

TEJON RANCH CO  
Form 10-Q  
May 08, 2013

---

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 March 31, 2013

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)

P.O. Box 1000, Lebec, California 93243

(Address of principal executive offices)

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

77-0196136

(IRS Employer  
Identification No.)

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 May 1, 2013 was 20,131,845.

---

Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES  
INDEX

|                                                                                                                     | Page No.  |
|---------------------------------------------------------------------------------------------------------------------|-----------|
| PART I. <u>FINANCIAL INFORMATION</u>                                                                                |           |
| Item 1. <u>Financial Statements</u>                                                                                 |           |
| <u>Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2013 and 2012</u>           | <u>3</u>  |
| <u>Unaudited Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2013 and 2012</u> | <u>4</u>  |
| <u>Consolidated Balance Sheets as of March 31, 2013 (unaudited) and December 31, 2012</u>                           | <u>5</u>  |
| <u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2013 and 2012</u>           | <u>6</u>  |
| <u>Unaudited Consolidated Statements of Equity for the Three Months Ended March 31, 2013</u>                        | <u>7</u>  |
| <u>Notes to Unaudited Consolidated Financial Statements</u>                                                         | <u>8</u>  |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                | <u>18</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                           | <u>24</u> |
| Item 4. <u>Controls and Procedures</u>                                                                              | <u>26</u> |
| PART II. <u>OTHER INFORMATION</u>                                                                                   |           |
| Item 1. <u>Legal Proceedings</u>                                                                                    | <u>26</u> |
| Item 1A. <u>Risk Factors</u>                                                                                        | <u>26</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                          | <u>26</u> |
| Item 3. <u>Defaults Upon Senior Securities</u>                                                                      | <u>26</u> |
| Item 4. <u>Mine Safety Disclosures</u>                                                                              | <u>26</u> |
| Item 5. <u>Other Information</u>                                                                                    | <u>26</u> |
| Item 6. <u>Exhibits</u>                                                                                             | <u>28</u> |

SIGNATURES

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>March 31 |         |
|-----------------------------------------------------------------------------------|--------------------------------|---------|
|                                                                                   | 2013                           | 2012    |
| Revenues:                                                                         |                                |         |
| Real estate - commercial/industrial                                               | \$2,722                        | \$2,148 |
| Real estate - resort/residential                                                  | 237                            | 41      |
| Mineral resources                                                                 | 2,866                          | 3,906   |
| Farming                                                                           | 3,935                          | 3,484   |
| Total revenues                                                                    | 9,760                          | 9,579   |
| Costs and Expenses:                                                               |                                |         |
| Real estate - commercial/industrial                                               | 3,113                          | 3,025   |
| Real estate - resort/residential                                                  | 309                            | 1,018   |
| Mineral resources                                                                 | 160                            | 117     |
| Farming                                                                           | 2,257                          | 2,261   |
| Corporate expenses                                                                | 3,831                          | 3,134   |
| Total expenses                                                                    | 9,670                          | 9,555   |
| Operating income                                                                  | 90                             | 24      |
| Other Income:                                                                     |                                |         |
| Investment income                                                                 | 275                            | 318     |
| Interest income (expense)                                                         | —                              | (2      |
| Other income                                                                      | 3                              | 24      |
| Total other income                                                                | 278                            | 340     |
| Income from operations before equity in earnings of unconsolidated joint ventures | 368                            | 364     |
| Equity in earnings (loss) of unconsolidated joint ventures, net                   | 409                            | (359    |
| Income before income tax expense (benefit)                                        | 777                            | 5       |
| Income tax expense (benefit)                                                      | 147                            | (228    |
| Net income                                                                        | 630                            | 233     |
| Net income (loss) attributable to non-controlling interest                        | 15                             | (42     |
| Net income attributable to common stockholders                                    | \$615                          | \$275   |
| Net income per share attributable to common stockholders, basic                   | \$0.03                         | \$0.01  |
| Net income per share attributable to common stockholders, diluted                 | \$0.03                         | \$0.01  |

Table of Contents

## TEJON RANCH CO. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

|                                                                                          | Three Months Ended<br>March 31 |        |
|------------------------------------------------------------------------------------------|--------------------------------|--------|
|                                                                                          | 2013                           | 2012   |
| Net income                                                                               | \$630                          | \$233  |
| Other comprehensive income (loss):                                                       |                                |        |
| Unrealized gains (losses) on available for sale securities                               | (43                            | ) 219  |
| Equity in other comprehensive income of unconsolidated joint venture                     | —                              | 55     |
| Other comprehensive income (loss) before taxes                                           | (43                            | ) 274  |
| (Provisions) benefit for income taxes related to other comprehensive income (loss) items | 17                             | (109 ) |
| Other comprehensive income (loss)                                                        | (26                            | ) 165  |
| Total comprehensive income                                                               | 604                            | 398    |
| Total comprehensive income (loss) attributable to non-controlling interests              | 15                             | (42 )  |
| Total comprehensive income attributable to common stockholders                           | \$589                          | \$440  |
| See accompanying notes.                                                                  |                                |        |

Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

|                                                                                                                                                                        | March 31,<br>2013<br>(unaudited) | December 31,<br>2012 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                          |                                  |                      |
| Current Assets:                                                                                                                                                        |                                  |                      |
| Cash and cash equivalents                                                                                                                                              | \$4,283                          | \$7,219              |
| Marketable securities - available-for-sale                                                                                                                             | 65,905                           | 65,049               |
| Accounts receivable                                                                                                                                                    | 5,486                            | 8,768                |
| Inventories                                                                                                                                                            | 5,685                            | 3,839                |
| Prepaid expenses and other current assets                                                                                                                              | 4,661                            | 4,881                |
| Deferred tax assets                                                                                                                                                    | 1,014                            | 997                  |
| Total current assets                                                                                                                                                   | 87,034                           | 90,753               |
| Property and equipment - net of depreciation (includes \$72,787 at March 31, 2013 and \$72,115 at December 31, 2012, attributable to Centennial Founders LLC, Note 12) | 151,781                          | 146,590              |
| Investments in unconsolidated joint ventures                                                                                                                           | 55,331                           | 54,022               |
| Long-term water assets                                                                                                                                                 | 28,509                           | 28,565               |
| Long-term deferred tax assets                                                                                                                                          | 5,376                            | 5,376                |
| Other assets                                                                                                                                                           | 2,541                            | 2,550                |
| <b>TOTAL ASSETS</b>                                                                                                                                                    | <b>\$330,572</b>                 | <b>\$327,856</b>     |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                          |                                  |                      |
| Current Liabilities:                                                                                                                                                   |                                  |                      |
| Trade accounts payable                                                                                                                                                 | \$3,745                          | \$3,845              |
| Accrued liabilities and other                                                                                                                                          | 3,769                            | 2,132                |
| Deferred income                                                                                                                                                        | 1,353                            | 1,195                |
| Current portion of long-term debt                                                                                                                                      | 42                               | 41                   |
| Total current liabilities                                                                                                                                              | 8,909                            | 7,213                |
| Long-term debt, less current portion                                                                                                                                   | 202                              | 212                  |
| Long-term deferred gains                                                                                                                                               | 2,248                            | 2,248                |
| Other liabilities                                                                                                                                                      | 6,970                            | 6,508                |
| Pension liability                                                                                                                                                      | 3,254                            | 3,416                |
| Total liabilities                                                                                                                                                      | 21,583                           | 19,597               |
| 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 - 20,131,845 at March 31, 2013 and 20,085,865 at December 31, 2012                                                                       | 10,066                           | 10,043               |
| Additional paid-in capital                                                                                                                                             | 198,220                          | 198,117              |
| Accumulated other comprehensive loss                                                                                                                                   | (5,144)                          | (5,118)              |
| Retained earnings                                                                                                                                                      | 66,165                           | 65,550               |
| Total Tejon Ranch Co. Stockholders' Equity                                                                                                                             | 269,307                          | 268,592              |
| Non-controlling interest                                                                                                                                               | 39,682                           | 39,667               |
| Total equity                                                                                                                                                           | 308,989                          | 308,259              |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                                                    | <b>\$330,572</b>                 | <b>\$327,856</b>     |
| See accompanying notes.                                                                                                                                                |                                  |                      |



Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

|                                                                                             | Three Months Ended March 31 |            |
|---------------------------------------------------------------------------------------------|-----------------------------|------------|
|                                                                                             | 2013                        | 2012       |
| Operating Activities                                                                        |                             |            |
| Net income                                                                                  | \$630                       | \$233      |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                             |            |
| Depreciation and amortization                                                               | 923                         | 875        |
| Amortization of premium/discount of marketable securities                                   | 232                         | 206        |
| Equity in (earnings) losses of unconsolidated joint ventures, net                           | (409)                       | ) 359      |
| Non-cash retirement plan expense                                                            | 162                         | 113        |
| Gains on sales of real estate/assets                                                        | —                           | (137)      |
| Amortization of stock compensation expense                                                  | 629                         | 1,052      |
| Changes in operating assets and liabilities:                                                |                             |            |
| Receivables, inventories and other assets, net                                              | 2,488                       | (849)      |
| Current liabilities, net                                                                    | (1,088)                     | ) (4,901)  |
| Net cash provided by (used in) operating activities                                         | 3,567                       | (3,049)    |
| Investing Activities                                                                        |                             |            |
| Maturities and sales of marketable securities                                               | 7,189                       | 2,852      |
| Funds invested in marketable securities                                                     | (8,320)                     | ) (7,834)  |
| Property and equipment expenditures                                                         | (3,718)                     | ) (3,654)  |
| Investment in long term term water assets                                                   | (121)                       | ) —        |
| Investment in unconsolidated joint ventures                                                 | (900)                       | ) (3,804)  |
| Other                                                                                       | 10                          | 72         |
| Net cash used in investing activities                                                       | (5,860)                     | ) (12,368) |
| Financing Activities                                                                        |                             |            |
| Repayments of long-term debt                                                                | (9)                         | ) (9)      |
| Proceeds from exercise of stock options                                                     | 211                         | 123        |
| Taxes on vested stock grants                                                                | (845)                       | ) (1,124)  |
| Net cash used in financing activities                                                       | (643)                       | ) (1,010)  |
| Decrease in cash and cash equivalents                                                       | (2,936)                     | ) (16,427) |
| Cash and cash equivalents at beginning of year                                              | 7,219                       | 18,372     |
| Cash and cash equivalents at end of period                                                  | \$4,283                     | \$1,945    |
| Supplemental cash flow information                                                          |                             |            |
| Accrued capital expenditures included in current liabilities                                | \$2,170                     | \$577      |
| See accompanying notes.                                                                     |                             |            |

Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES  
 UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY  
 (In thousands, except shares outstanding)

|                                                                | Common<br>Stock<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Total Tejon<br>Ranch Co.'s<br>Stockholders<br>Equity | Noncontrolling<br>Interest | Total Equity |
|----------------------------------------------------------------|------------------------------------------|-----------------|----------------------------------|-----------------------------------------------------------|----------------------|------------------------------------------------------|----------------------------|--------------|
| Balance at January 1,<br>2012                                  | 19,975,706                               | \$9,988         | \$194,273                        | \$ (4,756 )                                               | \$61,109             | \$260,614                                            | \$39,825                   | \$300,439    |
| Net income                                                     | —                                        | —               | —                                | —                                                         | 4,441                | 4,441                                                | (158 )                     | 4,283        |
| Other comprehensive<br>income                                  | —                                        | —               | —                                | (362 )                                                    | —                    | (362 )                                               | —                          | (362 )       |
| Exercise of stock<br>options and related tax<br>benefit of \$8 | 13,641                                   | 7               | 363                              | —                                                         | —                    | 370                                                  | —                          | 370          |
| Restricted stock<br>issuance                                   | 179,172                                  | 89              | (89 )                            | —                                                         | —                    | —                                                    | —                          | —            |
| Stock compensation                                             | —                                        | —               | 5,832                            | —                                                         | —                    | 5,832                                                | —                          | 5,832        |
| Shares withheld for<br>taxes                                   | (82,654 )                                | (41 )           | (2,262 )                         | —                                                         | —                    | (2,303 )                                             | —                          | (2,303 )     |
| Balance at December<br>31, 2012                                | 20,085,865                               | 10,043          | 198,117                          | (5,118 )                                                  | 65,550               | 268,592                                              | 39,667                     | 308,259      |
| Net income                                                     | —                                        | —               | —                                | —                                                         | 615                  | 615                                                  | 15                         | 630          |
| Other comprehensive<br>income                                  | —                                        | —               | —                                | (26 )                                                     | —                    | (26 )                                                | —                          | (26 )        |
| Exercise of stock<br>options and related tax<br>benefit of \$3 | 7,567                                    | 4               | 207                              | —                                                         | —                    | 211                                                  | —                          | 211          |
| Restricted stock<br>issuance                                   | 66,722                                   | 33              | (33 )                            | —                                                         | —                    | —                                                    | —                          | —            |
| Stock compensation                                             | —                                        | —               | 760                              | —                                                         | —                    | 760                                                  | —                          | 760          |
| Shares withheld for<br>taxes                                   | (28,309 )                                | (14 )           | (831 )                           | —                                                         | —                    | (845 )                                               | —                          | (845 )       |
| Balance at March 31,<br>2013                                   | 20,131,845                               | \$10,066        | \$198,220                        | \$ (5,144 )                                               | \$66,165             | \$269,307                                            | \$39,682                   | \$308,989    |
| See accompanying notes.                                        |                                          |                 |                                  |                                                           |                      |                                                      |                            |              |



Table of Contents

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

## 1. 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 Company has reclassified certain prior period amounts in the consolidated statements of operations, and cash flows to conform to the current year presentation. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

The periods ending March 31, 2013 and 2012 include the consolidation of Centennial Founders, LLC’s statement of operations within the resort /residential segment and statements of cash flows. The Company’s March 31, 2013 and December 31, 2012 balance sheets and statements of equity are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

The Company has identified four reportable segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; and farming. The Company determined that the mineral resources segment should be reported, as a result of an evaluation of the Company’s operations during the fourth quarter of 2012. Mineral resources collects royalty income from oil and gas leases, rock and aggregate leases, and from a cement company. 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, 2012.

## 2. 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>March 31 |            |
|------------------------------------------------|--------------------------------|------------|
|                                                | 2013                           | 2012       |
| Weighted average number of shares outstanding: |                                |            |
| Common stock                                   | 20,100,115                     | 19,990,558 |
| Common stock equivalents-stock options, grants | 15,327                         | 32,744     |
| Diluted shares outstanding                     | 20,115,442                     | 20,023,302 |

## 3. 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.

Table of Contents

The following is a summary of available-for-sale securities at March 31, 2013 and December 31, 2012:

| (\$ in thousands)                                |                      | 2013     |                      | 2012     |                      |
|--------------------------------------------------|----------------------|----------|----------------------|----------|----------------------|
|                                                  | Fair Value Hierarchy | 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 |                      | \$1,435  | \$1,431              | \$1,578  | \$1,571              |
| with unrecognized losses for more than 12 months |                      | 58       | 58                   | 508      | 507                  |
| with unrecognized gains                          |                      | 7,040    | 7,102                | 5,586    | 5,628                |
| Total Certificates of deposit                    | Level 1              | 8,533    | 8,591                | 7,672    | 7,706                |
| <b>US Treasury and agency notes</b>              |                      |          |                      |          |                      |
| with unrecognized losses for less than 12 months |                      | 992      | 982                  | 3,057    | 3,024                |
| with unrecognized losses for more than 12 months |                      | 3,936    | 3,909                | 874      | 873                  |
| with unrecognized gains                          |                      | 12,177   | 12,271               | 12,175   | 12,267               |
| Total US Treasury and agency notes               | Level 2              | 17,105   | 17,162               | 16,106   | 16,164               |
| <b>Corporate notes</b>                           |                      |          |                      |          |                      |
| with unrecognized losses for less than 12 months |                      | 5,207    | 5,156                | 1,993    | 1,971                |
| with unrecognized losses for more than 12 months |                      | —        | —                    | 201      | 200                  |
| with unrecognized gains                          |                      | 25,278   | 25,655               | 29,210   | 29,653               |
| Total Corporate notes                            | Level 2              | 30,485   | 30,811               | 31,404   | 31,824               |
| <b>Municipal notes</b>                           |                      |          |                      |          |                      |
| with unrecognized losses for less than 12 months |                      | 1,286    | 1,281                | 1,961    | 1,948                |
| with unrecognized losses for more than 12 months |                      | 827      | 822                  | 620      | 613                  |
| with unrecognized gains                          |                      | 7,128    | 7,238                | 6,702    | 6,794                |
| Total Municipal notes                            | Level 2              | 9,241    | 9,341                | 9,283    | 9,355                |
|                                                  |                      | \$65,364 | \$65,905             | \$64,465 | \$65,049             |

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.

At March 31, 2013, the fair market value of investment securities exceeded the cost basis by \$541,000. The cost basis includes any other-than-temporary impairments that have been recorded for the securities. None have been recorded at March 31, 2013. The Company has determined that any unrealized losses in the portfolio are temporary as of March 31, 2013. 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.

Edgar Filing: TEJON RANCH CO - Form 10-Q

As of March 31, 2013, the adjustment to accumulated other comprehensive income (loss) in consolidated equity for the temporary change in the value of securities reflects a decrease in the market value of available-for-sale securities of \$26,000, which includes estimated taxes of \$17,000.

As of March 31, 2013, the Company's gross unrealized holding gains equal \$643,000 and gross unrealized holding losses equal \$102,000.

Table of Contents

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

(in thousands)

| At 3/31/2013                   | 2013     | 2014     | 2015     | 2016    | 2017    | Total    |
|--------------------------------|----------|----------|----------|---------|---------|----------|
| Certificates of deposit        | \$1,255  | \$1,627  | \$4,213  | \$1,301 | \$—     | \$8,396  |
| U.S. Treasury and agency notes | 5,316    | 6,232    | 3,573    | 2,000   | 18      | 17,139   |
| Corporate notes                | 6,514    | 6,729    | 9,730    | 4,681   | 1,625   | 29,279   |
| Municipal notes                | 1,705    | 4,340    | 2,205    | 735     | —       | 8,985    |
|                                | \$14,790 | \$18,928 | \$19,721 | \$8,717 | \$1,643 | \$63,799 |

(in thousands)

| At 12/31/2012                  | 2013     | 2014     | 2015     | 2016    | Total    |
|--------------------------------|----------|----------|----------|---------|----------|
| Certificates of deposit        | \$1,268  | \$1,627  | \$4,316  | \$301   | \$7,512  |
| U.S. Treasury and agency notes | 6,285    | 7,248    | 2,633    | 11      | 16,177   |
| Corporate notes                | 10,916   | 6,729    | 9,420    | 3,325   | 30,390   |
| Municipal notes                | 2,305    | 4,340    | 1,960    | 400     | 9,005    |
|                                | \$20,774 | \$19,944 | \$18,329 | \$4,037 | \$63,084 |

The Company's investments in corporate notes are with companies that have an investment grade rating from Standard & Poor's.

#### 4. LONG TERM WATER ASSETS

Long term assets consist of water and water contracts held for future use or sale. 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. Water is currently held in a water bank on Company land in southern Kern County. Company banked water costs also include costs related to the right to receive additional acre feet of water in the future from the Antelope Valley East Kern Water Agency, or AVEK. The Company has also banked water within an AVEK owned water bank.

The Company also owns additional transferable water as well as holding State Water Project, or SWP contracts with the Tulare Water Storage and Dudley-Ridge Water Storage Districts to supply water through 2035. 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 contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, and the Tejon-Castac Water District, or TCWD, are also in place, but were entered into with each district at inception of the contract and not purchased later from third parties, and do not have a related financial value on the books of the Company. Therefore there is no amortization expense related to these contracts. Annual costs associated with these contracts are expensed each quarter.

Table of Contents

Purchased water assets consist of the following:

| (in acre feet)                                                                                                              | March 31, 2013 | December 31, 2012 |
|-----------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
| Banked water and water for future delivery                                                                                  |                |                   |
| AVEK water bank                                                                                                             | 11,616         | 11,478            |
| Company water bank                                                                                                          | 8,818          | 8,700             |
| AVEK water for future delivery                                                                                              | 2,362          | 2,362             |
| Total Company and AVEK banked water                                                                                         | 22,796         | 22,540            |
| Transferable Water with AVEK                                                                                                | 14,786         | 14,786            |
| SWP contracts                                                                                                               | 3,444          | 3,444             |
| Total purchased water - third parties                                                                                       | 41,026         | 40,770            |
| WRMWSD - Contracts with Company                                                                                             | 15,547         | 15,547            |
| TCWD - Contracts with Company                                                                                               | 5,278          | 5,278             |
| TCWD - Banked water contracted to Company                                                                                   | 38,945         | 38,945            |
| Total purchased and contracted water sources in acre feet                                                                   | 100,796        | 100,540           |
| (\$ in thousands)                                                                                                           | March 31, 2013 | December 31, 2012 |
| Banked water and water for future delivery - Company and AVEK                                                               | \$4,492        | \$4,448           |
| Transferable water                                                                                                          | 8,988          | 8,988             |
| SWP Contracts (net of accumulated amortization of \$2,198 and \$2,021 at March 31, 2013 and December 31 2012, respectively) | 15,737         | 15,837            |
| Total water assets                                                                                                          | 29,217         | 29,273            |
| Less: current portion                                                                                                       | (708           | ) (708            |
| Long-term water assets                                                                                                      | \$28,509       | \$28,565          |

#### 5. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

| (\$ in thousands)           | March 31, 2013 | December 31, 2012 |
|-----------------------------|----------------|-------------------|
| Accrued vacation            | \$689          | \$674             |
| Accrued paid personal leave | 629            | 662               |
| Accrued bonus               | 912            | 573               |
| Water payable               | 386            | —                 |
| Property tax payable        | 606            | —                 |
| Other                       | 547            | 223               |
|                             | \$3,769        | \$2,132           |

#### 6. SHORT-TERM AND LONG TERM DEBT

Long-term debt consists of the following:

| (\$ in thousands)      | March 31, 2013 | December 31, 2012 |
|------------------------|----------------|-------------------|
| Note payable to a bank | \$244          | \$253             |
| Less current portion   | (42            | ) (41             |
|                        | \$202          | \$212             |

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. The balance of the long-term debt instrument listed above approximates the fair value of the instrument.

We have a long-term revolving line of credit of \$30,000,000 that, as of March 31, 2013, had no outstanding balance. At the Company's option, the interest rate on this line of credit can float 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

Table of Contents

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 interest, plus debt less intangible assets, of not less than \$175,000,000 and liquid assets of not less than \$25,000,000. At March 31, 2013 our tangible net worth was \$309,233,000 and liquid assets were \$70,188,000. A portion of our farm acreage secures this line of credit.

**7. STOCK COMPENSATION**

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 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, such as corporate cash flow goals, and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones. The payouts at each performance goal are as follows:

Performance Share Grants with Performance Conditions (in shares)

|                             |         |
|-----------------------------|---------|
| Below threshold performance | —       |
| Threshold performance       | 93,550  |
| Target performance          | 558,582 |
| Maximum performance         | 821,814 |

The following is a summary of the Company's stock grant activity assuming target achievement for outstanding performance grants for the following periods:

|                                                                  | March 31<br>2013 | December 31<br>2012 |
|------------------------------------------------------------------|------------------|---------------------|
| Stock Grants Outstanding Beginning of the Year                   | 688,041          | 744,508             |
| New Stock Grants/Estimated additional shares maximum performance | 56,087           | 113,643             |
| Vested Grants                                                    | (62,997)         | ) (170,110)         |
| Expired/Forfeited Grants                                         | (70,145)         | ) —                 |
| Stock Grants Outstanding March 31, 2013                          | 610,986          | 688,041             |

The unamortized cost associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of March 31, 2013 was \$6,013,000 and 38 months, respectively. 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 estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition. Under the Non-Employee Director Stock Incentive Plan, or NDSI Plan, each non-employee director receives his or her annual compensation in stock.

The following table summarizes stock compensation costs for the Company's 1998 Stock Incentive Plan, or Employee 1998 Plan, and the NDSI Plan for the following periods:

| (in shares)         | Three Months Ended<br>March 31,<br>2013 | Three Months Ended<br>March 31,<br>2012 |
|---------------------|-----------------------------------------|-----------------------------------------|
| Employee 1998 Plan: |                                         |                                         |
| Expensed            | \$437,000                               | \$971,000                               |
| Capitalized         | 131,000                                 | 196,000                                 |
|                     | 568,000                                 | 1,167,000                               |

|           |            |              |
|-----------|------------|--------------|
| NDSI Plan | 192,000    | 81,000       |
|           | \$ 760,000 | \$ 1,248,000 |

## Table of Contents

During the first quarter of 2013 an executive officer of the Company resigned, which led to the Company reversing \$485,000 of previously recognized stock compensation expense as the shares were forfeited upon leaving the Company.

### 8. INCOME TAXES

For the three months ended March 31, 2013, the Company incurred a net income tax expense of \$147,000 compared to a net income tax benefit of \$228,000 for the three months ended March 31, 2012. These represent effective income tax rates of approximately 19% and 40% for the three months ended March 31, 2013 and, 2012, respectively. The effective tax rate for the first quarter of 2013 is calculated based on the first quarter net income for 2013 adjusted for estimated permanent tax differences such as depletion allowances. During 2013, depletion allowances have decreased due to lower oil and gas revenues compared to 2012. As of March 31, 2013, our balance sheet reflects an income tax receivable of \$586,000, which were included in prepaid expenses and other current assets.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. During the first three months ended March 31, 2013, the Company made income tax payments of \$100,000 for the 2012 tax year.

### 9. COMMITMENTS AND CONTINGENCIES

A total of 5,488 acres of the Company's land is subject to water contracts with the WRMWSD, requiring minimum future annual payments through the life of the contract which is 2035. The estimated future minimum annual payments are \$2,500,000 before any potential credits are received, whether or not water is available or is used. These payments are expensed each quarter through our farming operations.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and the 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 420 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 \$39,750,000 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 \$80,250,000 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 \$5,426,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest land owner in the CFD, fails to make its property tax payments. The Company believes that the letter of credit will never be drawn upon. The letter of credit is for two years and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately \$83,000.

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 and there is approximately \$23,000,000 of funds available for reimbursement of cost within the East CFD bonds. It is expected that at least \$14,000,000 will be reimbursed during 2013. During 2012, the Company paid approximately \$606,000 in special taxes. We anticipate we will pay approximately \$502,000 in special taxes during 2013. 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. The amount of special taxes paid by the Company could change in the future based on the amount of bonds outstanding and the amount of taxes paid by others.

### 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:



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 (1) 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.

Table of Contents

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.

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.

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 conglomerate of public water suppliers filed a cross-complaint in the Los Angeles Superior Court seeking a judicial determination of the rights to groundwater within the Antelope Valley basin, including the groundwater underlying the Company's land. Three phases of a multi-phase trial have been completed. Upon completion of the third phase, the court ruled that the groundwater basin is currently in overdraft and established a current total sustainable yield. The court has encouraged mediation sessions to settle remaining regional issues, such as groundwater pumping allocations and appointment of a regional water master. Several such mediation sessions have occurred, the most recent of which was held on November 29th and 30th, 2012. Through these sessions, progress was made toward reaching a settlement on groundwater allocations and counsel for the various parties have worked to draft a Stipulated Judgment that may serve as a framework for settlement of the cases, although substantial conflicts remain to be resolved. Given the incremental progress toward resolution, the trial judge has scheduled the next phase of trial for May 2013, allowing additional time for mediation and settlement discussions and encouraging further progress in order to avoid future trial costs. It is too early to ascertain whether a settlement agreement will be reached and what effect, if any, 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 alleges violations of various reporting, operating and monitoring regulations related to operation and maintenance of underground storage tanks. 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 LLC's operating agreement, and has also secured the services of an outside law firm to work with TA's outside counsel under a joint defense agreement. On September 16, 2011, the Company and Tejon Industrial Corp. were dismissed from the lawsuit, without prejudice. The parties remaining are currently engaged in the discovery process and have had very preliminary discussions regarding a possible negotiated resolution. At this point, however, the Company has an insufficient basis to address potential outcomes of the lawsuit. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

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 Environmental Impact Report, or EIR, for the Monterey Amendments was determined to be insufficient in an earlier lawsuit, and the current lawsuit (i) challenges the remedial EIR that DWR prepared as a result of the

Table of Contents

original lawsuit. Among other allegations, the current lawsuit also challenges the transfer of the Kern Water Bank, or KWB, from DWR to Kern County Water Agency and in turn to the Kern Water Bank Authority (KWBA), whose members are various Kern and Kings County interests, including TCWD, which TCWD has a 2% interest in the KWBA, and (ii) asserts the remedial EIR is inadequate. A parallel lawsuit was also filed by the same plaintiffs in Sacramento Superior Court against Kern County Water Agency, also naming the Company and TCWD as real parties in interest, which has been stayed pending the outcome of the other action against DWR. 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 pursuing a dismissal of the Company from these lawsuits. In a preliminary favorable ruling on December 19, 2012, Judge Frawley in a tentative decision determined that the challenges to the transfer of the KWB were not timely and barred by the statutes of litigation and doctrine of laches. There has not yet been any substantive hearing on the challenges to the EIR. Given the preliminary nature 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.

**10. RETIREMENT PLANS**

The Company has a defined benefit plan that covers many of its employees, or the Benefit Plan. 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 \$850,000 to the plan during 2013.

The Benefit 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 March 31, 2013, the investment mix was approximately 60% equity, 33% debt, and 7% money market funds. At December 31, 2012, the investment mix was approximately 71% equity, 26% debt and 3% 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 4.0% in 2013 and 2012. The expected long-term rate of return on plan assets is 7.5% in 2013 and 2012. 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 for the Benefit Plan was as follows for the three months ended March 31, 2013 and 2012:

| (In thousands)                                 | 2013     | 2012      |
|------------------------------------------------|----------|-----------|
| Cost components:                               |          |           |
| Service cost-benefits earned during the period | \$ (71 ) | \$ (63 )  |
| Interest cost on projected benefit obligation  | (94 )    | (96 )     |
| Expected return on plan assets                 | 114      | 111       |
| Net amortization and deferral                  | (48 )    | (105 )    |
| Total net periodic pension cost                | \$ (99 ) | \$ (153 ) |

The Company has a Supplemental Executive Retirement Plan, or SERP, to restore to executives designated by the Compensation Committee of the Board of Directors the full benefits under the pension plan that would otherwise be restricted by certain limitations now imposed under the Internal Revenue Code. The SERP is currently unfunded. The expected total pension and retirement expense for SERP was as follows for the three months ended March 31, 2013 and 2012:

| (In thousands)                                 | Three Months Ended |          |
|------------------------------------------------|--------------------|----------|
|                                                | 2013               | 2012     |
| Cost components:                               |                    |          |
| Service cost-benefits earned during the period | \$ (43 )           | \$ (43 ) |

Edgar Filing: TEJON RANCH CO - Form 10-Q

|                                               |        |          |   |
|-----------------------------------------------|--------|----------|---|
| Interest cost on projected benefit obligation | (54    | ) (54    | ) |
| Net amortization and deferral                 | (72    | ) (16    | ) |
| Total net periodic pension cost               | \$(169 | ) \$(113 | ) |

15

---

Table of Contents**11. BUSINESS SEGMENTS**

The revenue components of our commercial/industrial real estate development segment for the three months ending March 31 are as follows:

|                                              |         |         |
|----------------------------------------------|---------|---------|
| (In thousands)                               | 2013    | 2012    |
| Commercial leases                            | \$1,659 | \$1,416 |
| Grazing leases                               | 374     | 293     |
| Land Sale                                    | —       | 141     |
| All other land management ancillary services | 689     | 298     |
|                                              | \$2,722 | \$2,148 |

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. Land management ancillary services include wildlife management, landscape and property maintenance, and building management services. During the first eight months of 2012, the Company's game management operations were temporarily suspended in order to complete the development of a new sales program and operating procedures. Please refer to Form 8-K filed on January 20, 2012 regarding the Company's game management and hunting operations. Game management reopened operations on September 1, 2012.

Resort/residential real estate 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 winegrapes, almonds and pistachios.

The mineral resources segment receives oil and mineral royalties from the exploration and development companies who extract or mine the natural resources from our land. The following table summarizes these activities:

|                                | Three Months Ended |                |
|--------------------------------|--------------------|----------------|
| (\$ in thousands)              | March 31, 2013     | March 31, 2012 |
| Oil and gas                    | \$2,254            | \$3,331        |
| Rock aggregate                 | 140                | 112            |
| Cement                         | 160                | 149            |
| Land lease for oil exploration | 312                | 314            |
|                                | \$2,866            | \$3,906        |

**12. INVESTMENTS 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 March 31, 2013 was \$55,331,000. The equity in the income of the unconsolidated joint ventures was \$409,000 for the three months ended March 31, 2013. The unconsolidated joint ventures have not been consolidated as of March 31, 2013, 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 is the managing partner and performs all of the day-to-day operations at the facility. At March 31, 2013, the Company had an equity investment balance of \$7,977,000 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 March 31, 2013, the Company's equity investment balance in this joint venture was \$41,418,000.

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

potential

16

---

Table of Contents

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 March 31, 2013, the Company's combined equity investment balance in these two joint ventures was \$5,936,000. 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 March 31, 2013 the Company had a 71.45% ownership position in Centennial Founders, LLC. Unaudited condensed balance sheet information of the Company's unconsolidated and consolidated joint ventures as of March 31, 2013 and December 31, 2012 and condensed statements of operations for the three months ended March 31, 2013 and March 31, 2012 are as follows:



Table of Contents

| (\$ in thousands)                                                  | UNCONSOLIDATED              |                  |                        |            |           | CONSOLIDATED   |
|--------------------------------------------------------------------|-----------------------------|------------------|------------------------|------------|-----------|----------------|
| Statement of Operations for the three months ending March 31, 2013 | Petro Travel Plaza Holdings | Five West Parcel | Tejon Mountain Village | 18-19 West | Total     | Centennial-VIE |
| Gross revenues                                                     | \$26,474                    | \$846            | \$—                    | \$14       | \$27,334  | \$ 158         |
| Net income (loss)                                                  | \$650                       | \$55             | \$(26)                 | ) \$10     | \$689     | \$ 51          |
| Partner's share of net income (loss)                               | \$260                       | \$28             | \$(13)                 | ) \$5      | \$280     | \$ 15          |
| Equity in income (losses)                                          | \$390                       | \$27             | \$(13)                 | ) \$5      | \$409     | \$ —           |
| Balance Sheet Information as of 3/31/2013                          |                             |                  |                        |            |           |                |
| Current assets                                                     | \$9,828                     | \$877            | \$453                  | \$46       | \$11,204  | \$ 247         |
| Property and equipment, net                                        | 44,116                      | 18,532           | 94,642                 | 4,428      | 161,718   | 73,028         |
| Other assets                                                       | 236                         | 722              | —                      | —          | 958       | —              |
| Long-term debt                                                     | (17,173)                    | ) (11,000)       | ) —                    | —          | (28,173)  | ) —            |
| Other liabilities                                                  | (2,660)                     | ) (213)          | ) (480)                | ) (10)     | ) (3,363) | ) (901)        |
| Net assets                                                         | \$34,347                    | \$8,918          | \$94,615               | \$4,464    | \$142,344 | \$ 72,374      |
|                                                                    | UNCONSOLIDATED              |                  |                        |            |           | CONSOLIDATED   |
| Statement of Operations for the three months ending March 31, 2012 | Petro Travel Plaza Holdings | Five West Parcel | Tejon Mountain Village | 18-19 West | Total     | Centennial-VIE |
| Gross revenues                                                     | \$27,873                    | \$199            | \$—                    | \$71       | \$28,143  | \$ 41          |
| Net income (loss)                                                  | \$(63)                      | ) \$(247)        | ) \$(33)               | ) \$66     | \$(277)   | ) \$(134)      |
| Partner's share of net income (loss)                               | \$(25)                      | ) \$(124)        | ) \$(16)               | ) \$33     | \$(132)   | ) \$(42)       |
| Equity in income (losses)                                          | \$(252)                     | ) \$(123)        | ) \$(17)               | ) \$33     | \$(359)   | ) \$ —         |
| Balance Sheet Information as of 12/31/2012                         |                             |                  |                        |            |           |                |
| Current assets                                                     | \$9,577                     | \$194            | \$218                  | \$42       | \$10,031  | \$ 491         |
| Property and equipment, net                                        | 44,196                      | 19,025           | 92,846                 | 4,412      | 160,479   | 72,356         |
| Other assets                                                       | 246                         | 683              | —                      | —          | 929       | —              |
| Long-term debt                                                     | (17,358)                    | ) (11,000)       | ) —                    | —          | (28,358)  | ) —            |
| Other liabilities                                                  | (3,350)                     | ) (39)           | ) (224)                | ) (1)      | ) (3,614) | ) (1,099)      |
| Net assets                                                         | \$33,311                    | \$8,863          | \$92,840               | \$4,453    | \$139,467 | \$ 71,748      |

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.

## 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", "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

## Table of Contents

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 to create value for our shareholders. In support of these objectives, we have been investing in land planning and entitlement activities for new industrial and residential land developments and in infrastructure improvements within our active industrial development. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north 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, which is expected to continue to grow well into the future.

We currently operate in four business segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; and farming.

Our commercial/industrial real estate development segment generates revenues from building, grazing, and land lease activities, land and building sales, and ancillary land management activities. The primary commercial/industrial development is TRCC and during the first quarter of 2013 we began land planning activities and the first steps of gathering information to prepare an environmental impact report to entitle the Grapevine Development Area. The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. Its revenues are generated through farming activities within the Centennial joint venture. Within our resort/residential segment, the two active developments are TMV and the Centennial master planned community. Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, and a lease with National Cement. The farming segment produces revenues from the sale of winegrapes, almonds, and pistachios.

For the first three months of 2013 we had net income of \$630,000 compared to net income of \$233,000 for the first three months of 2012. When comparing to the first three months of 2012, the increase is primarily the result of higher farming net operating income and higher equity in earnings from our joint ventures which were partially offset by a decrease in oil royalty revenues and a higher tax provision.

### 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 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, 2012. Please refer to that filing for a description of our critical accounting policies.

### Results of Operations

Comparison of three months ended March 31, 2013 to three months ended March 31, 2012

Total revenues for the first quarter of 2013 were \$9,760,000 compared to \$9,579,000 for the first quarter of 2012. This increase of \$181,000, or 2%, in total revenues is primarily attributable to improved farming revenue and commercial/industrial revenue, partially offset by a decrease in mineral resources revenues.

Commercial/industrial revenue improved \$574,000, or 27%, when compared to the first quarter of 2012. The improvement is primarily due to a \$442,000 increase in hunting and grazing lease revenues, as our hunting program was closed during the first quarter of 2012. Additionally, percentage rent from our Calpine power plant increased \$227,000. These increases were

## Table of Contents

partially offset by a \$141,000 decrease in land sale revenue recognized in the first quarter of 2012 related to the deferred gain from the land sale to Caterpillar that occurred in December of 2011.

Commercial/industrial expenses increased by \$88,000, or 3%, compared to the first quarter of 2012, primarily due to increased allocations from corporate general and administrative, partially offset by an increase in costs capitalized to construction in progress projects and a decrease in legal and professional services related to a Community Facilities District bond refinancing that occurred in 2012.

Resort residential revenues increased \$196,000, or 478%, compared to the first quarter of 2012, primarily due to increases in ancillary hay sales at the Centennial project and an increase in management fees from the TMV project. Resort residential expenses decreased \$709,000, or 70%, during the first quarter of 2013 compared to the first quarter of 2012, primarily due to a \$642,000 decrease in stock compensation mainly due to the reversal of previously recorded expense related to unvested awards of an executive who recently left the Company.

Mineral resources revenues decreased \$1,040,000, or 27%, primarily due to approximately \$545,000 in revenues recorded in the first quarter of 2012 from new wells that came on-line. Additionally, production decreased 20% and price per barrel decreased 4% when compared to the first quarter of 2012.

Farming revenues increased \$451,000, or 13% during the first quarter of 2013 compared to the first quarter of 2012, primarily due to \$1,160,000 increase in almond revenues, which includes a \$334,000 increase in price adjustments for prior year crops, an 85% increase in price during 2013 from \$1.59 to \$2.94 per pound, partially offset by a 27% decrease in pounds sold. The increase in almond revenues was partially offset by a \$702,000 decrease in pistachio revenues mainly due to a \$419,000 bonus earned in the first quarter of 2012 and to fewer pistachios being sold.

Corporate expenses increased \$697,000, or 22%, during the first quarter of 2013 compared to the first quarter of 2012, primarily due to a \$321,000 increase in professional services mainly for general business consulting fees and IT consulting. Charitable donations increased \$274,000 mainly due to a contribution to the Houchin Blood Bank in Bakersfield. Stock compensation increased \$148,000. These increases were partially offset by a \$228,000 increase in allocations to other divisions.

Our share of earnings from our joint ventures increased \$768,000 in the first quarter of 2013 compared to the first quarter of 2012, primarily due to \$642,000 higher income from our TA/Petro joint venture mainly due to a higher volume of gasoline sales and improved margins and \$151,000 higher income from our Rockefeller joint venture mainly due to the increased occupancy of the Five West Parcel building started in April 2012.

Net income attributable to common stockholders during the quarter ended March 31, 2013 increased \$340,000 to \$615,000. The increase is tied to higher revenues and an increase in equity in earnings of unconsolidated joint ventures, which are partially offset by an increase in income tax expense.

Future activities within the commercial/industrial segment continue to be focused on the marketing and development of commercial/industrial and retail product offerings 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 are currently working with a number of tenants to get their commitment for our proposed Outlet Center and we hope to complete these activities during the second quarter of 2013. We completed a new phase of master infrastructure development within TRCC-East during the first quarter of 2013. This new infrastructure will begin to open up retail and industrial sites in the southern section of the TRCC-East development.

We believe 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 more difficult to build in Los Angeles due to the number of acres necessary for a building of that size. 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 Port of Los Angeles in comparison to the traditional warehouse/distribution centers east of Los Angeles. Vacancy rates have declined in the Inland Empire region of Los Angeles, a large industrial area within Los Angeles that we compete with for customers. Lease rates in the Inland Empire area have also been improving, which could be helpful to us in our lease pricing in the future.

During the remainder of 2013, 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.

Table of Contents

Most of the expenses incurred within our resort/residential segment during 2013 will be focused on the ongoing implementation of the Ranch Wide Management Plan section 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 completing the permitting process for TMV.

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. Thus far during the 2013 almond and pistachio prices remain strong and almond prices have increased approximately 85%. With demand remaining strong for almonds and pistachios, estimated pricing for the 2013 crop harvest is expected to be comparable to and possibly better than 2012. Pricing for 2013 will ultimately be based on the size of the new crop and it is too early in the crop year to predict the possible size of the 2013 crop for almonds and pistachios.

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, 2012, or Annual Report and in Part I, Item 1A of our Annual Report.

We continue to be involved in various legal proceedings related to leased acreage. For a further discussion, please refer to “Note 9. Commitments and Contingencies” in the Notes to Unaudited Consolidated Financial Statements in this report.

#### Income Taxes

For the three months ended March 31, 2013, the Company incurred a net income tax expense of \$147,000 compared to a net income tax benefit of \$228,000 for the three months ended March 31, 2012. These represent effective income tax rates of approximately 19% and 40% for the three months ended March 31, 2013 and, 2012, respectively. The effective tax rate for the first quarter of 2013 is calculated based on the first quarter net income for 2013 adjusted for estimated permanent tax differences such as depletion allowances. During 2013, depletion allowances have decreased due to lower oil and gas revenues compared to 2012. As of March 31, 2013, our balance sheet reflects an income tax receivable of \$586,000.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. During the first three months ended March 31, 2013, the Company made income tax payments of \$100,000 for the 2012 tax year.

#### Cash Flow and Liquidity

Our cash, cash equivalents and marketable securities totaled approximately \$70,188,000 at March 31, 2013, a decrease of \$2,080,000, or 3%, from the corresponding amount at the end of 2012. Cash, cash equivalents and marketable securities decreased during the first three months of 2013 due to property and equipment expenditures, infrastructure development costs, investment in joint ventures, and payroll taxes paid on vested stock grants.

The following table shows our cash flow activities for the three months ended March 31:

| (In thousands)       | 2013      | 2012       |
|----------------------|-----------|------------|
| Operating activities | \$3,567   | \$(3,049)  |
| Investing activities | \$(5,860) | \$(12,368) |
| Financing activities | \$(643)   | \$(1,010)  |

During the first three months of 2013, our operations provided \$3,567,000 of cash primarily from improved operating results mainly from crop revenues, leasing and hunting activities and the collection of farming accounts receivable.

During the first three months of 2012, our operations used \$3,049,000 of cash primarily as result of tax payments totaling approximately \$3,401,000 related to the 2011 tax year, partially offset by improved operating results primarily from oil royalties and crop revenues.

During the first three months of 2013, investing activities used \$5,860,000 of cash primarily as a result of the \$3,718,000 in capital expenditures, described below, \$900,000 in contributions in our TMV joint venture, and \$1,131,000 net investment in marketable securities. Included in the \$3,718,000 of capital expenditures during the first three months of 2013 was \$741,000



## Table of Contents

related to Centennial Founders LLC. The remaining capital expenditures consisted of \$2,954,000 investments in TRCC infrastructure and ordinary capital expenditures such as farm equipment replacements and crop development. During the first three months of 2012, investing activities used \$12,368,000 of cash primarily as a result of the \$4,982,000 net investment in marketable securities, \$3,654,000 in capital expenditures, described below, and \$3,804,000 in contributions in our unconsolidated joint ventures. Included in the \$3,654,000 of capital expenditures during the first three months of 2012 was \$907,000 related to Centennial Founders LLC. The remaining capital expenditures consisted of investments in TRCC infrastructure and ordinary capital expenditures such as farm equipment replacements.

We estimate that our investment requirements over the remainder of 2013 could total approximately \$30,000,000. These amounts include contributions to our joint ventures, primarily TMV and Centennial, investments in infrastructure within TRCC-East, cost related to the development of a new grape vineyards, investment related to the first phase of land planning and entitlement for the Grapevine Development Area, and ordinary recurring capital investments within our operating segments. We will also continue to evaluate additional water purchases and new water infrastructure throughout the remainder of 2013. Contributions to joint ventures will be related to the entitlement process for Centennial Founders LLC and permitting, litigation costs, and pre-development costs for TMV and possible investment into a new Outlet Center joint venture.

During the first three months of 2013, financing activities used \$643,000 in cash, primarily as a result of payroll taxes on issuance of restricted stock grants. During the first three months of 2012, financing activities used \$1,010,000 in cash, as proceeds from the exercise of stock options were more than offset by payroll taxes on issuance of restricted stock grants. At March 31, 2013 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 March 31, 2013, total capitalization at book value was \$309,233,000 consisting of \$244,000 of debt and \$308,989,000 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, 2012.

We have a long-term revolving line of credit of \$30,000,000 that, as of March 31, 2013, had no outstanding balance. At the Company's option, the interest rate on this line of credit can float 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 March 31, 2013 our tangible net worth was \$309,233,000 and liquid assets were \$70,188,000. This line of credit is secured by a portion of our farm acreage.

The outstanding long-term debt, less current portion of \$42,000, was \$202,000 at March 31, 2013. 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 and undeveloped parcels, potential sales of assets, additional use of debt, proceeds from the reimbursement of public infrastructure costs through Community Facilities District bond debt (described below under "Off-Balance Sheet Arrangements"), and the issuance of common stock. During October 2012, we filed a shelf registration statement on Form S-3. Under the shelf registration statement, once declared effective, we may offer and sell in the future one or more offerings, common stock, preferred stock, debt securities, warrants or any combination of the foregoing. The shelf registration will allow for efficient and timely access to capital markets and when combined with our other potential funding sources just noted, provide us with a variety of capital funding options that can then be used and appropriately matched to the funding need. As noted above, at March 31, 2013, we had \$70,188,000 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. 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 will use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. We will use a combination of the above funding sources to properly match funding requirements with the assets or development project being funded. There is no assurance that we can obtain financing or that we can obtain financing at favorable terms. We believe we have adequate capital resources to fund our cash needs and our capital investment requirements as described earlier in the cash flow and liquidity discussions.

Table of Contents

## Contractual Cash Obligations

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

| (In thousands)                       | Payments Due by Period |                  |           |           |               |
|--------------------------------------|------------------------|------------------|-----------|-----------|---------------|
|                                      | Total                  | One Year or Less | Years 2-3 | Years 4-5 | After 5 Years |
| <b>CONTRACTUAL OBLIGATIONS:</b>      |                        |                  |           |           |               |
| Long-term debt                       | \$244                  | \$42             | \$90      | \$103     | \$9           |
| Interest on fixed rate debt          | 45                     | 15               | 22        | 8         | —             |
| Line of Credit                       | 8                      | 8                | —         | —         | —             |
| Letter of Credit Fee                 | 83                     | —                | 83        | —         | —             |
| Tejon Ranch Conservancy              | 4,400                  | 480              | 1,280     | 880       | 1,760         |
| Cash contract commitments            | 4,491                  | 4,491            | —         | —         | —             |
| Defined Benefit Plan                 | 4,050                  | 850              | 1,600     | 1,600     | —             |
| SERP                                 | 3,910                  | 419              | 824       | 800       | 1,867         |
| Estimated minimum payments to WRMWSD | 57,500                 | 2,500            | 5,000     | 5,000     | 45,000        |
| Total contractual obligations        | \$74,731               | \$8,805          | \$8,899   | \$8,391   | \$48,636      |

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. A total of 5,488 acres of the Company’s land is subject to water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, requiring minimum future annual payments through the life of the contract which is 2035, for as long as the Company owns such land. The estimated future minimum annual payments are estimated to be \$2,500,000 before any potential credits are received, whether or not water is available or is used.

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 average approximately \$25,000 per month.

Our financial obligations to the Tejon Ranch Conservancy, or Conservancy, are prescribed in the Conservation and Land Use Agreement executed June 2008, or Conservation Agreement. Our advances to the Conservancy are dependent on the occurrence of certain events and their timing, 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 represents eighty percent of the total required obligations under the Conservation Agreement for the next three years and fifty-five percent thereafter. These percentages take into consideration current and anticipated cash funding levels of the Company to the TMV LLC and the Centennial Founders, LLC and the anticipated funding levels of our joint venture partners.

As discussed in “Note 10. Retirement Plans” 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 \$850,000 to the pension plan in 2013.

Table of Contents

## Off-Balance Sheet Arrangements

The following table shows contingent obligations we have with respect to certain bonds issued by the Community Facilities District, or CFD:

| (In thousands)                       | Amount of Commitment Expiration Per Period |                  |           |           |               |
|--------------------------------------|--------------------------------------------|------------------|-----------|-----------|---------------|
|                                      | Total                                      | One Year or Less | Years 1-3 | Years 4-5 | After 5 Years |
| <b>OTHER COMMERCIAL COMMITMENTS:</b> |                                            |                  |           |           |               |
| Standby letter of credit             | \$5,426                                    |                  | \$5,426   | —         | —             |
| Total other commercial commitments   | \$5,426                                    | —                | \$5,426   | —         | —             |

Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company's Kern County developments. TRPFFA created two CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company's land to secure payment of special taxes related to \$30,000,000 of bond debt sold by TRPFFA for 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 \$39,750,000 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 \$80,250,000 of additional bond debt authorized by TRPFFA.

In connection with the sale of bonds there is a standby letter of credit for \$5,426,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. As development occurs within TRCC-East there is a mechanism in the bond documents to reduce the amount of the letter of credit. The Company believes that the letter of credit will never be drawn upon. This letter of credit is for a two-year period of time and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately \$83,000.

**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 3. 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 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 \$244,000 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 March 31, 2013, we had no outstanding interest rate swap agreements. However during 2012, TA/Petro, an unconsolidated joint venture of the Company, had an interest rate swap agreement with respect to its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matured in August 2012. 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.

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

Table of Contents

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 March 31, 2013

(In thousands except percentage data)

|                                | 2013     | 2014     | 2015     | 2016    | 2017    | Thereafter | Total    | Fair Value at<br>03/31/2013 |
|--------------------------------|----------|----------|----------|---------|---------|------------|----------|-----------------------------|
| Assets:                        |          |          |          |         |         |            |          |                             |
| Marketable securities          | \$14,858 | \$19,190 | \$20,363 | \$9,164 | \$1,789 | \$—        | \$65,364 | \$ 65,905                   |
| Weighted average interest rate | 1.83     | % 1.49   | % 1.57   | % 1.10  | % 1.24  | % —        | % 1.53   | %                           |
| Liabilities                    |          |          |          |         |         |            |          |                             |
| Long-term debt                 | \$31     | \$43     | \$46     | \$49    | \$52    | \$23       | \$244    |                             |
| Weighted average interest rate | 6.75     | % 6.75   | % 6.75   | % 6.75  | % 6.75  | % 6.75     | % 6.75   | %                           |

## Interest Rate Sensitivity Financial Market Risks

## Principal Amount by Expected Maturity

At December 31, 2012

(In thousands)

|                                | 2013     | 2014     | 2015     | 2016    | 2017   | Thereafter | Total    | Fair Value<br>12/31/2012 |
|--------------------------------|----------|----------|----------|---------|--------|------------|----------|--------------------------|
| Assets:                        |          |          |          |         |        |            |          |                          |
| Marketable securities          | \$20,903 | \$20,264 | \$18,971 | \$4,327 | \$—    | \$—        | \$64,465 | \$ 65,049                |
| Weighted average interest rate | 2.05     | % 1.44   | % 1.49   | % 1.47  | % —    | % —        | % 1.66   | %                        |
| Liabilities:                   |          |          |          |         |        |            |          |                          |
| Long-term debt                 | \$41     | \$43     | \$46     | \$49    | \$52   | \$22       | \$253    | \$ 253                   |
| Weighted average interest rate | 6.75     | % 6.75   | % 6.75   | % 6.75  | % 6.75 | % 6.75     | % 6.75   | %                        |

Our risk with regard to fluctuations in interest rates has increased slightly related to marketable securities since these balances have increased compared to December 31, 2012.

## Commodity Price Exposure

As of March 31, 2013, 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 2012 and 2011 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 \$5,486,000 of accounts receivable outstanding at March 31, 2013, \$4,249,000 or 77% is at risk to changing prices. Of the amount at risk to changing prices, \$2,323,000 is attributable to pistachios and \$1,926,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2012 was \$7,867,000, or 82% of the total accounts receivable of

\$8,768,000. Of the December 31, 2012 amount at risk to changing prices, \$5,025,000 is related to pistachios and \$2,842,000 is related to almonds.

The price estimated for recording accounts receivable for pistachios recorded at March 31, 2013 was \$2.24 per pound, as compared to \$2.20 per pound at December 31, 2012. For each \$.01 change in the price of pistachios, our receivable for pistachios increases or decreases by \$11,000. Although the final price of pistachios (and therefore the extent of the risk) is not

## Table of Contents

presently known, our estimate is in the range of prices received for the last three years, which have ranged from \$1.91 to \$2.75. With respect to almonds, the price estimated for recording the receivable was \$2.94 per pound. For each \$0.01 change in the price of almonds, our receivable for almonds increases or decreases by \$8,000. The range of final prices over the last three years for almonds has ranged from \$1.71 to \$3.06 per pound.

### 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 9. 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.

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

Not applicable.

#### Item 3. Defaults Upon Senior Securities

Not applicable.

#### Item 4. Mine Safety Disclosures

Not applicable.

#### Item 5. Other Information

On January 31, 2013, the Company entered into an Executive Employment Agreement, or Agreement, with Allen E. Lyda, Chief Financial Officer. The Agreement shall continue for a period of one year, and shall automatically renew for successive one year periods unless either the Company or Mr. Lyda provides written notice to not extend. The Agreement appoints Mr. Lyda to serve as Executive Vice President, Chief Financial Officer and Assistant Corporate Secretary. Pursuant to the Agreement, Mr. Lyda is paid an annual salary of \$275,000 and is eligible to participate in the Company's Executive Compensation Plan. In the event Mr. Lyda's employment is terminated by reason of death, disability or by the Company for cause, Mr. Lyda (or his executor, beneficiary or estate) will be paid all accrued salary and other accrued benefits. In addition to these amounts, if Mr. Lyda's employment is terminated by the Company without cause or by Mr. Lyda for good reason, he will also receive severance pay that ranges from his salary and average annual bonus and one year of medical benefits to two-times his salary and average bonus and medical benefits for two years, plus full vesting of stock earned pursuant to the Company's Executive Stock Grant Plan. Depending on the timing of Mr. Lyda's termination, if the applicable performance criteria are met within twelve months following his termination, Mr. Lyda's milestone performance share grants and rolling three-year performance grants will also



vest. The Agreement includes customary cooperation, non-solicitation and confidentiality

Table of Contents

provisions applicable upon termination of employment. For additional information, please refer to Exhibit 10.26 for the Agreement.

Table of Contents

Item 6. Exhibits:

|           |                                                                                                                                                                                    |       |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 3.1       | Restated Certificate of Incorporation                                                                                                                                              | FN 1  |
| 3.2       | By-Laws                                                                                                                                                                            | FN 1  |
| 4.1       | Form of First Additional Investment Right                                                                                                                                          | FN 2  |
| 4.2       | Form of Second Additional Investment Right                                                                                                                                         | FN 3  |
| 4.3       | Registration and Reimbursement Agreement                                                                                                                                           | FN 10 |
| 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 4  |
| 10.5      | Petro Travel Plaza Operating Agreement                                                                                                                                             | FN 5  |
| 10.6      | *Amended and Restated Stock Option Agreement Pursuant to the 1992 Employee Stock Incentive Plan                                                                                    | FN 5  |
| 10.7      | *Severance Agreement                                                                                                                                                               | FN 5  |
| 10.8      | *Director Compensation Plan                                                                                                                                                        | FN 5  |
| 10.9      | *Amended and Restated Non-Employee Director Stock Incentive Plan                                                                                                                   | FN 13 |
| 10.9 (1)  | *Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan                                                                                                 | FN 5  |
| 10.10     | *Amended and Restated 1998 Stock Incentive Plan                                                                                                                                    | FN 14 |
| 10.10 (1) | *Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan                                                                                                                  | FN 5  |
| 10.11     | *Employment Contract – Robert A. Stine                                                                                                                                             | FN 5  |
| 10.12     | Lease Agreement with Calpine Corp.                                                                                                                                                 | FN 6  |
| 10.15     | Form of Securities Purchase Agreement                                                                                                                                              | FN 7  |
| 10.16     | Form of Registration Rights Agreement                                                                                                                                              | FN 8  |
| 10.17     | *2004 Stock Incentive Program                                                                                                                                                      | FN 9  |
| 10.18     | *Form of Restricted Stock Unit Agreement                                                                                                                                           | FN 9  |
| 10.19     | *Form of Restricted Stock Agreement for Directors                                                                                                                                  | FN 9  |
| 10.23     | Tejon Mountain Village LLC Operating Agreement                                                                                                                                     | FN 11 |



Table of Contents

|         |                                                                                                                        |       |
|---------|------------------------------------------------------------------------------------------------------------------------|-------|
| 10.24   | Tejon Ranch Conservation and Land Use Agreement                                                                        | FN 12 |
| 10.25   | Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC                                    | FN 15 |
| 10.26   | *Executive Employment Agreement - Allen E. Lyda                                                                        | FN 16 |
| 31.1    | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                     | 95    |
| 31.2    | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                     | 96    |
| 32      | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 97    |
| 101.INS | XBRL Instance Document.                                                                                                |       |
| 101.SCH | XBRL Taxonomy Extension Schema Document.                                                                               |       |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.                                                                 |       |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.                                                                  |       |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.                                                                       |       |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.                                                                |       |

- \* 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 4.3 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 I-7183) as Exhibit 4.4 to our Current Report on Form 8-K filed on May 7, 2004, 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 year ended December 31, 1994, is incorporated herein by reference.
- FN 5 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 6 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 7 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 8 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 9 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.

29

---

Table of Contents

- FN 10 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 December 20, 2005, is incorporated herein by reference.
- FN 11 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 12 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 13 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.9 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference.
- FN 14 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.10 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference
- FN 15 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.
- FN 16 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 March 31, 2013, 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)

May 8, 2013  
DATE

BY /s/ Allen E. Lyda  
Allen E. Lyda  
Executive Vice President, Chief Financial  
Officer