TEJON RANCH CO
Form 10-K
February 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

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	**77-0196136**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

P.O. Box 1000, Lebec, California 93243

(Address of principal executive office)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	**New York Stock Exchange**

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

None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of registrant s Common Stock, $.50 par value per share, held by persons other than those who may be deemed to be affiliates of registrant on June 30, 2007 was $716,745,255 based on the last reported sale price on the New York Stock Exchange as of the close of business on that date.

The number of the Company s outstanding shares of Common Stock on February 26, 2008 was 16,913,680 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 2008 relating to the directors and executive officers of the Company are incorporated by reference into Part III.

Total Pages - 99
Exhibit Index - 48

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PART I

ITEM 1. BUSINESS

Throughout Item 1 Business, Item 1A Risk Factors, Item 2 Properties, Item 3 Legal Proceedings, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A Quantitative and Qualitative Disclosures About Market Risk, we have made forward-looking statements, including statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields, prices and water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness and other future events and conditions. In some cases these statements are identifiable through the use of words such as anticipate , believe , estimate , expect , intend , plan , project , target , can , could , may , will , should , would , and similar expressions. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, weather, market and economic forces, availability of financing for land development activities, and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above and in Part 1, Item 1A, Risk Factors of this report.

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

Over the past few years, we implemented a strategy that has led to our transformation from an agricultural operations based company to a real estate development company. In implementing our strategy, we entered into joint venture agreements for the development of portions of our land, began land planning and land entitlement projects, and undertook a program of divesting non-strategic assets.

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The following table shows the revenues from continuing operations, segment profits and identifiable assets of each of our continuing industry segments for the last three years:

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

(Amounts in thousands of dollars)

	2007	2006	2005
Revenues			
Real estate commercial/industrial	$ 16,940	$ 16,010	$ 13,063
Farming	15,404	12,412	13,297
Segment revenues	32,344	28,422	26,360
Investment income	3,509	2,975	2,565
Other income	55	119	384
Total revenues	$ 35,908	$ 31,516	$ 29,309
Segment Profits (Losses) and Net Income (Loss)			
Real estate commercial/industrial	$ 4,513	$ 4,779	$ 3,792
Real estate resort/residential	(3,512)	(3,408)	(2,496)
Farming	4,972	3,088	5,783
Segment profits (1)	5,973	4,459	7,079
Investment income	3,509	2,975	2,565
Other income	55	119	384
Interest expense	(70)	(70)	(70)
Corporate expenses	(8,547)	(13,173)	(7,881)
Operating income (loss) from operations before equity in earnings of unconsolidated joint ventures	920	(5,690)	2,077
Equity in earnings of unconsolidated joint ventures	10,580	1,247	423
Operating income (loss) from operations before income taxes	11,500	(4,443)	2,500
Net income (loss)	$ 7,333	$ (2,729)	$ 1,546
Identifiable Assets by Segment (2)			
Real estate commercial/industrial	$ 33,676	$ 26,277	$ 25,620
Real estate resort/residential	23,766	21,130	31,010
Farming	23,458	18,815	18,152
Corporate	94,603	92,895	73,009
Total assets	$ 175,503	$ 159,117	$ 147,791

(1) Segment profits are revenues from operations less operating expenses, excluding investment income and expense, corporate expenses, equity in earnings of unconsolidated joint ventures, and income taxes.

(2) Identifiable Assets by Segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist of cash and cash equivalents, refundable and deferred income taxes and land, buildings and improvements.

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Real Estate Operations

Our real estate operations consist of four principal activities: land planning and entitlement, real estate development, commercial sales and leasing, and income portfolio management. Our 270,000-acre land holding offers significant real estate development opportunities. Our land is characterized by diverse topography and scenic vistas and is conveniently served by three inter-regional highways. Interstate 5, one of the nation s most heavily traveled freeways, brings approximately 150,000 vehicles a day through our land, which includes 16 miles of Interstate 5 frontage on each side of the freeway and the commercial land surrounding four interchanges. The strategic plan for real estate focuses on development opportunities along the Interstate 5 corridor, which includes the Tejon Industrial Complex East and West, or TIC-East and TIC-West, the Centennial master planned community on our land in Los Angeles County, and our resort and residential project called Tejon Mountain Village, or TMV.

Our real estate activities within our commercial/industrial segment include: entitling, planning, and permitting of land for development; construction of infrastructure; the construction of pre-leased buildings and unleased buildings to be included in our income portfolio; and the sale of land to third parties for their own development. Our real estate operations within our resort/residential segment at this time include only land entitling and land planning activities.

Commercial / Industrial

Construction:

During 2007 we completed the installation of the infrastructure at TIC-West required under the terms of our 2006 land sale contracts to In-N-Out and Petro Travel Plaza LLC, or Petro. In 2007, our Five West Parcel LLC joint venture began construction of a speculative 606,000 square foot industrial building that was completed in February 2008.

Entitlements:

Our application to the U.S. Foreign -Trade Zone Board for a General Purpose FTZ designation for 177 acres within the 1,450 acre TIC development, which we filed in November 2006, is in the final review process with the U.S. Foreign-Trade Zone Board, and we anticipate approval in early 2008. In April 2007 a lower court ruling was affirmed by the 5th District Court of Appeals in Fresno, California allowing expansion for TIC-East. Planning for this 1,109 acre commercial/ industrial development adjacent to Interstate 5 across the freeway from TIC-West is under way with construction beginning in 2008.

Developers and end users continue to express interest in developing industrial, warehouse, and distribution facilities within our commercial/industrial developments. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for an overview of operations and trends within the industry.

Leasing:

Within our commercial/industrial segment, we lease land to various types of tenants. We currently lease land to a full-service truck stop facility, a truck wash, four auto service stations with convenience stores, four fast-food operations, two full-service restaurants, two motels, an antique shop, and a United States Postal Service facility. We are also involved in three joint ventures, Petro, Five West Parcel LLC and Tejon Dermody LLC. Petro owns and operates a 51-acre travel and truck stop facility, and also operates two separate gas stations with convenience stores within

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TIC-West. Five West Parcel LLC is a joint venture with Rockefeller Development Group to construct and lease or sell a 606,000 square foot industrial building that was completed during February 2008. Tejon Dermody LLC sold its primary asset during 2007 and is in the process of winding up its operations.

In addition, the Company leases several microwave repeater locations, radio and cellular transmitter sites, and fiber optic cable routes; 32 acres of land to Calpine Generating Company, or Calpine, for an electric power plant; and one office building in Rancho Santa Fe, California (which the Company also owns). Please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information.

We lease certain portions of our land to oil companies for the exploration and production of oil and gas, but do not ourselves engage in any such exploratory or extractive activities.

As of December 31, 2007, approximately 13,600 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 433,000 barrels of oil and 153,000 MCF of dry gas during 2007. Our share of production, based upon prevailing average royalty rates during the last three years, has been 151, 118, and 128 barrels of oil per day for 2007, 2006, and 2005, respectively. Approximately 240 producing oil wells were located on the leased land as of December 31, 2007.

Estimates of oil and gas reserves on our properties are unknown to us. We do not make such estimates, and our lessees do not make information concerning reserves available to us.

We have approximately 2,000 acres under lease to National Cement Company of California, Inc., or National, for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. National owns and operates a cement manufacturing plant on our property with a capacity of approximately 1,000,000 tons of cement per year. The amount of payment that we receive under the lease is based upon shipments from the cement plant. The term of this lease expires in 2026, but National has options to extend the term for successive periods of 20 and 19 years. Proceedings under environmental laws relating to the cement plant are in process. See Item 3, Legal Proceedings, for a further discussion.

Resort / Residential:

Our resort/residential segment activities include land planning and entitlement activities. We have two major resort/residential projects within this segment that are progressing through the entitlement process. The entitlement process precedes the regulatory approvals necessary for land development and routinely takes several years to complete.

Centennial development:

The Centennial development is a large master-planned community development encompassing 11,700 acres of our land within Los Angeles County. Upon completion of Centennial, it is estimated that the community will include approximately 23,000 homes. The community will also incorporate business districts, schools, retail and entertainment centers, medical facilities and other commercial office and light industrial businesses that, when complete, would create a substantial number of jobs. Centennial is being developed by Centennial Founders, LLC, an unconsolidated joint venture in which we have a 50% ownership interest. Our partners in this joint venture are

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Pardee Homes, Lewis Investment Company and Standard Pacific Corp. During 2007 our partners met the $33,000,000 sole entitlement funding commitment required in the joint venture agreement, and we are now contributing 50% of the continuing capital needs of this joint venture.

Since the initial submittal of our administrative-level environmental impact report, or administrative EIR, to Los Angeles County in 2004, we have continued to receive feedback from the Los Angeles Planning Department and have submitted several revisions of our administrative EIR as we work towards the public filing of our EIR and final approval. We cannot estimate when this approval will be granted, but the process is being actively pursued. In addition to the EIR, we have submitted a variety of other reports required as part of the entitlement process including our specific plan, tentative tract maps, geological reports, traffic reports, and water supply assessment reports. Centennial is envisioned to be an ecologically friendly and commercially viable development. Our plan is for a sustainable program that provides for the needs of the community while protecting the environment and will be achieved through our continuing focus on responsible use of limited resources and progressive construction design. We recognize the need to balance expensive Green Program certifications with the practicality of investing those same funds in environmentally sound building elements.

Tejon Mountain Village development:

In addition to the Centennial community project, we are currently engaged in the development of TMV. TMV is envisioned as an exclusive, very low-density, resort-based community that will provide owners and guests with a wide variety of recreational opportunities, lodging and spa facilities, world-class golf facilities, a range of housing options, and other exclusive services and amenities that are designed to distinguish TMV as the resort of choice for the Southern California market. TMV is being developed by TMV LLC, an unconsolidated joint venture in which we have a 50% ownership interest. Our partner in this joint venture is DMB TMV LLC, a wholly-owned subsidiary of DMB Associates Inc., or DMB, which is a leading resort/recreational planned community developer. Under the joint venture agreement, the parties have agreed to secure all entitlements and all necessary regulatory approvals, to master plan, develop and sell parcels and homes to end users, and to develop and own, sell or joint venture commercial properties, hotels, and golf course sites in TMV. In 2006, the Company contributed rights to all studies, research, and other work that we had performed related to TMV to the joint venture and committed to contribute 28,000 acres comprising the TMV site at such time as entitlements are successfully obtained and litigated, while DMB committed up to a total of $113,500,000 to fund entitlement efforts and development. DMB s contribution requirement calls for sole funding of entitlement efforts up to $30,000,000, after which remaining entitlement funding is shared equally between the partners. We anticipate this $30,000,000 level of investment will be reached during 2008. At the commencement of the development phase of the project, DMB will fund the first $70,000,000 of development cost, after which additional funding is shared equally between the partners.

Numerous reports and studies were completed in 2007 in preparation for the potential submission in 2008 of our EIR to the Kern County Planning Department. In addition to the EIR itself, technical reports addressing air quality, geology, hydrology, noise, transportation and traffic, recreation and education, and paleontology have been completed or are in the process of being completed and reviewed. Additionally, other requisite work is being performed as mandated by the joint venture agreement.

Because our residential housing projects, Centennial and TMV, are in the entitlement phase, they have not been impacted by the current downturn in the housing market or the credit crisis. However, we cannot project the condition of the housing market or the stability of the mortgage industry at the time these projects move into their development and marketing phases.

The sale and leasing of commercial /industrial real estate is very competitive, with competition coming from numerous and varied sources around California. The degree of competition is impacted by such factors as the supply of comparable real estate available for sale or lease and the level of demand for that real estate. Currently, our greatest competition for commercial/industrial development comes from land in the Inland Empire region of Southern California and areas north of us in the San Joaquin Valley of California. The greatest competition for the Centennial project will come from developments in the Santa Clarita Valley, Lancaster, Palmdale, and Bakersfield. TMV will compete generally for discretionary dollars that consumers will allocate to recreation and second homes, so its competition will range over a greater area and range of projects.

Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes 1,748; almonds 1,641; pistachios 985 and walnuts 295. We grow wheat on approximately 600 acres and alfalfa and forage mix on 750 acres in the Antelope Valley and we periodically lease 750 acres of land that is used for the growing of vegetables.

We sell our farm commodities to several commercial buyers. As a producer of these commodities, we are in direct competition with other producers within the United States and throughout the world. Prices we receive for our commodities are determined by total industry production and demand levels. We attempt to improve price margins by producing high quality crops through proven cultural practices and by obtaining better prices through marketing arrangements with handlers.

In 2007, we sold 77% of our grape crop to one winery and the remainder to two other customers. These sales are under long term contracts ranging from three to ten years. Our almonds were sold to various commercial buyers, with one of the buyers accounting for 30% of our almond revenues and two others accounting for approximately 20% each. The majority of our pistachios were sold to two customers, with the larger customer purchasing approximately 58% of the crop. We do not believe that we would be adversely affected by the loss of these large buyers because of the markets for these commodities, the large number of buyers that would be available to us, and the fact that the prices for these commodities do not vary based on the identity of the buyer or the size of the contract. Our 2007 walnut crop was our final harvest of walnuts, and we are removing this orchard to plant winegrapes for which we have a long-term contract.

Nut and grape crop markets are particularly sensitive to the size of each year s world crop and the demand for those crops. Large crops in California and abroad can rapidly depress prices.

Our water entitlement for 2007 available from the State Water Project was adequate for our farming needs. The State Department of Water Resources has announced its 2008 water supply at 35% of full entitlement. This allocation alone is insufficient for our farming needs, however, combined with other water supplies that local water districts may be able to make

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available to its farmers, groundwater sources, water transfers from Tejon-Castac Water District, and water banking arrangements, we expect to have a level of water supply that will meet all of our farming requirements. Water from these sources may be more expensive because of pumping costs and transfer costs, but is expected to make up for the water shortfalls that we may experience during the coming year.

See discussion of water contract entitlement and long-term outlook for water supply under Item 2, Properties.

Customers

In 2007, Calpine accounted for 11% of our revenues from continuing operations.

In 2006, Calpine accounted for 12% of our revenues from continuing operations.

In 2005, Pistachio Growers Incorporated accounted for approximately 19% of our revenue from continuing operations and Calpine accounted for approximately 11% of our revenue from continuing operations.

Organization

Tejon Ranch Co. is a Delaware corporation incorporated in 1987 to succeed the business operated as a California corporation since 1936.

Employees

At December 31, 2007, we had 132 full-time employees. None of our employees is covered by a collective bargaining agreement.

Reports

We make available free of charge through an Internet website, www.tejonranch.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or to be furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with or furnish it to the Securities and Exchange Commission. We also make available on our website our corporate governance guidelines, charters of our key Board of Directors Committees (audit, compensation, nominating and corporate governance, and real estate), and our Code of Business Conduct and Ethics for Directors, Officers, and Employees. These items are also available in printed copy upon request.

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Executive Officers of Registrant

The following table shows each of our executive officers and the offices held as of February 23, 2008, the period the offices have been held, and the age of the executive officer. All of such officers serve at the pleasure of the board of directors.

Name	Office	Held Since	Age
Robert A. Stine	President and Chief Executive Officer, Director	1996	61
Dennis J. Atkinson	Vice President, Agriculture	1998	57
Teri Bjorn	Vice President, General Counsel and Secretary	2007	54
Joseph E. Drew	Senior Vice President, Real Estate	2001	65
Allen E. Lyda	Vice President, Chief Financial Officer, Treasurer and Assistant Secretary	1990	50

A description of present and prior positions with us, and business experience for the past five years, is given below.

Mr. Stine has been employed by us since May 1996, serving as President and Chief Executive Officer and as a Director.

Mr. Atkinson has been employed by us since July 1998, serving as Vice President, Agriculture.

Ms. Bjorn has been employed by us since January 2007, serving as Vice President, General Counsel and Secretary. Ms. Bjorn has practiced in private law firms for the past 27 years, specializing in real estate and land use. For the past 18 years she was with the Bakersfield, California office of Clifford & Brown, and most recently worked at Kronick Moskovitz Tienemann & Gerard, where she remains Of Counsel.

Mr. Drew has been employed by us since March 2001, serving until December 2003 as Vice President, Commercial and Industrial Development, when he was promoted to his current position.

Mr. Lyda has been employed by us since 1990, serving as Vice President, Finance and Treasurer. He was elected Assistant Secretary in 1995 and Chief Financial Officer in 1999.

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ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing the Company. If any of the following risks actually occurs, our business, financial condition, results of operations or future prospects could be materially adversely affected. Our strategy, focused on more aggressive development of our land, involves significant risk and could result in operating losses.

We are involved in a cyclical industry and are affected by changes in general and local economic conditions. The real estate development industry is cyclical and is significantly affected by changes in general and local economic conditions, including:

- Employment levels
- Availability of financing
- Interest rates
- Consumer confidence
- Demand for the developed product, whether residential or industrial
- Supply of similar product, whether residential or industrial

The process of development of a project begins and financial and other resources are committed long before a real estate project comes to market, which could occur at a time when the real estate market is depressed. It is also possible in a rural area like ours that no market for the project will develop as projected.

Higher interest rates and lack of available financing can have significant impacts on the real estate industry. Higher interest rates generally impact the real estate industry by making it harder for buyers to qualify for financing, which can lead to a decrease in the demand for residential, commercial or industrial sites. Any decrease in demand will negatively impact our proposed developments. Lack of available credit to finance real estate purchases can also negatively impact demand. Any downturn in the economy or consumer confidence can also be expected to result in reduced housing demand and slower industrial development, which would negatively impact the demand for land we are developing.

We are subject to various land use regulations and require governmental approvals for our developments that could be denied. In planning and developing our land, we are subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, infrastructure design, subdivision of land, and construction. All of our new developments require amending existing general plan and zoning designations, so it is possible that our entitlement applications could be denied. In addition, the zoning that ultimately is approved could include density provisions that would limit the number of homes and other structures that could be built within the boundaries of a particular area, which could adversely impact the financial returns from a given project. Several years ago, the Los Angeles County Planning Department released a set of draft amendments to the Los Angeles County General Plan that would extend a planning overlay designation called Sensitive Ecological Areas to cover most of the footprint of the Centennial project. It is not clear what chance this draft has of being adopted by the Los Angeles County Board of Supervisors or what its impact on Centennial would be, but if adopted it would likely involve additional processing time, studies, and findings by county officials, which could have an adverse impact similar to the density provisions described above, and affect the character and intensity of uses permitted in the Centennial project area. In addition, many states, cities and

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counties (including neighboring Ventura County) have in the past approved various slow growth or urban limit line measures. If that were to occur in the jurisdictions governing the Company s land use, our future real estate development activities could be significantly adversely affected.

Third-party litigation could increase the time and cost of our development efforts. The land use approval processes we must follow to ultimately develop our projects have become increasingly complex. Moreover, the statutes, regulations and ordinances governing the approval processes provide third parties the opportunity to challenge the proposed plans and approvals. As a result, the prospect of third-party challenges to planned real estate developments provides additional uncertainties in real estate development planning and entitlements. Third-party challenges in the form of litigation would, by their nature, adversely affect the length of time and the cost required to obtain the necessary approvals. In addition, adverse decisions arising from any litigation would increase the costs and length of time to obtain ultimate approval of a project and could adversely affect the design, scope, plans and profitability of a project.

We are subject to environmental regulations and opposition from environmental groups that could cause delays and increase the costs of our development efforts or preclude such development entirely. Environmental laws that apply to a given site can vary greatly according to the site s location and condition, present and former uses of the site, and the presence or absence of sensitive elements like wetlands and endangered species. Environmental laws and conditions may result in delays, cause us to incur additional costs for compliance, mitigation and processing land use applications, or preclude development in specific areas. In addition, in California, third parties have the ability to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. While we have worked with representatives of various environmental interests and wildlife agencies to minimize and mitigate the impacts of our planned projects, certain groups opposed to development have made clear they intend to oppose our projects vigorously, so litigation challenging their approval is expected. The issues most commonly cited in opponents public comments include the poor air quality of the San Joaquin Valley air basin, potential impacts of projects on the California condor and other species of concern, presumed removal of oak trees, the potential for our lands to function as wildlife movement corridors, potential impacts of our projects on traffic and air quality in Los Angeles County, and criticism of proposed development in rural areas as being sprawl . Recent concerns over the impact of development on global warming increases the breadth of potential obstacles that our developments face.

Until governmental entitlements are received, we will have a limited inventory of real estate. Each of our four current and planned real estate projects, TIC West and East, Centennial and TMV, involve obtaining governmental permits or entitlements. A delay in obtaining governmental approvals could lead to additional costs related to these developments and potentially lost opportunities for the sale of lots to developers and land users.

We are in competition with several other developments for customers and residents. Within our real estate activities, we are in direct competition for customers with other industrial sites in Northern, Central, and Southern California. We are also in competition with other highway interchange locations using Interstate 5 and State Route 99 for commercial leasing opportunities. Centennial ultimately would compete with other residential housing options in the region, such as developments in the Santa Clarita Valley, Lancaster, Palmdale, and Bakersfield. TMV will compete generally for discretionary dollars that consumers will allocate to recreation and second homes, so its competition will include a greater area and range of projects.

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Our developable land is concentrated entirely in California. All of our developable land is in California. Any adverse change in the economic climate of California, or our region of that state, and any adverse change in the political or regulatory climate of California, or the counties where our land is located could adversely affect our real estate development activities. Ultimately, our ability to sell or lease lots may decline as a result of weak economic conditions or restrictive regulations.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. We currently depend heavily on the services of Robert A. Stine, our President and Chief Executive Officer, and a number of other key management personnel. The loss of Mr. Stine s services or that of other key personnel could materially and adversely affect our results of operations, financial condition, or our ability to pursue land development. Our success will also depend in part on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the real estate and land development industry and we may not be successful in attracting or retaining the personnel we require.

Only a limited market exists for our Common Stock which could lead to price volatility. The limited trading market for our Common Stock may cause fluctuations in the market value of our Common Stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our Common Stock.

Concentrated ownership of our Common Stock creates a risk of sudden change in our share price. As of February 28, 2008, directors and members of our executive management team beneficially owned or controlled approximately 34% of our Common Stock. Investors who purchase our Common Stock may be subject to certain risks due to the concentrated ownership of our Common Stock. The sale by any of our large shareholders of a significant portion of that shareholder s holdings could have a material adverse effect on the market price of our Common Stock. In addition, the registration of any significant amount of additional shares of our Common Stock will have the immediate effect of increasing the public float of our Common Stock and any such increase may cause the market price of our Common Stock to decline or fluctuate significantly.

Inflation can have a significant adverse effect on our operations. Inflation can have a major impact on our farming operations. The farming operations are most affected by escalating costs and unpredictable revenues (due to an oversupply of certain crops) and very high irrigation water costs. High fixed water costs related to our farm lands will continue to adversely affect earnings. Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Therefore, it is difficult for us to accurately predict revenue, just as we cannot pass on cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices.

Within our real estate operations, our lease portfolio is protected to some extent from inflation, since percentage rent clauses and Consumer Price Index increases in our leases tend to adjust rental receipts for inflation.

If the downturn in the housing market or the sub-prime lending crisis continues, it could have an adverse effect on our real estate business. Our residential housing projects, Centennial

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and TMV, are currently in the entitlement phase, and therefore they have not been impacted by the current downturn in the housing market or the sub-prime lending crisis. However, if the downturn in the housing market or the instability of the mortgage industry continues at the time these projects move into their development and marketing phases, our resort/residential business could be adversely affected.

We may encounter other risks that could impact our ability to develop our land. We may also encounter other difficulties in developing our land, including:

- Natural risks, such as geological and soil problems, earthquakes, fire, heavy rains and flooding and heavy winds;
- Shortages of qualified trades people;
- Reliance on local contractors, who may be inadequately capitalized;
- Shortages of materials; and
- Increases in the cost of certain materials.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our 270,000 acres include portions of the San Joaquin Valley, portions of the Tehachapi Mountains and portions of the western end of the Antelope Valley. A number of key transportation and utility facilities cross our land, including Interstate 5, California Highways 58, 138 and 223, the California Aqueduct (which brings water from Northern California), and various transmission lines for electricity, oil, natural gas and communication systems.

Approximately 247,000 acres of our land are located in Kern County, California. The Kern County General Plan, or the General Plan, for this land contemplates continued commercial, resource utilization, farming, grazing and other agricultural uses, as well as certain new developments and uses, including residential and recreational facilities. While the General Plan is intended to provide general guidelines for land use and development, it is subject to amendment to accommodate changing circumstances and needs. In addition to conforming to any amendment of the General Plan, much of our land will require specific zoning and site plan approvals prior to actual development.

The remainder of our land, approximately 23,000 acres, is in Los Angeles County. This area is accessible from Interstate 5 via Highway 138. Los Angeles County has adopted general plan policies that contemplate future residential development of portions of this land, subject to further assessments of environmental and infrastructure constraints. We are currently pursuing entitlements for the Centennial master-planned community on 11,700 acres of this land. See Item 1, Business Real Estate Operations.

Portions of our land consist of mountainous terrain and much of the land is not presently served by paved roads or by utility or water lines. Any significant development of the land would involve the construction of roads, utilities and other expensive infrastructure and would have to be done in a manner that accommodates a number of environmental concerns, including endangered species and

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wetlands issues, which may limit development of portions of the land or result in substantial delays in getting governmental approval. Rural/agricultural development of much of our mountain land could be accomplished without many or any such approvals, constraints, and/or investments, but we have not to date pursued this avenue of development.

Water Rights

Existing long-term water contracts with the Wheeler Ridge-Maricopa Water Storage District, or Wheeler Ridge Water District, provide for water entitlements and deliveries from the California State Water Project to our agricultural operations in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts, we are entitled to annual water for 5,496 acres of land, which is adequate for our present farming operations.

In addition to our agricultural contract water entitlements, we have an additional entitlement to obtain from the California State Water Project sufficient water to service a substantial amount of future residential and/or commercial development in Kern County. The Tejon-Castac Water District, or Tejon-Castac, a local water district serving only our land and land we have sold in the Tejon Industrial Complex, has 5,278 acre feet of State Water Project entitlement. In addition, Tejon-Castac has approximately 34,000 acre feet of water stored in Kern County water banks. Both the entitlement and the banked water are the subject of a long-term water supply contract extending to 2035 between Tejon-Castac and our Company. Tejon-Castac is the principal water supplier to the Tejon Industrial Complex, and would be the principal water supplier for any significant residential and recreational development in TMV.

We have constructed a 150 acre water bank consisting of nine ponds on our land in southern Kern County. Water is pumped into these ponds and then percolates into underground aquifers. We subsequently purchased 6,600 acre feet of water from the Antelope Valley-East Kern Water Agency, which has been pumped from the California aqueduct and is currently retained in this water bank. We anticipate adding additional water to this storage facility in 2008. This water is available for our current and future use.

During 2007, project allocations were 60%, and the Wheeler Ridge Water District was able to supply us with 100% of our farming demands. In some years, there is also sufficient runoff from local mountain streams to allow us to capture some of this water in reservoirs and utilize it to offset some of the higher-priced State Water Project water. Both the Wheeler Ridge Water District and Tejon-Castac are able to bank (percolate into underground aquifers) some of their excess supplies for future use. The Wheeler Ridge Water District expects to be able to deliver our entire contract water entitlement in any year that the State Water Project deliveries exceed 30% by drawing on its ground water wells and water banking assets. Based on historical records of water availability, we do not believe we have material problems with our water supply. However, if State Water Project deliveries are less than 30% of our entitlement in any year, or if less severe shortages continue for a sustained period of several years, then the Wheeler Ridge Water District may not be able to deliver 100% of our entitlement and we will have to rely on our own ground water sources, mountain stream runoff, water transfers from Tejon-Castac and water banking assets to supply the shortfalls to our farming operations. Water from these sources may be more expensive because of pumping costs and/or transfer costs. Also, as we develop our real estate for residential, commercial and industrial uses, there will be less water available for agriculture from Tejon-Castac. A 35% allocation has been made by the State Water Project for 2008. With this allocation, along with the

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Wheeler Ridge Water District s additional supplies, we believe that we will have adequate water supplies for farming in 2008.

The water contracts with the Wheeler Ridge Water District and with Tejon-Castac require annual payments related to the fixed costs of the California State Water Project and each district, whether or not water is used or available. The Wheeler Ridge Water District contracts also establish a lien on benefited land.

Although no assurance has been given, the water agency serving the Los Angeles County portion of our land, the Antelope Valley-East Kern Water Agency, has indicated, based on water availability, that it could provide a portion of the water needed for Centennial.

Portions of our property also have available groundwater. That source would be sufficient to supply commercial development in the Interstate 5 corridor and provide a portion of the water needed for development at Centennial and TMV. Ground water in the Antelope Valley Basin has recently become the subject of litigation. Please refer to Item 3, Legal Proceedings.