds from community facilities district                         |                                   | 10,860           |
| Other   | (532)                             | (460)            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(16,029)</b>                   | <b>(9,805)</b>   |
| <b>FINANCING ACTIVITIES</b>   |                                   |                  |
| Borrowings of short-term debt   |                                   | 6,850            |
| Repayments of short-term debt   |                                   | (16,400)         |
| Repayments of long-term debt  | (28)                              | (25)             |
| Proceeds from exercise of stock options   | 5,242                             | 2,008            |
| Taxes on vested stock grants  | (812)                             | (354)            |
| Net proceeds from rights offering   |                                   | 59,760           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                  | <b>4,402</b>                      | <b>51,839</b>    |
| <b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>                        | <b>(5,884)</b>                    | <b>41,879</b>    |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                           | <b>22,027</b>                     | <b>683</b>       |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                 | <b>\$ 16,143</b>                  | <b>\$ 42,562</b> |

See Notes to Unaudited Consolidated Financial Statements.





Table of Contents

## TEJON RANCH CO. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except shares outstanding)

|  | TEJON RANCH COMPANY STOCKHOLDERS EQUITY |                 |                                  |   | Retained Earnings | Total Tejon Ranch Co. s<br>Stockholders<br>Equity | Noncontrolling<br>Interest | Total        |
|--|---|-----------------|----------------------------------|---|-------------------|---|----------------------------|--------------|
|  | Common<br>Stock Shares<br>Outstanding   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |                   |   |                            |              |
| <b>Balance at January 1, 2010</b>  | 17,019,428                              | \$ 8,509        | \$ 126,829                       | \$ (2,151)  | \$ 41,040         | \$ 174,227  | \$ 40,154                  | \$ 214,381   |
| Net loss   |   |                 |                                  |   | 4,175             | 4,175   | (216)                      | 3,959        |
| Changes in unrealized losses on<br>available-for-sale securities, net of<br>taxes of \$1       |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | (2)   |                   | (2)   |                            | (2)          |
| Benefit plan adjustment net of<br>taxes of \$206   |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | (299)   |                   | (299)   |                            | (299)        |
| SERP liability adjustment, net of<br>taxes of \$248  |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | 330   |                   | 330   |                            | 330          |
| Equity in other comprehensive<br>loss of unconsolidated joint<br>venture, net of taxes of \$39 |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | (69)  |                   | (69)  |                            | (69)         |
| <b>Comprehensive income</b>  |   |                 |                                  |   |                   |   |                            | <b>3,919</b> |
| Rights Offering, net expenses  | 2,608,735                               | 1,306           | 58,454                           |   |                   | 59,760  |                            | 59,760       |
| Exercise of stock options and<br>related tax benefit of \$204                                  | 78,894                                  | 39              | 1,960                            |   |                   | 1,999   |                            | 1,999        |
| Restricted stock issuance  | 56,131                                  | 28              | (28)                             |   |                   |   |                            |              |
| Shares withheld for taxes  | (15,718)                                | (8)             | (455)                            |   |                   | (463)   |                            | (463)        |
| Stock compensation   |   |                 | (2,944)                          |   |                   | (2,944)   |                            | (2,944)      |
| <b>Balance at December 31, 2010</b>  | 19,747,470                              | 9,874           | 183,816                          | (2,191)   | 45,215            | 236,714   | 39,938                     | 276,652      |
| Net income   |   |                 |                                  |   | 10,656            | 10,656  | (77)                       | 10,579       |
| Changes in unrealized gains on<br>available-for-sale securities, net of<br>taxes of \$5        |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | 9   |                   | 9   |                            | 9            |
| Benefit plan adjustment net of<br>taxes of \$150   |   |                 |                                  |   |                   |   |                            |              |
|  |   |                 |                                  | (336)   |                   | (336)   |                            | (336)        |
| Equity in other comprehensive<br>loss of consolidated joint ventures,                          |   |                 |                                  |   | 92                | 92  |                            |              |

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|   |            |          |            |            |           |            |           |            |        |
|---|------------|----------|------------|------------|-----------|------------|-----------|------------|--------|
| net of taxes of \$36  |            |          |            |            |           |            |           |            | 92     |
| Comprehensive income  |            |          |            |            |           |            |           |            | 10,344 |
| Exercise of stock options with related tax benefit of \$651 |            |          |            |            |           |            |           |            |        |
|   | 205,165    | 103      | 5,139      |            |           | 5,242      |           | 5,242      |        |
| Receivable of stock option proceeds from employees          |            |          |            |            |           |            |           |            |        |
| Restricted stock issuance                                   |            |          |            |            |           |            |           |            |        |
|   | 50,289     | 25       | (25)       |            |           |            |           |            |        |
| Shares withheld for taxes                                   |            |          |            |            |           |            |           |            |        |
|   | (28,998)   | (15)     | (797)      |            |           | (812)      |           | (812)      |        |
| Stock compensation  |            |          |            |            |           |            |           |            |        |
|   |            |          | 3,846      |            |           | 3,846      |           | 3,846      |        |
| <b>Balance at September 30, 2011</b>                        | 19,973,926 | \$ 9,987 | \$ 191,979 | \$ (2,426) | \$ 55,871 | \$ 255,411 | \$ 39,861 | \$ 295,272 |        |

See Notes to Unaudited Consolidated Financial Statements.

**Table of Contents**

TEJON RANCH CO. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

**NOTE A BASIS OF PRESENTATION**

The summarized information of Tejon Ranch Co. and its subsidiaries, (collectively, the Company), furnished pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of the Company's management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature.

The periods ending September 30, 2011 and 2010 include the consolidation of Centennial Founders, LLC's statement of operations within the resort/residential segment and statement of cash flows. The Company's September 30, 2011 and December 31, 2010 balance sheets and statements of equity are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

The Company has identified three reportable segments: commercial/industrial real estate development and services, or commercial/industrial real estate, resort/residential real estate development, and farming. Information for the Company's reported segments is presented in its consolidated statements of operations. The Company's reporting segments follow the same accounting policies used for the Company's consolidated financial statements. Management evaluates a segment's performance based upon a number of factors including pretax results.

The results of the period reported herein are not indicative of the results to be expected for the full year due to the seasonal nature of the Company's agricultural activities and timing of real estate sales and leasing activities. Historically, the Company's largest percentages of farming revenues are recognized during the third and fourth quarters of the fiscal year.

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**NOTE B NET INCOME (LOSS) PER SHARE**

Basic net income or loss per share is based upon the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is based upon the weighted average number of shares of common stock outstanding and the weighted average number of shares outstanding assuming the issuance of common stock upon exercise of stock options and vesting of stock grants per U.S. generally accepted accounting principles, or GAAP.

|  | Three months ended<br>September 30 |            | Nine months ended<br>September 30 |            |
|--|------------------------------------|------------|-----------------------------------|------------|
|  | 2011                               | 2010       | 2011                              | 2010       |
| Weighted average number of shares outstanding:   |                                    |            |                                   |            |
| Common stock                                     | 19,973,160                         | 19,731,967 | 19,862,355                        | 18,104,589 |
| Common stock equivalents - stock options, grants | 20,740                             | 43,243     | 35,117                            | 59,090     |
| Diluted shares outstanding                       | 19,993,900                         | 19,775,210 | 19,897,472                        | 18,163,679 |

**Table of Contents****NOTE C MARKETABLE SECURITIES**

The Company classifies its securities as available-for-sale and therefore is required to adjust securities to fair value at each reporting date. All costs and both realized and unrealized gains and losses on securities are determined on a specific identification basis.

The following is a summary of available-for-sale securities at September 30, 2011 and December 31, 2010:

| (\$ in thousands)                                | 2011             |                      | 2010             |                      |
|--|------------------|----------------------|------------------|----------------------|
|  | Cost             | Estimated Fair Value | Cost             | Estimated Fair Value |
| <b>Marketable Securities:</b>                    |                  |                      |                  |                      |
| <b>Certificates of deposit</b>                   |                  |                      |                  |                      |
| with unrecognized losses for less than 12 months | \$ 1,186         | \$ 1,177             | \$ 1,040         | \$ 1,034             |
| with unrecognized losses for more than 12 months | \$ 100           | \$ 100               | \$               | \$                   |
| with unrecognized gains                          | 6,017            | 6,066                | 4,338            | 4,392                |
| <b>Total Certificates of deposit</b>             | <b>7,303</b>     | <b>7,343</b>         | <b>5,378</b>     | <b>5,426</b>         |
| <b>US Treasury and agency notes</b>              |                  |                      |                  |                      |
| with unrecognized losses for less than 12 months | 811              | 811                  | 12,500           | 12,441               |
| with unrecognized losses for more than 12 months | 1,006            | 1,006                | 124              | 124                  |
| with unrecognized gains                          | 21,303           | 21,446               | 7,211            | 7,342                |
| <b>Total US Treasury and agency notes</b>        | <b>23,120</b>    | <b>23,263</b>        | <b>19,835</b>    | <b>19,907</b>        |
| <b>Corporate notes</b>                           |                  |                      |                  |                      |
| with unrecognized losses for less than 12 months | 9,674            | 9,513                | 5,135            | 5,077                |
| with unrecognized losses for more than 12 months | 525              | 512                  |                  |                      |
| with unrecognized gains                          | 17,740           | 18,081               | 12,526           | 12,952               |
| <b>Total Corporate notes</b>                     | <b>27,939</b>    | <b>28,106</b>        | <b>17,661</b>    | <b>18,029</b>        |
| <b>Municipal notes</b>                           |                  |                      |                  |                      |
| with unrecognized losses for less than 12 months | 1,936            | 1,920                | 2,588            | 2,543                |
| with unrecognized losses for more than 12 months | 133              | 129                  |                  |                      |
| with unrecognized gains                          | 6,597            | 6,766                | 3,038            | 3,080                |
| <b>Total Municipal notes</b>                     | <b>8,666</b>     | <b>8,815</b>         | <b>5,626</b>     | <b>5,623</b>         |
|  | <b>\$ 67,028</b> | <b>\$ 67,527</b>     | <b>\$ 48,500</b> | <b>\$ 48,985</b>     |

We evaluate our securities for other-than-temporary impairment based on the specific facts and circumstances surrounding each security valued below its cost. Factors considered include the length of time the securities have been valued below cost, the financial condition of the issuer, industry reports related to the issuer, the severity of any decline, our intention not to sell the security, and our assessment as to whether it is not more likely than not that we will be required to sell the security before a recovery of its amortized cost basis. We then segregate the loss between the amounts representing a decrease in cash flows expected to be collected, or the credit loss, which is recognized through earnings, and the balance of the loss which is recognized through other comprehensive income.

**Table of Contents**

At September 30, 2011, the fair market value of investment securities exceeded the cost basis by \$499,000. The cost basis includes any other-than-temporary impairments that have been recorded for the securities. None have been recorded at September 30, 2011. The Company has determined that any unrealized losses in the portfolio are temporary as of September 30, 2011. The Company believes that market factors such as, changes in interest rates, liquidity discounts, and premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in credit quality of the issuer have led to the temporary declines in value. In the future based on changes in the economy, credit markets, financial condition of issuers, or market interest rates, this could change.

As of September 30, 2011, the adjustment to accumulated other comprehensive income (loss) in consolidated equity for the temporary change in the value of securities reflects an increase in the market value of available-for-sale securities of \$14,000, which includes estimated taxes of \$5,000.

As of September 30, 2011, the Company's gross unrealized holding gains equal \$700,000 and gross unrealized holding losses equal \$201,000. On September 30, 2011, the average maturity of certificates of deposits was 2.38 years, the average maturity of U.S. Treasury and agency securities was 2.24 years, the average maturity of corporate notes was 2.61 years and the average maturity of municipal notes was 2.80 years. Currently, the Company has no securities with a remaining term to maturity of greater than five years.

The following tables summarize the maturities, at par, of marketable securities by year:

| (in thousands)<br>At September 30, 2011 | 2011     | 2012      | 2013      | 2014      | 2015     | Total     |
|---|----------|-----------|-----------|-----------|----------|-----------|
| Certificates of deposit                 | \$ 1,634 | \$ 1,536  | \$ 1,168  | \$ 982    | \$ 1,784 | \$ 7,104  |
| U.S. Treasury and agency notes          | 3,248    | 4,734     | 9,785     | 3,701     | 1,538    | \$ 23,006 |
| Corporate notes                         | 1,062    | 3,450     | 10,440    | 8,423     | 3,684    | \$ 27,059 |
| Municipal notes                         | 350      | 910       | 2,505     | 3,945     | 725      | \$ 8,435  |
|   | \$ 6,294 | \$ 10,630 | \$ 23,898 | \$ 17,051 | \$ 7,731 | \$ 65,604 |

| (in thousands)<br>At December 31, 2010 | 2011     | 2012      | 2013      | 2014     | 2015     | Total     |
|--|----------|-----------|-----------|----------|----------|-----------|
| Certificates of deposit                | \$ 2,234 | \$ 1,547  | \$ 1,168  | \$ 286   | \$       | \$ 5,235  |
| U.S. Treasury and agency notes         | 3,516    | 4,734     | 8,535     | 1,969    | 980      | 19,734    |
| Corporate notes                        | 3,203    | 3,200     | 7,348     | 2,804    | 600      | 17,155    |
| Municipal notes                        | 930      | 910       | 1,750     | 1,840    |          | 5,430     |
|  | \$ 9,883 | \$ 10,391 | \$ 18,801 | \$ 6,899 | \$ 1,580 | \$ 47,554 |

All of our securities are valued using level one indicators. Level one indicators are quoted market prices for the same or equivalent securities. The Company's investments in corporate notes are with companies that have an investment grade rating from Standard & Poor's.

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**Table of Contents**

**NOTE D COMMITMENTS AND CONTINGENCIES**

A total of 5,488 acres of the Company's land is subject to water contracts requiring minimum future annual payments for as long as the Company owns such land. The estimated future minimum annual payments are \$2,000,000 before any potential credits are received, whether or not water is available or is used.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and the Tejon-Castac Water District, or TCWD, to finance public infrastructure within the Company's Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 1,728 acres of the Company's land to secure payment of special taxes related to \$30,000,000 of bond debt sold by TRPFFA for Tejon Ranch Commerce Center, or TRCC,-West. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to \$12,670,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately \$107,000,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of bonds there is a standby letter of credit for \$4,584,000 related to the issuance of West CFD bonds and a standby letter of credit for \$2,189,000 related to the issuance of East CFD bonds. The standby letters of credit are in place to provide additional credit enhancement and cover approximately two years worth of interest on the outstanding bonds. These letters of credit will not be drawn upon unless the Company, as the largest land owner in each CFD, fails to make its property tax payments. The Company believes that the letters of credit will never be drawn upon. These letters of credit are for two-year periods of time and will be renewed in two-year intervals as necessary. The annual cost related to the letters of credit is approximately \$100,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure related to the TRCC West development. At this time there are no additional reimbursement funds remaining from the West CFD bonds or East CFD bonds for reimbursement of cost. During 2010, the Company paid approximately \$1,061,000 in special taxes. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the assessed special tax. As this happens, the Company's obligation is correspondingly reduced. This amount could change in the future based on the amount of bonds outstanding and the amount of taxes paid by others. As development and land and building values increase around TRCC-West, the Company may be able to have up to approximately 1,400 acres released from the West CFD lien.

*Tejon Mountain Village*

On October 5, 2009, the Kern County Board of Supervisors granted entitlement approval for Tejon Mountain Village, or TMV. On November 10, 2009, a group consisting of the Center for Biological Diversity, or CBD, Wishtoyo Foundation, Tri-County Watchdogs and the Center on Race, Poverty and the Environment filed an action in the Kern County Superior Court under the California Environmental Quality Act, or CEQA, against Kern County and the Kern County Board of Supervisors, or collectively, the County, concerning the County's granting of approval for TMV, including the certification of the Environmental Impact Report, or EIR, approval of associated General Plan amendments, adoption of associated Zoning Maps, adoption of Special Plan No. 1, Map 256, exclusion from Agricultural Preserves Nos. 4 and 19, and approval of Vesting Tentative Tract Maps 6720 and 6717, among other associated approvals. TMV was named as the real party in interest in the action.

**Table of Contents**

The action alleged that the County failed to properly follow the procedures and requirements of CEQA including failure to identify, analyze and mitigate impacts to air quality, biological resources, hydrology and water quality, traffic, cultural resources, hazards, and failure to adequately describe the project and the environmental setting. The action also alleged that the County violated the Planning and Zoning Law and the Kern County General Plan.

On November 5, 2010, Kern County Superior Court Judge Kenneth Twisselman ruled in favor of the County, the Company, and its development partner DMB Associates, Inc., when he found that the County had properly analyzed and evaluated the environmental effects of TMV. In his ruling, Judge Twisselman rejected claims made by the above listed plaintiffs. On February 8, 2011, CBD appealed the Court's decision. On June 17, 2011, CBD filed its appeal documents for the court's review. Our response to the plaintiffs' documents was filed August 16, 2011. CBD filed its final reply brief with the court on September 20, 2011. A hearing date will not be set until the court has had the opportunity to review the briefs. It is anticipated that the hearing date will be in early 2012.

On November 10, 2009, an additional suit was filed in federal court by an alleged representative of the Kawaiisu Tribe alleging that the Company does not hold legal title to the land within the TMV development that it seeks to develop. The grounds for the federal lawsuit were the subject of a United States Supreme Court decision in 1924 where the United States Supreme Court found in favor of the Company. On January 24, 2011, the Company received a ruling by Judge Wanger, of the Federal, District Court, Eastern District of California, which dismissed all claims against the Company, TMV, the County and the federal defendants. However, the Judge did grant a limited right by the plaintiff to amend certain causes of action in the complaint. During April 2011, the plaintiff amended his complaint and refiled a suit against the Company, alleging similar items as in the original suit. The plaintiff filed new materials during July 2011 related to the amended complaint. The August 29, 2011 hearing date was postponed while the court reviewed the new materials. We are currently waiting for a new court date as the judge assigned to the case announced his retirement.

The Company is continuing to vigorously defend its position in these lawsuits and at this time, based on information available, the Company is not accruing any costs related to the possibility of a loss in connection with the above lawsuits.

*National Cement*

The Company leases land to National Cement Company of California Inc., or National, for the purpose of manufacturing Portland cement from limestone deposits on the leased acreage. The California Regional Water Quality Control Board, or RWQCB, for the Lahontan Region issued several orders in the late 1990s with respect to environmental conditions on the property currently leased to National:

- (1) *Groundwater plume of chlorinated hydrocarbon compounds.* This order directs the Company's former tenant Lafarge Corporation, or Lafarge, the current tenant National, and the Company to, among other things, clean up groundwater contamination on the leased property. In 2003, Lafarge and National installed a groundwater pump-and-treat system to clean up the groundwater. The Company is advised that Lafarge and National continue to operate the cleanup system and will continue to do so over the near-term.



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**Table of Contents**

- (2) *Cement kiln dust.* National and Lafarge have consolidated, closed and capped cement kiln dust piles located on land leased from the Company. An order of the RWQCB directs National, Lafarge and the Company to maintain and monitor the effectiveness of the cap. Maintenance of the cap and groundwater monitoring remain as on-going activities.
- (3) *Former industrial waste landfills.* This order requires Lafarge, National and the Company to complete the cleanup of groundwater associated with the former industrial waste landfills. The Company is advised that the cleanup is complete. Lafarge continues to monitor the groundwater.
- (4) *Diesel fuel.* An order of the RWQCB directs Lafarge, National and the Company to clean up contamination from a diesel fuel tank and pipeline. The Company is advised that Lafarge and National have substantially completed the groundwater cleanup and that groundwater monitoring remains an on-going activity.

To date, the Company is not aware of any failure by Lafarge or National to comply with the orders or informal requests of the RWQCB. Under current and prior leases, National and Lafarge are obligated to indemnify the Company for costs and liabilities arising directly or indirectly out of their use of the leased premises. The Company believes that all of the matters described above are included within the scope of the National or Lafarge indemnity obligations and that Lafarge and National have sufficient resources to perform any reasonably likely obligations relating to these matters. If they do not and the Company is required to perform the work at its own cost, it is unlikely that the amount of any such expenditure by the Company would be material.

*Antelope Valley Groundwater Cases*

On November 29, 2004, a complaint was filed asking for the Antelope Valley groundwater basin to be adjudicated by the Los Angeles County Superior Court. This complaint sought to have the water rights of all parties overlying the basin, including the Company's land, be fixed based on various principles of water law and on negotiations among the principal parties or groups of water users. The case has completed three phases of a multi-phase trial. Upon completion of the third phase the court issued a ruling that concluded the groundwater basin is in an overdraft position and established a total sustainable yield. The court is currently encouraging mediation sessions to try to settle remaining regional issues, such as groundwater pumping allocations and appointment of a water master. It is too early to ascertain what effect, this case may have on the Centennial project or the Company's remaining lands in the Antelope Valley. Because the water supply plan for the Centennial project includes several sources of water in addition to groundwater underlying the Company's lands, and because the creation of an efficient market for local water rights is frequently an outcome of adjudication proceedings, we anticipate that sufficient water to supply the Company's needs will continue to be available for its use regardless of the outcome of this case.

*State Water Resources Control Board Lawsuit*

On May 12, 2010, the California Attorney General, on behalf of the State Water Resources Control Board, filed a complaint in the Alameda County Superior Court for civil penalties and a permanent injunction against a number of TravelCenters of America LLC, or TA, facilities in the Central Valley of California. The travel centers in the Petro Travel Plaza Holdings LLC, or TA/Petro, were also included in the complaint. The lawsuit claims violations of various paper reporting, operating and UST monitoring prevention laws. In addition to the TA/Petro entity and its respective member entities, the lawsuit also names the Company and Tejon Industrial Corporation as defendants. The Company has tendered defense of the lawsuit to TA, under the defend and indemnify clause in the TA/Petro operating agreement, and has

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**Table of Contents**

also secured the services of an outside law firm to work with TA's outside counsel under a joint defense agreement. Counsel for TA and the Company have worked with the California Attorney General to change the venue of the lawsuit to Merced County, and are also working together to attempt to dismiss the Company and Tejon Industrial Corporation, as well as other TA entities, from the lawsuit. On September 16, 2011, the Company and Tejon Industrial Corp. were dismissed from the law suit. Given the early stages of this lawsuit, the Company has an insufficient basis to address the merits or potential outcomes of the lawsuit as it relates to the TA/Petro joint venture. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

*Kern County Water Bank Lawsuits*

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including CBD, filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources (DWR), Kern County Water Agency and a number of real parties in interest, including the Company and TCWD. The lawsuit challenges certain amendments to the State Water Project contracts that were originally approved in 1995, known as the Monterey Amendments. The original EIR for the Monterey Amendments was determined to be insufficient in a lawsuit, and the current lawsuit challenges the remedial EIR that DWR prepared as a result of the original lawsuit. Among other legal allegations, the current lawsuit challenges the transfer of the Kern Water Bank, or KWB, from DWR to Kern County Water Agency and in turn to various Kern County interests, including TCWD which has a 2% interest in the KWB. A parallel lawsuit was also filed against Kern County Water Agency, also naming the Company and TCWD as real parties in interest. The Company is named on the ground that it controls TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. Counsel for the Company is considering a dismissal of the Company from these lawsuits. Given the early stage of these lawsuits, the Company has an insufficient basis to address the merits or potential outcomes of the lawsuit. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

**NOTE E INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES**

The Company maintains investments in joint ventures. The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation. The Company's investment in its unconsolidated joint ventures at September 30, 2011 was \$51,321,000. The equity in the income of the unconsolidated joint ventures was \$583,000 for the nine months ended September 30, 2011. The unconsolidated joint ventures have not been consolidated as of September 30, 2011, because the Company does not control the investments. The Company's current joint ventures are as follows:

Petro Travel Plaza Holdings LLC - TA/Petro is an unconsolidated joint venture with TravelCenters of America, LLC for the development and management of travel plazas and convenience stores. This is a 60%-owned joint venture which owns and operates travel plazas/commercial highway operations in TRCC. It houses multiple commercial eating establishments as well as diesel and gasoline operations. The Company does not control the investment due to its having only 50% voting rights, and because our partner in the joint venture performs the day-to-day operations at the facility. At September 30, 2011, the Company had an equity investment balance of \$11,198,000 in this joint venture.

Tejon Mountain Village LLC - Tejon Mountain Village LLC, or TMV LLC, is an unconsolidated joint venture between the Company and DMB TMV LLC (a wholly owned subsidiary of DMB Associates, Inc.) formed to obtain all necessary government entitlement approvals and to develop the Tejon Mountain Village project. The Company owns a 50% interest in this venture. At September 30, 2011, the Company's equity investment balance in this joint venture was \$34,679,000.

**Table of Contents**

Rockefeller Joint Ventures The Company has two joint ventures with Rockefeller Group Development Corporation for the development of buildings on approximately 91 acres. These joint ventures are part of an agreement for the development of up to 500 acres of land in TRCC including pursuing Foreign Trade Zone, or FTZ, designation and development of the property within the FTZ for warehouse distribution and light manufacturing. The Company owns a 50% interest in each of the joint ventures. Currently the Five West Parcel LLC joint venture owns and leases a 606,000 square foot building. The second of these joint ventures, 18-19 West LLC, was formed in August 2009 through the contribution of 61.5 acres of land by the Company, which is being held for future development. At September 30, 2011, the Company's combined equity investment balance in these two joint ventures was \$5,444,000.

Centennial Founders, LLC - Centennial Founders, LLC is a joint venture with Pardee Homes, Lewis Investment Company, and Standard Pacific Corp. that was organized to pursue the entitlement and development of land that the Company owns in Los Angeles County. Based on the Second Amended and Restated Limited Company Agreement of Centennial Founders, LLC and the change in control and funding that resulted from the amended agreement, Centennial Founders, LLC qualified as a variable interest entity, beginning in the third quarter of 2009 and the Company was determined to be the primary beneficiary. As a result, Centennial Founders, LLC has been consolidated into our financial statements beginning in that quarter. Our partners retained a noncontrolling interest in the joint venture. At September 30, 2011 the Company had a 67.18% ownership position in Centennial Founders, LLC.

**Table of Contents**

Unaudited condensed balance sheet information of the Company's unconsolidated and consolidated joint ventures as of September 30, 2011 and December 31, 2010 and condensed statements of operations for the nine months ended September 30, 2011 and September 30, 2010 are as follows:

**Statement of Operations**

for the nine months ending September 30, 2011

(In thousands)

|                             | UNCONSOLIDATED              |                |                  |                        | Total     | CONSOLIDATED |
|-----------------------------|-----------------------------|----------------|------------------|------------------------|-----------|--------------|
|                             | Petro Travel Plaza Holdings | 18-19 West LLC | Five West Parcel | Tejon Mountain Village |           | Centennial   |
| Gross revenues              | \$ 86,712                   | \$             | \$ 376           | \$                     | \$ 87,088 | \$ 216       |
| Net income (loss)           | \$ 1,917                    | \$ (79)        | \$ (1,016)       | \$ (40)                | \$ 782    | \$ (221)     |
| Partner's share of net loss | \$ 767                      | \$ (40)        | \$ (508)         | \$ (20)                | \$ 199    | \$ (77)      |
| Equity in income (losses)   | \$ 1,150                    | \$ (39)        | \$ (508)         | \$ (20)                | \$ 583    | \$ (144)     |

**Balance Sheet Information as of September 30, 2011**

|                             |           |          |          |           |            |           |
|-----------------------------|-----------|----------|----------|-----------|------------|-----------|
| Current assets              | \$ 16,047 | \$ 8     | \$ 98    | \$ 449    | \$ 16,602  | \$ 511    |
| Property and equipment, net | 44,134    | 4,129    | 16,667   | 81,207    | 146,137    | 66,412    |
| Other assets                | 158       |          | 340      |           | 498        |           |
| Long-term debt              | (18,370)  |          | (8,625)  |           | (26,995)   | (1,305)   |
| Other liabilities           | (2,646)   | (43)     | (176)    | (520)     | (3,385)    |           |
| Net assets                  | \$ 39,323 | \$ 4,094 | \$ 8,304 | \$ 81,136 | \$ 132,857 | \$ 65,618 |

**Statement of Operations**

for the nine months ending September 30, 2010

(In thousands)

|                             | UNCONSOLIDATED              |                |                  |                        | Total     | CONSOLIDATED |
|-----------------------------|-----------------------------|----------------|------------------|------------------------|-----------|--------------|
|                             | Petro Travel Plaza Holdings | 18-19 West LLC | Five West Parcel | Tejon Mountain Village |           | Centennial   |
| Gross revenues              | \$ 66,700                   | \$             | \$ 279           | \$                     | \$ 66,979 | \$ 276       |
| Net income (loss)           | \$ 1,894                    | \$ (6)         | \$ (886)         | \$ (62)                | \$ 940    | \$ (306)     |
| Partner's share of net loss | \$ 757                      | \$ (3)         | \$ (443)         | \$ (31)                | \$ 280    | \$ (124)     |
| Equity in income (losses)   | \$ 1,137                    | \$ (3)         | \$ (443)         | \$ (31)                | \$ 660    | \$ (182)     |

**Balance Sheet Information as of December 31, 2010**

|                             |           |          |          |           |            |           |
|-----------------------------|-----------|----------|----------|-----------|------------|-----------|
| Current assets              | \$ 13,717 | \$ 15    | \$ 45    | \$ 892    | \$ 14,669  | \$ 85     |
| Property and equipment, net | 44,642    | 4,022    | 17,179   | 77,233    | 143,076    | 61,879    |
| Other assets                | 226       |          | 302      |           | 528        | 1         |
| Long-term debt              | (19,287)  |          | (8,625)  |           | (27,912)   |           |
| Other liabilities           | (2,151)   |          | (116)    | (894)     | (3,161)    | (1,251)   |
| Net assets                  | \$ 37,147 | \$ 4,037 | \$ 8,785 | \$ 77,231 | \$ 127,200 | \$ 60,714 |

The Company's investment balance in its unconsolidated joint ventures differs from its capital accounts in the respective joint ventures. The differential represents the difference between the cost basis of assets contributed by the Company and the agreed-upon contribution value of the assets contributed.

**Table of Contents****NOTE F - LONG TERM WATER ASSETS**

Long term assets consist of water and water contracts held for future use or sale. 6,700 acre feet of water are currently held in a water bank on Company land in southern Kern County. The water is held at cost which includes the price paid for the water and the cost to pump and deliver the water from the California aqueduct into the water bank. This amount also includes the right to receive an additional 2,362 acre feet of water in the future from Antelope Valley East Kern Water Agency, or AVEK as well as an additional 331 acre feet of water in AVEK's water bank. An additional 14,786 acre feet of transferable water purchased for \$8,985,000 is owned by the Company. The Company holds State Water Project, or SWP, contracts for 3,444 acre feet of water with the Tulare Water Storage District and the Dudley-Ridge Water Storage District to supply water through 2035. The Company increased its SWP contract holdings in December 2010 with the purchase of 1,993 acre feet of water from a contract holder within the Dudley-Ridge Water Storage District for approximately \$11,660,000. These contracts are being amortized using the straight line method over that period. Annual amortization for the next five years will be \$708,000 per year. Water assets consist of the following at September 30, 2011 and December 31, 2010:

| (\$ in thousands)  | September 30, 2011 | December 31, 2010 |
|--|--------------------|-------------------|
| Banked water and water for future delivery   | \$ 3,023           | \$ 2,600          |
| Transferable water   | 8,985              | 8,985             |
| SWP Contracts (net of accumulated amortization of \$1,139,000 and \$604,000 at September 30, 2011 and December 2010, respectively) | 16,687             | 17,189            |
| Total long-term assets   | \$ 28,695          | \$ 28,774         |

**NOTE G - INTEREST RATE RISK MANAGEMENT**

At September 30, 2011, the Company had no outstanding interest rate swap agreements. However, a joint venture of the Company, TA/Petro, has an interest rate swap agreement with respect to \$18,865,000 of its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matures in August 2012 and is a contract to exchange variable-rate for fixed-rate interest payments periodically over the life of the agreement. The interest rate swap fixed rate is 6.05%. TA/Petro accounts for the swap as a cash flow hedge with changes in the fair value of the swap recorded in other comprehensive income. The Company accounts for its share of the change in the interest rate swap in other comprehensive income and investments in unconsolidated joint ventures. As of September 30, 2011, the Company's portion of the fair value of the interest rate swap was a liability of \$215,000 and the Company recognized \$92,000, net of \$36,000 in taxes, as other comprehensive income for the nine months ending September 30, 2011.

**NOTE H - STOCK COMPENSATION - OPTIONS**

The Company's 1998 Stock Incentive Plan, or the 1998 Plan, provides for the making of awards to employees, consultants, and advisors of the Company with respect to 2,350,000 shares of the Company's common stock. Since the adoption of the 1998 Plan through September 30, 2011, the Company has granted options under the plan to purchase 1,129,292 shares at a price equal to the fair market value at date of grant, of which 1,077,792 have been exercised or forfeited, leaving 51,500 granted options outstanding at September 30, 2011. Options granted under the 1998 Plan vest over a five-year period and have ten-year contractual terms. All options granted under the 1998 Plan to date are currently vested.

**Table of Contents**

The Non-Employee Director Stock Incentive Plan, or NDSI Plan, is intended to enable the Company to attract, retain, and motivate non-employee directors by providing for or increasing the proprietary interest of such persons in the Company. The NDSI Plan provides for the grant of awards to non-employee directors with respect to an aggregate of 200,000 shares of the Company's common stock. Since the adoption of the NDSI Plan through September 30, 2011, the Company has granted options under the plan to purchase 83,518 shares at a price equal to the fair market value at date of grant, of which 68,325 options have been exercised or forfeited, leaving 15,193 granted options outstanding at September 30, 2011. Options granted under the NDSI Plan vest one year from the date of grant and have ten year contractual terms. All outstanding options granted under the NDSI plan are currently vested.

There were no options granted in 2011 or 2010 under either the 1998 Plan or the NDSI Plan.

Exercise prices for options outstanding under the 1998 Plan and NDSI Plan as of September 30, 2011 ranged from \$20.32 to \$27.90. The weighted-average remaining contractual life of those options is approximately 1.18 years. None of the options granted under the 1998 Plan or NDSI Plan contain conversion features.

The following is a summary of the Company's stock option activity and related information for the nine month period ended September 30, 2011:

|                                   | Options   | 2011<br>Weighted-Average<br>Exercise Prices Per<br>Share |
|-----------------------------------|-----------|--|
| Outstanding beginning of period   | 271,858   | \$ 25.18   |
| Granted                           |           |  |
| Exercised                         | (205,165) | 25.55  |
| Forfeited/Cancelled               |           |  |
| Outstanding end of period         | 66,693    | \$ 27.32   |
| Options exercisable end of period | 66,693    | \$ 27.32   |

As of September 30, 2011, there was no unrecognized compensation cost related to stock options. No shares vested during the nine months ended September 30, 2011, therefore, the fair value of shares vesting was zero. The total intrinsic value of options exercised during the nine months ended September 30, 2011 and 2010 were \$1,628,000 and \$618,000, respectively. As of September 30, 2011, there were 66,693 options vested and exercisable with a weighted-average exercise price of \$27.32, aggregate intrinsic value of \$0, and weighted-average remaining contractual life of approximately 1.18 years.

**NOTE I STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS**

The Company's stock incentive plans provide for the making of awards to employees based upon time-based criteria or through the achievement of performance-related objectives. The Company has issued

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**Table of Contents**

three types of stock grant awards under these plans: restricted stock with time-based vesting, performance share grants that only vest upon the achievement of specified performance conditions, and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance conditions. The Company has issued 129,864 shares of restricted stock that vest over three and four-year periods of time and of this amount 99,061 shares have vested. The Company also has granted performance units with stock awards ranging from zero shares if below threshold performance conditions to 98,814 for threshold performance, 680,146 shares for target performance, and 1,004,105 for maximum performance. These awards are tied to corporate cash flow goals and the achievement of specified milestone development activities. Total grants, including both time based and performance based grants, of 710,949 were outstanding at September 30, 2011. During the nine months ending September 30, 2011, 44,130 shares of employee grants vested.

The fair value of restricted stock with time-based vesting features is based upon the Company's share price on the date of grant and is expensed over the service period. Fair value of performance grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company's stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance grants that contain a range of shares from zero to maximum we determine, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance grants is tied to the achievement of a performance condition, we adjust compensation cost according to the actual outcome of the performance condition.

For the nine months ending September 30, 2011 there was expense relating to employee stock compensation of \$3,603,000. For the nine months ending September 30, 2010, there was a net reversal of expense of \$4,827,000. This net reversal was related to the modification of performance milestone stock grants, which has been more formally discussed in our 2010 Form 10-K.

Under the NDSI Plan, each non-employee director receives his or her annual compensation in stock. Under this plan, 69,556 shares of stock have been granted since the plan was adopted in 2004. During 2011, 6,159 shares vested. Total expenses relating to non-employee director stock compensation during the nine months ended September 30, 2011 and 2010 was \$243,000.

**NOTE J RETIREMENT PLAN**

The Company has a defined benefit plan that covers many of its employees. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to date and expected to be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. The Company anticipates contributing approximately \$900,000 to the plan during 2011.

Plan assets consist of equity, debt and short-term money market investment funds. The plan's current investment policy targets 65% equities, 25% debt and 10% money market funds. Equity and debt investment percentages are allowed to fluctuate plus or minus 20% around the respective targets to take advantage of market conditions. As an example, equities can fluctuate from 78% to 52% of plan assets. At September 30, 2011, the investment mix was approximately 63% equity, 27% debt, and 10% money market funds. At December 31, 2010, the investment mix was approximately 67% equity, 23% debt and



**Table of Contents**

10% money market funds. Equity investments consist of a combination of individual equity securities plus value funds, growth funds, large cap funds and international stock funds. Debt investments consist of U.S. Treasury securities and investment grade corporate debt. The weighted-average discount rate and rate of increase in future compensation levels used in determining the periodic pension cost is 5.5% in 2011 and 2010. The expected long-term rate of return on plan assets is 7.5% in 2011 and 2010. The long-term rate of return on plan assets is based on the historical returns within the plan and expectations for future returns.

The expected total pension and retirement expense was as follows for the nine months ended September 30, 2011 and 2010:

| (In thousands)                                 | 2011         | 2010         |
|--|--------------|--------------|
| <b>Cost components:</b>                        |              |              |
| Service cost-benefits earned during the period | \$ (180)     | \$ (155)     |
| Interest cost on projected benefit obligation  | (237)        | (180)        |
| Expected return on plan assets                 | 258          | 179          |
| Net amortization and deferral                  | (141)        | (107)        |
| <br>Total net periodic pension cost            | <br>\$ (300) | <br>\$ (263) |

**NOTE K INCOME TAXES**

For the nine months ended September 30, 2011, the Company incurred income tax expense of \$5,710,000 compared to a net income tax expense of \$3,233,000 for the six months ended September 30, 2010. These represent effective income tax rates of approximately 35% and 38% for the nine months ended September 30, 2011 and, 2010, respectively. The decline in the effective tax rate is primarily due to the Company benefiting from permanent tax differences such as depletion allowances primarily due to increased oil production and oil prices. As of September 30, 2011, our balance sheet reflects an income tax payable of \$2,072,000.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. At September 30, 2011, the Company had made income tax payments of \$3,901,000 for 2011. During 2011, the Company also received \$1,598,000 in tax refunds related to prior year taxes paid due to the use of prior year net operating losses.

**Table of Contents****NOTE L SEGMENT REPORTING**

The revenue components of our commercial/industrial real estate segment for the nine months ending September 30 are as follows:

| (In thousands)                               | 2011      | 2010      |
|--|-----------|-----------|
| Commercial leases                            | \$ 4,129  | \$ 4,185  |
| Oil and mineral royalties                    | 7,820     | 4,120     |
| Grazing leases                               | 841       | 837       |
| All other land management ancillary services | 2,362     | 2,355     |
|  | \$ 15,152 | \$ 11,497 |

Commercial lease revenue consists of land and building leases to tenants at our commercial retail and industrial developments, base and percentage rents from our Calpine power plant lease, communication tower rents, and payments from easement leases. Oil and mineral royalties are received from the exploration and development companies who extract or mine the natural resources from our land. Land management ancillary services include wildlife management, landscape and property maintenance, and building management services.

Resort/residential land development segment produces revenues from farming activities within the Centennial Founders, LLC and is actively involved in the land entitlement and pre-development process. The farming segment produces revenues from the sale of wine grapes, almonds and pistachios.

During the first quarter of 2011, the Company completed the sale of five conservation easements totaling approximately 62,000 acres for \$15,750,000. These easements were sold to the Tejon Ranch Conservancy, an independent non-profit organization set up as a part of the 2008 Conservation and Land Use Agreement by the conservation groups that signed the agreement. Funds for the purchase were provided by a grant from the California Wildlife Conservation Board. The Company will retain fee ownership of the 62,000 acres and continue to operate current revenue generating activities farming, cattle grazing, filming, oil and gas and other mineral exploration and production on portions of the acreage. The conservation easements will preclude the Company from pursuing any long term development on the 62,000 acres.

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Quarterly Report on Form 10-Q contains forward-looking statements, including without limitation statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields, prices and water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness and other future events and conditions. In some cases these statements are identifiable through the use of words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, will, should, would, and similar expressions. In addition, any statements that refer to projections of our future financial performance, our anticipated growth, and trends in our business and other characterizations of future events or circumstances are forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, weather, market and economic forces, availability of financing for land development activities, and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above in the section entitled, Risk Factors in this report and our Annual Report on Form 10-K.*

**Overview**

We are a diversified real estate development and agribusiness company committed to responsibly using our land and resources to meet the housing, employment, and lifestyle needs of Californians and create value for our shareholders. Current operations consist of land planning and entitlement, land development, commercial sales and leasing, leasing of land for mineral royalties, grazing leases, income portfolio management, and farming. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of the city of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield.

Our business model is designed to create value through the entitlement and development of land for commercial/industrial and resort/residential uses while at the same time protecting significant portions of our land for conservation purposes. We operate our business near one of the country's largest population centers, Los Angeles County, which is expected to continue to grow well into the future.

We currently operate in three business segments: commercial/industrial real estate development and services; resort/residential real estate development; and farming.

Commercial/industrial real estate development and services generates revenues from building, grazing and land lease activities, land and building sales, oil and mineral royalties and ancillary land management activities. Resort/residential land development produces revenues from farming activities within the Centennial Founders LLC, but is primarily involved in the land entitlement process and conservation activities. Farming produces revenues from the sale of grapes, almonds, and pistachios.

For the first nine months of 2011 we had net income of \$10,579,000 compared to net income of \$5,245,000 for the first nine months of 2010. This improvement is largely the result of the sale of conservation easements for \$15,750,000, and higher oil royalties. These 2011 improvements were partially offset by the reversal of stock compensation expense of \$6,327,000 during the third quarter of 2010.

**Critical Accounting Policies**

The preparation of our interim financial statements in accordance with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimates that are likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, impairment of



## Table of Contents

long-lived assets, capitalization of costs, profit recognition related to land sales, stock compensation, and our defined benefit retirement plan. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2010. Please refer to that filing for a description of our critical accounting policies.

## Results of Operations

### **Comparison of nine months ended September 30, 2011 to nine months ended September 30, 2010**

Total revenue from segment operations for the first nine months of 2011 was \$43,283,000 compared to \$24,630,000 for the first nine months of 2010, representing an increase of \$18,653,000, or 76%. Other income, including investment income, was \$1,004,000 for the first nine months of 2011 compared to \$665,000 for the same period of 2010, representing an increase in other income of \$339,000, or 51%.

Commercial/industrial segment revenues increased \$3,655,000 in the first nine months of 2011 compared to the same period of 2010 primarily due to increased oil royalties of \$3,700,000. All other services were in line with the 2010 nine-month period. Oil royalties improved as they are tied directly to the market price of oil, which has increased 39% compared to the same period of 2010. We continue to see increased interest in our exploration activities on our lands and have seen two new wells drilled during October 2011. This increase in activity does not mean there will be any increase in royalty revenue because new sources of oil may not be found. Continued limited construction activity in California resulted in a decrease in production and royalties from the National Cement lease.

The resort/residential segment reported revenues of \$15,966,000 during the first nine months of 2011 compared to \$278,000 during the first nine months of 2010. The increase is primarily due to the sale of five conservation easements totaling approximately 62,000 acres for \$15,750,000 to the Tejon Ranch Conservancy, an independent non-profit organization set up as a part of the 2008 Conservation and Land Use Agreement by the conservation groups that signed the agreement. The Company will retain fee ownership of the 62,000 acres and continue to operate current revenue generating activities including farming, cattle grazing, filming, oil and gas and other mineral exploration and production on portions of the acreage. The conservation easements will preclude the Company from pursuing any long term development on the 62,000 acres. Funds for the purchase were provided by a grant from the California Wildlife Conservation Board.

Farming revenues decreased \$690,000 in the first nine months of 2011 compared to the same period in 2010 due primarily to a decrease of \$3,306,000 in pistachio revenue. Pistachio production was 23% lower than the 2010 record crop. The lower pistachio production was expected given the alternating on/off year cycles of this crop. The decrease in pistachio revenues was partially offset by an increase of \$2,385,000 in almond revenue compared to the prior year due to higher crop inventory carry-forward at the beginning of 2011 as compared to 2010, as a result of the late harvest for the 2010 almond crop. Wine grape revenues were \$206,000 higher compared to the same period in 2010 due to slightly higher production for grapes harvested. As of September 30, 2011, the almond and remaining wine grape crop harvests have not been completed.

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**Table of Contents**

Investment income increased \$219,000 during the first nine months of 2011 compared to the same period in 2010 due to an increase in the average balance of funds invested. We anticipate a continued increase in our investment income during the remainder of 2011 compared to 2010, due to a continuing increase in average funds invested.

Net income attributable to common stockholders for the first nine months of 2011 was \$10,656,000, or \$0.54 per share, compared to net income attributable to common stockholders of \$5,368,000, or \$0.30 per share, for the same period in 2010. The improvement for the first nine months of 2011 is due to the net increase in revenues, as described above, partially offset by a net increase in expenses, as explained below.

Expenses within our commercial/industrial segment increased \$1,743,000, or 23%, during the first nine months of 2011 compared to the same period in 2010. This increase is primarily due to a \$1,000,000 increase in stock compensation expense compared to the reversal of such expense in 2010. Other increases include a \$336,000 increase in fixed water costs and a \$431,000 increase in land management ancillary costs.

Expenses within our resort/residential segment increased \$728,000, or 34%, during the first nine months of 2011 compared to the same period in 2010. This increase is primarily due to a \$1,313,000 increase in stock compensation expense related to the reversal of such expense in 2010. The increase is partially offset by a \$184,000 decrease in Centennial operating expenses and a \$167,000 decrease in professional services related to the implementation of the Conservation and Land Use Agreement entered into in 2008.

Farming expenses increased \$2,466,000, or 44%, during the first nine months of 2011 compared to the first nine months of 2010 due to a \$1,638,000 increase in cost of sales for the prior year almond crop is due to higher crop inventory carry-forward at the beginning of 2011 as compared to 2010, as a result of the late harvest of the 2010 almond crop. Additionally, there was a \$756,000 increase in compensation primarily due to the reversal of stock compensation expense during the same period in 2010.

Corporate general and administrative costs increased \$6,167,000, or 296%, during the first nine months of 2011 compared to the same period in 2010, primarily due to a \$5,290,000 increase in compensation costs related to the reversal of stock compensation expense in the 2010 period. Other increases include a \$368,000 increase in depreciation expense related to the \$11,700,000 water purchase in December 2010. The remaining increase is mainly due to increases in marketing, professional service fees, and various on-going information technology projects.

Our unconsolidated joint ventures generated net income of \$583,000 in the first nine months of 2011 compared to net income of \$660,000 in the first nine months of 2010. The decrease in income is primarily due to a \$102,000 increased loss at our Rockefeller joint ventures in the first nine months of 2011 over the first nine months of 2010, as a result of higher operating costs and interest expense. This decrease is partially offset by \$14,000 of higher income from our Petro joint venture and \$11,000 lower loss at our TMV joint venture.

**Comparison of three months ended September 30, 2011 to three months ended September 30, 2010**

Total revenues for the third quarter of 2011, were \$14,765,000 compared to \$16,279,000 for the third quarter of 2010. This decrease of \$1,514,000, or 9%, in total revenues is primarily attributable to a \$3,281,000 decline in farming revenues partially offset by a \$1,907,000 improvement in commercial/industrial revenues.

**Table of Contents**

The commercial/industrial segment increase in revenues during the third quarter of 2011 is primarily due to a \$1,935,000 increase in oil royalties, as the average price of oil increased 42% and production increased 69%. Commercial/industrial expenses increased by \$1,044,000, or 47%, primarily due to a \$1,010,000 increase in compensation mainly due to the reversal of stock compensation expense during the 2010 third quarter.

The Resort/Residential segment expenses increased \$978,000 due to a \$1,341,000 increase in compensation expense related to the reversal of stock compensation expense during the third quarter of 2010. This increase was partially offset by \$127,000 in lower professional fees and \$120,000 in lower alfalfa crop costs at the Centennial project compared to the 2010 third quarter.

Farming revenues decreased \$3,281,000 during the third quarter of 2011 compared to the third quarter of 2010, primarily due to a \$3,386,000 decrease in pistachio revenue resulting from a 23% decline in production during 2011. Almond revenue decreased \$142,000 during the third quarter of 2011 compared to the same period in 2010 due to the timing of 2011 almond sales because of the late 2011 harvest. These decreases were partially offset by \$224,000 higher wine grape revenue during the same period due to an increase in production when compared to the prior year. As of September 30, 2011, the almond and wine grape crop harvests were not fully completed.

Farming expenses increased \$767,000, or 19%, during the third quarter of 2011 compared to the third quarter of 2010 primarily due to a \$575,000 increase in stock compensation expense due to the reversal of such expense during the same period in 2010.

Corporate expenses increased by \$4,691,000, during the third quarter of 2011 compared to the third quarter of 2010, largely due to a \$4,803,000 increase in stock compensation costs related to the reversal of stock compensation expense during the 2010 third quarter. Additionally, we experienced increases in depreciation due to the amortization of water contracts associated with the \$11,700,000 water purchase in the fourth quarter of 2010 and increased professional fees related to various information technology projects.

Corporate investment income grew \$71,000 during the third quarter of 2011 compared to the third quarter of 2010 due to higher average investment balances offsetting lower interest rates on investments.

Future activities within the commercial/industrial segment continue to be focused on the marketing and development of commercial/industrial and retail product within TRCC-East and completing the build-out of TRCC-West. These developments are being planned to coincide with what we anticipate to be future market demand, although the timing and extent of the future market demand is difficult for us to predict. We continue to focus our marketing efforts for TRCC-East and TRCC-West on the labor and logistical benefits of our site and the success that current tenants and owners within our development have experienced. Our development strategy fits within the logistics model that many companies are using, which favors larger single-site buildings rather than a number of decentralized smaller distribution centers. Buildings of 1.0 million square feet or larger are becoming difficult to build in Los Angeles due to the number of acres necessary for a building of that size. We believe that our ability to provide land parcels to support buildings of that size can provide us with a potential marketing advantage in the future. A potential disadvantage to our development strategy is our distance from the

**Table of Contents**

Port of Los Angeles in comparison to the traditional warehouse/distribution centers east of Los Angeles. During 2011, vacancy rates have declined in the Inland Empire region of Los Angeles, a large industrial area within Los Angeles. Lease rates however, continue to be depressed when compared to lease rates prior to the economic recession.

During the remainder of 2011, we anticipate that our commercial/industrial and resort/residential real estate segments will incur costs, net of amounts capitalized, related to professional service fees, marketing costs, commissions, planning costs, and staffing costs as we continue to pursue development opportunities. Infrastructure development and marketing activities and costs could continue over the next several years as we develop our land holdings.

Most of the expenses incurred within our resort/residential segment during the remainder of 2011 will be focused on the ongoing implementation of the Conservation and Land Use Agreement and in coordinating efforts with our joint venture partners in the achievement of entitlement for Centennial Founders, LLC and reacting to the legal challenges against TMV.

We will also continue to evaluate land resources to determine the best uses of our land holdings. Future sales of land are dependent on market circumstances and specific opportunities. Our goal in the future is to increase land value and create future revenue growth through planning and development of residential communities and commercial and industrial properties.

All of our crops are sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices. While it is still too early in the year to predict with any certainty, we estimate that our 2011 almond crop production will be on par with 2010 production based on early returns from current harvest activities. Almond prices, due to the late 2010 harvest and reduced inventories, are comparable to 2010 prices and showing some possible improvement. We were still holding 50,000 pounds of almonds in inventory at September 30, 2011. The market value of our remaining 2010 almond inventory exceeds the carrying value of that inventory.

Our long-term projection is that crop production, especially for almonds and pistachios will increase on a statewide basis over time because of new plantings, which could negatively impact future prices if the growth in demand does not continue to keep pace with production. A positive factor for the almond industry is that underlying demand for product has remained strong both in the United States and in our export markets although the rate of growth slowed in 2010 due to economic factors. However, improved global production and any significant increase in the value of the dollar could negatively impact exports and decrease the current pricing for almonds.

Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Therefore, we are unable to accurately predict revenue and we cannot pass on to our customers any cost increases caused by general inflation, except to the extent such inflation is reflected in market conditions and commodity prices. The operations of the Company are seasonal and future results of operations cannot be predicted based on quarterly results. Future real estate sales and leasing activity are dependent on market circumstances and specific opportunities and therefore are difficult to predict from period to period.

For further discussion of the risks and uncertainties that could potentially adversely affect us, please refer to Part I, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, or Annual Report, and, to "Risk Factors" under Part II, Item 1A of this report and in Part I, Item 1A of our Annual Report.



**Table of Contents**

We continue to be involved in various environmental proceedings related to leased acreage. For a further discussion, please refer to Note D Commitments and Contingencies in the Notes to Unaudited Consolidated Financial Statements in this report.

**Income Taxes**

Income tax expense totaled \$5,710,000 for the first nine months of 2011. This is compared to \$3,233,000 of income tax expense for the same period of 2010. These represent effective income tax rates of approximately 35% and 38% for the nine months ended September 30, 2011 and 2010, respectively. The decline in the effective tax rate is primarily due to the Company benefiting from permanent tax differences, such as depletion allowances created primarily due to increased oil production and oil royalties.

**Cash Flow and Liquidity**

Our cash, cash equivalents and marketable securities totaled approximately \$83,670,000 at September 30, 2011, an increase of \$12,658,000, or 27%, from the corresponding amount at the end of 2010. Cash, cash equivalents and marketable securities increased during the first nine months of 2011 compared to the first nine months of 2010 primarily due to the sale of conservation easements for \$15,750,000.

The following table shows our cash flow activities for the nine months ended September 30:

| (In thousands)       | 2011        | 2010       |
|----------------------|-------------|------------|
| Operating activities | \$ 5,743    | \$ (155)   |
| Investing activities | \$ (16,029) | \$ (9,805) |
| Financing activities | \$ 4,402    | \$ 51,839  |

During the first nine months of 2011, our operations provided \$5,743,000 of cash primarily from the positive impact of operating activities, an oil exploration lease payment, for which revenue will be recognized over the term of the lease and the collection of farming receivables, partially offset by increased farming inventory costs. During the first nine months of 2010, our operations used \$155,000 of cash as a result of an increase in farm receivables offset by a \$1,440,000 distribution of earnings from our TA/Petro joint venture and the reversal of non-cash expense items.

During the first nine months of 2011, investing activities used \$16,029,000 of cash primarily as a result of the \$18,971,000 net investment in marketable securities, \$9,509,000 in capital expenditures, described below, \$2,282,000 in contributions in our unconsolidated joint ventures and \$485,000 investment in Horizon Nut Company, a pistachio processing company. The above outflows are partially offset by the proceeds from the sale of conservation easements for \$15,750,000. Included in the \$5,760,000 capital expenditures during the first nine months of 2011 was \$4,552,000 related to Centennial Founders LLC. The remaining capital expenditures consisted of investments in TRCC infrastructure and ordinary capital expenditures such as farm equipment replacements.

During the first nine months of 2010, investing activities used \$9,805,000 of cash. During the period, we invested \$10,279,000 in marketable securities, net of maturities, \$10,279,000 in capital expenditures,

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**Table of Contents**

as described below, and contributed \$3,424,000 in our unconsolidated joint ventures. The outflows were partially offset by the reimbursement from the East CFD of \$10,860,000 and a \$4,100,000 distribution from our Five West Parcel joint venture. Included in the \$10,279,000 capital expenditures during the first nine months of 2010 was \$5,675,000 that Centennial Founders LLC invested in development projects. The remaining capital expenditures consisted of investments in TRCC infrastructure and ordinary capital expenditures such as farm equipment replacements.

It is anticipated that throughout the remainder of 2011 we will continue to invest funds in our real estate development projects and joint ventures. We estimate that our investment requirements over the remainder of 2011 could total approximately \$5,000,000. These amounts include contributions to our joint ventures, primarily TMV and Centennial, investments in infrastructure within TRCC-East, and ordinary recurring capital investments within our operating segments. Throughout the remainder of 2011, contributions to joint ventures will be related to the entitlement process for Centennial Founders LLC and permitting, litigation costs, and water turnout development costs for TMV.

During the first nine months of 2011, financing activities provided \$4,402,000 in cash, primarily as a result of proceeds from the exercise of stock options, partially offset by payroll taxes on issuance of restricted stock grants. During the first nine months of 2010, financing activities provided \$51,839,000 in cash, primarily as a result of proceeds from a successful rights offering and from the exercise of stock options. These positive cash inflows were partially offset by net payments on our line of credit. At September 30, 2011 and at the date of filing of this Form 10-Q there was no outstanding balance on our line of credit.

**Capital Structure and Financial Condition**

At September 30, 2011, total capitalization at book value was \$295,570,000 consisting of \$298,000 of debt and \$295,272,000 of equity, resulting in a debt-to-total-capitalization ratio of less than one percent, which is unchanged when compared to the debt-to-total-capitalization ratio at December 31, 2010.

We have a long-term revolving line of credit of \$30,000,000 that, as of September 30, 2011, had no outstanding balance. At the Company's option, the interest rate on this line of credit can be fixed at 2.50% over a selected LIBOR rate or can be fixed at 2.25% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in October 2013), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. Under the terms of the line of credit, we must maintain tangible net worth, defined as total equity, including noncontrolling interests, plus debt less intangible assets, not less than \$175,000,000 and liquid assets of not less than \$25,000,000. At September 30, 2011 our tangible net worth was \$295,272,000 and liquid assets were \$83,670,000. This line of credit is secured by a portion of our farm acreage.

The outstanding long-term debt, less current portion of \$36,000, is \$262,000 at September 30, 2011. This debt is being used to provide long-term financing for a building being leased to Starbucks and the debt is secured by the leased building and land.

Our current and future capital resource requirements will be provided primarily from current cash and marketable securities, cash flow from ongoing operations, proceeds from the sale of developed parcels, potential sale of assets, additional use of debt, proceeds from the reimbursement of public infrastructure costs through the CFD bond debt (described in Note D - Commitments and Contingencies in the Notes to Unaudited Consolidated Financial Statements in this report), and the potential issuance of common stock.

**Table of Contents**

As noted above, at September 30, 2011, we had \$83,670,000 in cash and securities and as of the filing date of this Form 10-Q, we have \$30,000,000 available on credit lines to meet any short-term liquidity needs. We continue to expect that substantial future investments will be required in order to develop our land assets upon full entitlement of our community projects. In order to meet these long-term capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we may use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. There is no assurance that we can obtain financing from any of these sources or that we can obtain financing at favorable terms. Based on the Company's current financial position, we believe that we will have adequate capital resources to fund our cash needs and our capital investment requirements over the next few years.

**Contractual Cash Obligations**

The following table summarizes our contractual cash obligations and commercial commitments over the next five years:

| (In thousands)                       | Total           | Payments Due by Period |                 |               |                  |
|--------------------------------------|-----------------|------------------------|-----------------|---------------|------------------|
|                                      |                 | One Year<br>or Less    | Years<br>2-3    | Years<br>4-5  | After 5<br>Years |
| <b>CONTRACTUAL OBLIGATIONS:</b>      |                 |                        |                 |               |                  |
| Long-term debt                       | \$ 298          | \$ 36                  | \$ 81           | \$ 93         | \$ 88            |
| Interest on fixed rate debt          | 73              | 19                     | 30              | 19            | 5                |
| Tejon Ranch Conservancy              | 4,760           | 640                    | 930             | 880           | 2,310            |
| Cash contract commitments            | 2,917           | 2,917                  |                 |               |                  |
| <b>Total contractual obligations</b> | <b>\$ 8,048</b> | <b>\$ 3,612</b>        | <b>\$ 1,041</b> | <b>\$ 992</b> | <b>\$ 2,403</b>  |

The categories above include purchase obligations and other long-term liabilities reflected on our balance sheet under GAAP. A purchase obligation is defined in Item 303(a)(5)(ii)(D) of Regulation S-K as an agreement to purchase goods or services that is enforceable and legally binding on [us] that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Based on this definition, the table above includes only those contracts that include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

Our cash contract commitments consist of contracts in various stages of completion related to infrastructure development within our industrial developments and entitlement costs related to our industrial and residential development projects. At the present time, we do not have any capital lease obligations or purchase obligations outstanding. Our operating lease obligations are for office equipment, several vehicles, and a temporary trailer providing office space, and total, on average, approximately \$23,000 per month.

Our financial obligations to the Tejon Ranch Conservancy, or Conservancy, a California nonprofit public benefit corporation, are prescribed in the Conservation and Land Use Agreement executed in

**Table of Contents**

June 2008. Our advances to the Conservancy are dependent on the timing of occurrence of certain events and are therefore subject to change in amount and period. The amounts included above are the minimum amounts we anticipate contributing through the year 2021. The obligation shown above is eighty percent of the total required obligations for the next three years and fifty-five percent thereafter. The percentages take into consideration current and anticipated cash funding levels of the Company to TMV and the Centennial Founders, LLC joint ventures, and the anticipated funding levels of our joint venture partners.

As discussed in Note J Retirement Plan in the Notes to Unaudited Consolidated Financial Statements in this report, we have long-term liabilities for employee retirement plans. The payments related to retirement plans are not included above since they are dependent upon when the employee retires or leaves the Company. In addition, minimum pension funding requirements are not included above, as such amounts are not available for all periods presented. We estimate that we will contribute approximately \$900,000 to the pension plan in 2011.

**Off-Balance Sheet Arrangements**

The following table shows contingent obligations we have with respect to certain bonds issued by the CFD:

| (In thousands)                            | Amount of Commitment Expiration Per Period |                     |                 |           |                  |
|---|--|---------------------|-----------------|-----------|------------------|
|   | Total                                      | One Year or<br>Less | Years 2-3       | Years 4-5 | After 5<br>Years |
| <b>OTHER COMMERCIAL COMMITMENTS:</b>      |  |                     |                 |           |                  |
| Standby letters of credit                 | \$ 6,773                                   | \$                  | \$ 6,773        | \$        | \$               |
| <b>Total other commercial commitments</b> | <b>\$ 6,773</b>                            | <b>\$</b>           | <b>\$ 6,773</b> | <b>\$</b> | <b>\$</b>        |

The standby letters of credit described above are related to the issuance of CFD bonds by TRPFFA. The standby letters of credit, requested by TRPFFA, are in place to provide additional credit enhancement and cover approximately two years worth of interest on the outstanding bonds. The annual cost for the letters of credit is approximately \$100,000. The letters of credit will not be drawn upon unless we, as the largest landowner in each CFD, fail to make its property tax payments. The letters of credit are for two-year periods of time and will be renewed in two-year intervals as necessary. We anticipate renewing the letters of credit because we continue to be the largest landowner within the development.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial or commodity market prices or rates. We are exposed to market risk in the areas of interest rates and commodity prices.

**Financial Market Risks**

Our exposure to financial market risks includes changes to interest rates and credit risks related to marketable securities, interest rates related to our outstanding indebtedness and trade receivables.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields and prudently managing risk. To achieve this objective and limit interest rate exposure, we limit our investments to securities with a maturity of less than six years and an investment grade rating from Moody's or Standard and Poor's. See Note C - Marketable Securities in the Notes to Unaudited Consolidated Financial Statements in this report.

Our line-of-credit currently has no outstanding balance. The interest rate on our new line-of-credit can either float with LIBOR or be tied to a specific LIBOR rate on a fixed basis and change only at maturity of the fixed-rate feature. We are exposed to interest rate risk on our long term debt currently outstanding. The long-term debt of \$298,000 has a fixed interest rate of 6.75%, and the fair value of this long-term debt will change based on interest rate movements in the market. The floating rate feature in our line of credit can expose us to variability in interest payments due to changes in interest rates. We believe it is prudent at times to limit the variability of floating-rate interest payments and in the past have entered into interest rate swaps to manage those fluctuations.

At September 30, 2011, we had no outstanding interest rate swap agreements. However, TA/Petro, an unconsolidated joint venture of the Company, has an interest rate swap agreement with respect to \$18,865,000 of its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matures in August 2012 and is a contract to exchange variable-rate for fixed-rate interest payments periodically over the life of the agreement. The interest rate swap fixed rate is 6.05%. Changes in the value of the interest rate swap are reflected in other comprehensive income of the joint venture, and the Company accounts for its share of the change in the interest rate swap in other comprehensive income. At September 30, 2011, the Company's share of the loss in the interest rate swap is \$215,000.

Market risk related to our farming inventories ultimately depends on the value of almonds, grapes, and pistachios at the time of payment or sale. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and periodic credit evaluations of our customers' financial conditions, we believe our credit risk is minimal. Market risk is discussed below in the section pertaining to commodity price exposure.

The following tables provide information about our financial instruments that are sensitive to changes in interest rates. The tables present our debt obligations and marketable securities and their related weighted-average interest rates by expected maturity dates.

**Interest Rate Sensitivity Financial Market Risks****Principal Amount by Expected Maturity**

At September 30, 2011

(In thousands)

|                                | 2011     | 2012      | 2013      | 2014      | 2015     | Thereafter | Total     | Fair Value at<br>09/30/2011 |
|--------------------------------|----------|-----------|-----------|-----------|----------|------------|-----------|-----------------------------|
| <b>Assets:</b>                 |          |           |           |           |          |            |           |                             |
| Marketable securities          | \$ 6,290 | \$ 10,672 | \$ 24,403 | \$ 17,616 | \$ 8,047 | \$         | \$ 67,028 | \$ 67,527                   |
| Weighted average interest rate | 1.50%    | 2.79%     | 1.96%     | 1.58%     | 1.90%    | 0.00%      | 1.94%     |                             |
| <b>Liabilities</b>             |          |           |           |           |          |            |           |                             |
| Long-term debt                 | \$ 9     | \$ 37     | \$ 40     | \$ 43     | \$ 46    | \$ 123     | \$ 298    | \$ 298                      |
| Weighted average interest rate | 6.75%    | 6.75%     | 0.00%     | 6.75%     | 6.75%    | 6.75%      | 6.75%     |                             |



**Table of Contents**

## Interest Rate Sensitivity Financial Market Risks

## Principal Amount by Expected Maturity

At December 31, 2010

(In thousands)

|                                | 2011     | 2012      | 2013      | 2014     | 2015     | Thereafter | Total     | Fair Value<br>12/31/2010 |
|--------------------------------|----------|-----------|-----------|----------|----------|------------|-----------|--------------------------|
| <b>Assets:</b>                 |          |           |           |          |          |            |           |                          |
| Marketable securities          | \$ 9,979 | \$ 10,454 | \$ 19,322 | \$ 7,151 | \$ 1,594 | \$         | \$ 48,500 | \$ 48,985                |
| Weighted average interest rate | 2.37%    | 2.84%     | 2.12%     | 1.93%    | 2.15%    |            | 2.30%     |                          |
| <b>Liabilities:</b>            |          |           |           |          |          |            |           |                          |
| Long-term debt                 | \$ 35    | \$ 37     | \$ 40     | \$ 43    | \$ 46    | \$ 124     | \$ 325    | \$ 325                   |
| Weighted average interest rate | 6.75%    | 6.75%     | 6.75%     | 6.75%    | 6.75%    | 6.75%      | 6.75%     | 6.75%                    |

In comparison to the prior year, our risk with regard to fluctuations in interest rates related to the use of debt has decreased because of no outstanding balance on our line of credit and also to no changes in our long-term debt balances.

Our risk with regard to fluctuations in interest rates has increased slightly related to marketable securities since these balances have increased compared to the prior year.

**Commodity Price Exposure**

As of September 30, 2011, we have exposure to adverse price fluctuations associated with certain inventories and accounts receivable. Farming inventories consist of farming cultural and processing costs related to 2011 and 2010 crop production. The farming costs inventoried are recorded at actual costs incurred. Historically, these costs have been recovered each year when that year's crop harvest has been sold.

With respect to accounts receivable, the amount at risk relates primarily to farm crops. These receivables are recorded as estimates of the prices that ultimately will be received for the crops. The final price is generally not known for several months following the close of our fiscal year. Of the \$8,971,000 of accounts receivable outstanding at September 30, 2011, \$6,988,000 is at risk to changing prices. Of the amount at risk to changing prices, \$5,361,000 is attributable to pistachios, and \$1,627,000 is attributable to wine grapes. The comparable amount of accounts receivable at risk to price changes at December 31, 2010 was \$8,186,000 of the total accounts receivable of \$9,812,000. Of the December 31, 2010 amount at risk to changing prices, \$6,543,000 is related to pistachios and \$1,643,000 is related to almonds.

The price estimated for recording accounts receivable for pistachios recorded at September 30, 2011 was \$1.91 per pound, as compared to \$2.45 per pound at December 31, 2010. For each \$.01 change in the price of pistachios, our receivable for pistachios increases or decreases by \$28,000. Although the final price of pistachios (and therefore the extent of the risk) is not presently known, over the last three years

**Table of Contents**

prices have ranged from \$1.77 to \$2.47. With respect to wine grapes, the price estimated for recording the receivable was \$224 per ton. For each \$1.00 change in the price of wine grapes, our receivable for wine grapes increases or decreases by \$7,300. The range of final prices over the last three years for wine grapes has ranged from \$175 to \$250 per ton.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that all information required in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and was recorded, processed, summarized and reported within the time period required by the rules and regulations of the Securities and Exchange Commission.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Please refer to Note D Commitments and Contingencies in the Notes to Unaudited Consolidated financial Statements in this report.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in Item 1A or elsewhere in our most recent Annual Report on Form 10-K.



**Table of Contents**

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Reserved**

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Page Number

Exhibits

|          |  |       |
|----------|--|-------|
| 3.1      | Restated Certificate of Incorporation  | FN 1  |
| 3.2      | By-Laws  | FN 1  |
| 10.1     | Water Service Contract with Wheeler Ridge-Maricopa Water Storage District (without exhibits), amendments originally filed under Item 11 to Registrant's Annual Report on Form 10-K | FN 2  |
| 10.5     | Petro Travel Plaza Operating Agreement   | FN 3  |
| 10.6     | *Amended and Restated Stock Option Agreement Pursuant to the 1992 Employee Stock Incentive Plan  | FN 3  |
| 10.7     | *Severance Agreement   | FN 3  |
| 10.8     | *Director Compensation Plan  | FN 3  |
| 10.9     | *Amended and Restated Non-Employee Director Stock Incentive Plan   | FN 10 |
| 10.9(1)  | *Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan   | FN 3  |
| 10.10    | *Amended and Restated Stock Incentive Plan   | FN 10 |
| 10.10(1) | *Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan  | FN 3  |
| 10.11    | *Employment Contract - Robert A. Stine   | FN 3  |
| 10.15    | Lease Agreement with Calpine Corp.   | FN 4  |
| 10.15    | Form of Securities Purchase Agreement  | FN 5  |
| 10.16    | Form of Registration Rights Agreement  | FN 6  |
| 10.17    | *2004 Stock Incentive Program  | FN 7  |

**Table of Contents**

|       |  |       |
|-------|--|-------|
| 10.18 | *Form of Restricted Stock Agreement for the Directors [conforming change]  | FN 7  |
| 10.19 | *Form of Restricted Stock Unit Agreement   | FN 7  |
| 10.23 | Tejon Mountain Village LLC Operating Agreement   | FN 8  |
| 10.24 | Tejon Ranch Conservation and Land Use Agreement  | FN 9  |
| 10.25 | Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC                                    | FN 11 |
| 31.1  | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                     |       |
| 31.2  | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                     |       |
| 32    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |       |

\* Management contract, compensatory plan or arrangement.

- FN 1 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1987, is incorporated herein by reference.
- FN 2 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.4 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 3 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K, for the period ending December 31, 1997, is incorporated herein by reference.
- FN 4 This document filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by reference.
- FN 5 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 6 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.2 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 7 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 15 to our Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by reference.

**Table of Contents**

- FN 8 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.24 to our Current Report on Form 8-K filed on May 24, 2006, is incorporated herein by reference.
- FN 9 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.28 to our Current Report on Form 8-K filed on June 23, 2008, is incorporated herein by reference.
- FN 10 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.9 and Exhibit 10.10 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference.
- FN 11 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) under Item 5 to our Quarterly Report on Form 10-Q for the period ending June 30, 2009, is incorporated herein by reference.

**Table of Contents**

SIGNATURES

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

TEJON RANCH CO. \_\_\_\_\_

(The Company)

BY /s/ Allen E. Lyda  
Allen E. Lyda  
Senior Vice President, Chief

Financial Officer

November 4, 2011  
DATE