

TEJON RANCH CO
Form 10-Q
May 04, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

Or

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

For the transition period from to

Commission File Number: 1-7183

TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0196136
(IRS Employer

Identification No.)

P.O. Box 1000, Lebec, California 93243

(Address of principal executive offices)

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

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

Edgar Filing: TEJON RANCH CO - Form 10-Q

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 4, 2012 was 20,013,241.

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, 2012 and March 31, 2011</u> | 1 |
| <u>Unaudited Consolidated Statements of Comprehensive Income for the Three months Ended March 31, 2012 and March 31, 2011</u> | 2 |
| <u>Consolidated Balance Sheets as of March 31, 2012 (unaudited) and December 31, 2011</u> | 3 |
| <u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and March 31, 2011</u> | 4 |
| <u>Unaudited Consolidated Statements of Equity for the Three Months Ended March 31, 2012</u> | 5 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 20 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 25 |
| Item 4. <u>Controls and Procedures</u> | 28 |
| PART II. <u>OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 28 |
| Item 1A. <u>Risk Factors</u> | 28 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 28 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 28 |
| Item 4. <u>Mine Safety Disclosures</u> | 28 |
| Item 5. <u>Other Information</u> | 28 |
| Item 6. <u>Exhibits</u> | 29 |
| <u>SIGNATURES</u> | |

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 March 31 | |
|---|--------------------------------|---------------|
| | 2012 | 2011 |
| Revenues: | | |
| Real estate - commercial/industrial | \$ 6,054 | \$ 4,286 |
| Real estate - resort/residential | 41 | 15,750 |
| Farming | 3,484 | 2,610 |
| Total revenues | 9,579 | 22,646 |
| Costs and Expenses: | | |
| Real estate - commercial/industrial | 3,142 | 3,079 |
| Real estate - resort/residential | 1,018 | 948 |
| Farming | 2,261 | 2,343 |
| Corporate expenses | 3,134 | 2,802 |
| Total expenses | 9,555 | 9,172 |
| Operating income | 24 | 13,474 |
| Other Income | | |
| Investment income | 318 | 296 |
| Interest expense | (2) | |
| Other income | 24 | 27 |
| Total other income | 340 | 323 |
| Income from operations before equity in losses of unconsolidated joint ventures | 364 | 13,797 |
| Equity in losses of unconsolidated joint ventures, net | (359) | (442) |
| Income before income tax expense | 5 | 13,355 |
| Income tax expense (benefit) | (228) | 4,660 |
| Net income | 233 | 8,695 |
| Net income (loss) attributable to non-controlling interest | (42) | (41) |
| Net income attributable to common stockholders | \$ 275 | \$ 8,736 |
| Net income per share attributable to common stockholders, basic | \$ 0.01 | \$ 0.44 |
| Net income per share attributable to common stockholders, diluted | \$ 0.01 | \$ 0.44 |

Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(\$ in thousands)

| | Three Months Ended March 31 | |
|--|-----------------------------|----------|
| | 2012 | 2011 |
| Net income | \$ 275 | \$ 8,736 |
| Other comprehensive income (loss): | | |
| Unrealized gains (losses) on available for sale securities | 219 | (49) |
| Benefit plan adjustments | | (187) |
| Equity in other comprehensive income of unconsolidated joint venture | 55 | 54 |
| Other comprehensive income (loss) before taxes | 274 | (182) |
| (Provisions) Benefit for income taxes related to other comprehensive income (loss) items | (109) | 73 |
| Other comprehensive income (loss) | 165 | (109) |
| Comprehensive income | 440 | 8,627 |
| Comprehensive income (loss) attributable to non-controlling interests | (42) | (41) |
| Comprehensive income attributable to common stockholders | \$ 398 | \$ 8,586 |

See accompanying notes.

Table of Contents

TEJON RANCH CO. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

| | March 31, 2012 (unaudited) | December 31, 2011 |
|---|-------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 1,945 | \$ 18,372 |
| Marketable securities - available-for-sale | 73,563 | 68,566 |
| Accounts receivable | 7,112 | 7,832 |
| Inventories | 5,339 | 3,587 |
| Prepaid expenses and other current assets | 4,836 | 4,317 |
| Deferred tax assets | 989 | 1,099 |
| Total current assets | 93,784 | 103,773 |
| Property and equipment - net of depreciation | 132,108 | 128,430 |
| Investments in unconsolidated joint ventures | 57,392 | 53,893 |
| Long-term water assets | 28,613 | 28,336 |
| Long-term deferred tax assets | 6,845 | 6,845 |
| Other assets | 692 | 699 |
| TOTAL ASSETS | \$ 319,434 | \$ 321,976 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Trade accounts payable | \$ 2,570 | \$ 2,447 |
| Other accrued liabilities | 2,441 | 3,074 |
| Income taxes payable | | 2,484 |
| Deferred income | 2,250 | 2,125 |
| Current portion of long-term debt | 38 | 37 |
| Total current liabilities | 7,299 | 10,167 |
| Long-term debt, less current portion | 243 | 253 |
| Long-term deferred gains | 2,414 | 2,664 |
| Other liabilities | 5,588 | 5,474 |
| Pension liability | 2,806 | 2,979 |
| Total liabilities | 18,350 | 21,537 |
| 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 - 20,013,241 at March 31, 2012 and 19,975,706 at December 31, 2011 | 10,007 | 9,988 |
| Additional paid-in capital | 194,501 | 194,273 |
| Accumulated other comprehensive loss | (4,591) | (4,756) |
| Retained earnings | 61,384 | 61,109 |
| Total Tejon Ranch Co. Stockholders Equity | 261,301 | 260,614 |

Edgar Filing: TEJON RANCH CO - Form 10-Q

| | | |
|------------------------------|------------|------------|
| Non-controlling interest | 39,783 | 39,825 |
| Total equity | 301,084 | 300,439 |
| TOTAL LIABILITIES AND EQUITY | \$ 319,434 | \$ 321,976 |

See Notes to Unaudited Consolidated Financial Statements

Table of Contents**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

| | Three Months Ended March 31 | |
|--|--------------------------------|------------------|
| | 2012 | 2011 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 233 | \$ 8,695 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,081 | 946 |
| Equity in losses of unconsolidated joint ventures, net | 359 | 442 |
| Non-cash retirement plan expense | 113 | 65 |
| Amortization of stock compensation expense | 1,052 | 1,168 |
| (Gains) losses on sales of real estate/assets | (137) | |
| Gains on sale of easements | | (15,750) |
| Deferred income taxes | | 34 |
| Non-cash straight line (income) loss | 26 | 38 |
| Excess tax benefit of stock based compensation | | (175) |
| Changes in operating assets and liabilities: | | |
| Receivables, inventories and other assets, net | (875) | 3,795 |
| Current liabilities, net | (4,901) | 4,554 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (3,049) | 3,812 |
| INVESTING ACTIVITIES | | |
| Maturities and sales of marketable securities | 2,852 | 1,195 |
| Funds invested in marketable securities | (7,834) | (9,462) |
| Property and equipment expenditures | (3,654) | (2,602) |
| Proceeds from sale of easements | | 15,750 |
| Investment in unconsolidated joint ventures | (3,804) | (727) |
| Investment in pistachio processor | | (485) |
| Other | 72 | (102) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (12,368) | 3,567 |
| FINANCING ACTIVITIES | | |
| Repayments of long-term debt | (9) | (9) |
| Proceeds from exercise of stock options | 123 | 1,174 |
| Taxes on vested stock grants | (1,124) | (812) |
| Excess tax benefit from stock-based compensation | | |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (1,010) | 353 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (16,427) | 7,732 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 18,372 | 22,027 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 1,945 | \$ 29,759 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY | | |
| Accrued capital expenditures included in accounts payable and accrued liabilities | \$ 577 | \$ 213 |

See Notes to Unaudited Consolidated Financial Statements.

Table of ContentsUNAUDITED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except shares outstanding)

| | Common Stock Shares Outstanding | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Tejon Ranch Co. s Stockholders Equity | Noncontrolling Interest | Total Equity |
|---|---------------------------------------|-----------------|----------------------------------|---|----------------------|--|----------------------------|-----------------|
| Balance at December 31, 2010 | 19,747,470 | \$ 9,874 | \$ 183,816 | \$ (2,191) | \$ 45,215 | \$ 236,714 | \$ 39,938 | \$ 276,652 |
| Net income | | | | | 15,894 | 15,894 | (113) | 15,781 |
| Changes in unrealized gains on available-for-sale securities, net of taxes of \$33 | | | | (49) | | (49) | | (49) |
| Benefit plan adjustment net of taxes of \$1,026 | | | | (1,548) | | (1,548) | | (1,548) |
| SERP liability adjustment, net of taxes of \$727 | | | | (1,098) | | (1,098) | | (1,098) |
| Equity in other comprehensive income of unconsolidated joint ventures, net of taxes of \$87 | | | | 130 | | 130 | | 130 |
| Exercise of stock options and related tax benefit of \$634 | 205,165 | 103 | 5,773 | | | 5,876 | | 5,876 |
| Restricted stock issuance | 52,069 | 26 | (26) | | | | | |
| Stock compensation | | | 5,507 | | | 5,507 | | 5,507 |
| Shares withheld for taxes | (28,998) | (15) | (797) | | | (812) | | (812) |
| Balance at December 31, 2011 | 19,975,706 | 9,988 | 194,273 | (4,756) | 61,109 | 260,614 | 39,825 | 300,439 |
| Net income | | | | | 275 | 275 | (42) | 233 |
| Changes in unrealized gains on available-for-sale securities, net of taxes of \$88 | | | | 132 | | 132 | | 132 |
| Equity in other comprehensive income of unconsolidated joint ventures, net of taxes of \$22 | | | | 33 | | 33 | | 33 |
| Exercise of stock options and related tax net of taxes of \$0 | 5,013 | 3 | 120 | | | 123 | | 123 |
| Restricted stock issuance | 71,341 | 36 | (36) | | | | | |
| Stock compensation | | | 1,248 | | | 1,248 | | 1,248 |
| Shares withheld for taxes | (38,819) | (20) | (1,104) | | | (1,124) | | (1,124) |
| Balance at March 31, 2012 | 20,013,241 | \$ 10,007 | \$ 194,501 | \$ (4,591) | \$ 61,384 | \$ 261,301 | \$ 39,783 | \$ 301,084 |

See accompanying notes.

Table of Contents

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

NOTE A BASIS OF PRESENTATION

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

The periods ending March 31, 2012 and 2011 include the consolidation of Centennial Founders, LLC's statement of operations within the resort/residential segment and statement of cash flows. The Company's March 31, 2012 and December 31, 2011 balance sheets and statements of equity are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

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

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

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

NOTE B NET INCOME (LOSS) PER SHARE

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

| | Three Months ended March 31 | |
|---|--------------------------------|------------|
| | 2012 | 2011 |
| Weighted average number of shares outstanding: | | |
| Common stock | 19,990,558 | 19,771,573 |
| Common stock equivalents - stock options, grants | 32,744 | 27,246 |
| Diluted shares outstanding | 20,023,302 | 19,798,819 |

Table of Contents**NOTE C MARKETABLE SECURITIES**

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

The following is a summary of available-for-sale securities at March 31, 2012 and December 31, 2011:

| (\$ in thousands) | Fair Value Hierarchy | 2012 | | 2011 | |
|--|----------------------|------------------|----------------------|------------------|----------------------|
| | | Cost | Estimated Fair Value | Cost | Estimated Fair Value |
| Marketable Securities: | | | | | |
| Certificates of deposit | | | | | |
| with unrecognized losses for less than 12 months | | \$ 2,277 | \$ 2,265 | \$ 3,646 | \$ 3,605 |
| with unrecognized gains | | 3,962 | 4,003 | 3,525 | 3,551 |
| Total Certificates of deposit | Level 1 | 6,239 | 6,268 | 7,171 | 7,156 |
| US Treasury and agency notes | | | | | |
| with unrecognized losses for less than 12 months | | 7,154 | 7,073 | 4,352 | 4,338 |
| with unrecognized losses for more than 12 months | | 1,001 | 1,001 | 1,002 | 1,000 |
| with unrecognized gains | | 18,034 | 18,188 | 16,479 | 16,660 |
| Total US Treasury and agency notes | Level 2 | 26,189 | 26,262 | 21,833 | 21,998 |
| Corporate notes | | | | | |
| with unrecognized losses for less than 12 months | | 4,462 | 4,422 | 9,230 | 9,098 |
| with unrecognized losses for more than 12 months | | 459 | 458 | 1,539 | 1,494 |
| with unrecognized gains | | 26,344 | 26,816 | 19,369 | 19,738 |
| Total Corporate notes | Level 2 | 31,265 | 31,696 | 30,138 | 30,330 |
| Municipal notes | | | | | |
| with unrecognized losses for less than 12 months | | 632 | 622 | 1,177 | 1,165 |
| with unrecognized losses for more than 12 months | | 1,004 | 998 | 881 | 873 |
| with unrecognized gains | | 7,612 | 7,717 | 6,964 | 7,044 |
| Total Municipal notes | Level 2 | 9,248 | 9,337 | 9,022 | 9,082 |
| | | \$ 72,941 | \$ 73,563 | \$ 68,164 | \$ 68,566 |

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, 2012, the fair market value of investment securities exceeded the cost basis by \$622,000. The cost basis includes any other-than-temporary impairments that have been recorded for the securities. None have been recorded at March 31, 2012. The Company has determined that any unrealized losses in the portfolio are temporary as of March 31, 2012. 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,

Edgar Filing: TEJON RANCH CO - Form 10-Q

credit markets, financial condition of issuers, or market interest rates, this could change.

As of March 31, 2012, the adjustment to accumulated other comprehensive income (loss) in consolidated equity for the temporary change in the value of securities reflects an increase in the market value of available-for-sale securities of \$132,000, which includes estimated taxes of \$88,000.

As of March 31, 2012, the Company's gross unrealized holding gains equal \$773,000 and gross unrealized holding losses equal \$151,000. On March 31, 2012, the average maturity of certificates of deposits was 2.90 years, the average maturity of U.S. Treasury and agency securities was 2.31 years, the average maturity of corporate notes was 2.29 years and the average maturity of municipal notes was 2.57 years. Currently, the Company has no securities with a remaining term to maturity of greater than five years.

Table of Contents

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

(in thousands)

At March 31, 2012

| | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|--------------------------------|----------|-----------|-----------|-----------|----------|-----------|
| Certificates of deposit | \$ 494 | \$ 1,255 | \$ 1,627 | \$ 2,544 | \$ 100 | \$ 6,020 |
| U.S. Treasury and agency notes | 3,704 | 10,285 | 9,482 | 2,768 | | 26,239 |
| Corporate notes | 3,200 | 11,731 | 7,197 | 7,134 | 900 | 30,162 |
| Municipal notes | 710 | 2,305 | 4,345 | 1,460 | 100 | 8,920 |
| | \$ 8,108 | \$ 25,576 | \$ 22,651 | \$ 13,906 | \$ 1,100 | \$ 71,341 |

(in thousands)

At December 31, 2011

| | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|--------------------------------|-----------|-----------|-----------|-----------|------|-----------|
| Certificates of deposit | \$ 1,536 | \$ 1,255 | \$ 1,627 | \$ 2,526 | \$ | \$ 6,944 |
| U.S. Treasury and agency notes | 4,734 | 10,285 | 5,856 | 936 | | 21,811 |
| Corporate notes | 3,450 | 11,231 | 8,923 | 5,584 | | 29,188 |
| Municipal notes | 860 | 2,505 | 4,145 | 1,160 | | 8,670 |
| | \$ 10,580 | \$ 25,276 | \$ 20,551 | \$ 10,206 | \$ | \$ 66,613 |

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

Table of Contents

NOTE D COMMITMENTS AND CONTINGENCIES

A total of 5,488 acres of the Company's land is subject to water contracts requiring minimum future annual payments for as long as the Company owns such land. The estimated future minimum annual payments are \$2,500,000 before any potential credits are received, whether or not water is available or is used.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and the Tejon-Castac Water District, or TCWD, to finance public infrastructure within the Company's Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 271 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 reduction in land liens placed on lands in the West CFD, when compared to year-end 2011, is due to a refinancing that occurred during February 2012 that allowed for the release of liens on 1,457 acres. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to \$12,670,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately \$107,000,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of bonds there is a standby letter of credit for \$2,189,000 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 each 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 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 \$33,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure related to the TRCC West development. At this time there are no additional reimbursement funds remaining from the West CFD bonds or East CFD bonds for reimbursement of cost. During 2011, the Company paid approximately \$1,061,000 in special taxes. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the assessed special tax. As this happens, the Company's obligation is correspondingly reduced. This amount could change in the future based on the amount of bonds outstanding and the amount of taxes paid by others.

Tejon Mountain Village

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

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

On November 5, 2010, Kern County Superior Court Judge Kenneth Twisselman ruled in favor of Kern County, the Company, and its development partner DMB Associates, Inc., when he found that the County had properly analyzed and evaluated the environmental effects of TMV. In his ruling, Judge Twisselman rejected claims made by the above listed plaintiffs. On February 8, 2011, CBD appealed the court's decision. On June 17, 2011 CBD filed its appeal documents for the court's review. Our response to the plaintiff's documents was filed August 16, 2011. CBD filed its final reply brief with the court on September 20, 2011. Thereafter, Kern County and the Company filed a joint motion to strike certain portions of CBD's briefs on the grounds that they had not been previously raised. Oral arguments of CBD's appeal were heard by the Court of Appeal on March 21, 2012. On April 25, 2012 the Court of Appeal issued an 89-page unpublished opinion affirming the trial court's favorable judgment in every respect and awarding costs on appeal to the Respondents. Under the current schedule, the appellants have until May 10, 2012 to file a Petition for Rehearing and until June 4, 2012 to file a Petition for Review by the California Supreme Court.

Table of Contents

On November 10, 2009, an additional suit was filed in the U.S. District Court for the Eastern District of California (Fresno division) by an alleged representative of the Kawaiisu Tribe alleging, *inter alia*, that the Company does not hold legal title to the land within the TMV development that it seeks to develop. The grounds for the federal lawsuit were the subject of a United States Supreme Court decision in 1924 where the United States Supreme Court found against the Indian tribes. On January 24, 2011, the Company received a ruling by Judge Wanger, which dismissed all claims against the Company, TMV, the County and the federal defendants. However, the judge did grant a limited right by the plaintiff to amend certain causes of action in the complaint. During April, 2011, the plaintiff amended his complaint and refiled a suit against the Company, alleging similar items as in the original suit. The plaintiff filed new materials during July 2011 related to the amended complaint. Thereafter, the case was reassigned to Judge McAuliffe. On January 18, 2012, the court issued an order again dismissing the plaintiffs' claims for failure to state a cause of action and/or for lack of jurisdiction, but allowing the plaintiff one more opportunity to state certain land claims provided plaintiff files an amended complaint on or before February 17, 2012. The court also indicated that it is considering dismissing the case due to the lack of federal recognition of the Kawaiisu Tribe. The court then granted plaintiff an extension until March 19, 2012 to file an amended complaint. Plaintiff filed his third amended complaint on March 19, 2012. At the request of the U.S. Department of Justice acting on behalf of the Department of the Interior, defendants (including the Company) have been given an extension to April 30, 2012 in which to respond to the third amended complaint. It is anticipated that all defendants will once again file motions to dismiss all claims in the third amended complaint. The Company believes that a negative outcome in this case is remote at this time and the monetary impact of an adverse claim, if any, also cannot be estimated at this time.

National Cement

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

- (1) *Groundwater plume of chlorinated hydrocarbon compounds.* This order directs the Company's former tenant Lafarge Corporation, or Lafarge, the current tenant National, and the Company to, among other things, clean up groundwater contamination on the leased property. In 2003, Lafarge and National installed a groundwater pump-and-treat system to clean up the groundwater. The Company is advised that Lafarge and National continue to operate the cleanup system and will continue to do so over the near-term.
- (2) *Cement kiln dust.* National and Lafarge have consolidated, closed and capped cement kiln dust piles located on land leased from the Company. An order of the RWQCB directs National, Lafarge and the Company to maintain and monitor the effectiveness of the cap. Maintenance of the cap and groundwater monitoring remain as on-going activities.
- (3) *Former industrial waste landfills.* This order requires Lafarge, National and the Company to complete the cleanup of groundwater associated with the former industrial waste landfills. The Company is advised that the cleanup is complete. Lafarge continues to monitor the groundwater.
- (4) *Diesel fuel.* An order of the RWQCB directs Lafarge, National and the Company to clean up contamination from a diesel fuel tank and pipeline. The Company is advised that Lafarge and National have substantially completed the groundwater cleanup and that groundwater monitoring remains an on-going activity.

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

Table of Contents

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 April 2 and 3, 2012. At the last session, some progress was made toward reaching a settlement on allocations. The presiding judge has made himself available for a meeting on April 30, 2012 to assist counsel in attempting to draft a Stipulated Judgment on the allocation issue. It is too early to ascertain whether such an 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. Counsel for TA and the Company have worked with the California Attorney General to change the venue of the lawsuit to Merced County, and on September 16, 2011, the Company and Tejon Industrial Corp. were dismissed from the law suit, without prejudice. The parties 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 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.

Water Bank Lawsuits

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including CBD, filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources (DWR), Kern County Water Agency and a number of real parties in interest, including the Company and TCWD. The lawsuit challenges certain amendments to the State Water Project contracts that were originally approved in 1995, known as the Monterey Amendments. The original EIR for the Monterey Amendments was determined to be insufficient in an earlier lawsuit, and the current lawsuit challenges the remedial EIR that DWR prepared as a result of the original lawsuit. Among other legal allegations, the current lawsuit 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. A parallel lawsuit was also filed 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. 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.

Table of Contents

NOTE E INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES

The Company maintains investments in joint ventures. The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation. The Company's investment in its unconsolidated joint ventures at March 31, 2012 was \$57,392,000. The equity in the loss of the unconsolidated joint ventures was a loss of \$359,000 for the three months ended March 31, 2012. The unconsolidated joint ventures have not been consolidated as of March 31, 2012, because the Company does not control the investments. The Company's current joint ventures are as follows:

Petro Travel Plaza Holdings LLC - TA/Petro is an unconsolidated joint venture with TravelCenters of America, LLC for the development and management of travel plazas and convenience stores. This is a 60%-owned joint venture which owns and operates travel plazas/commercial highway operations in TRCC. It houses multiple commercial eating establishments as well as diesel and gasoline operations. The Company does not control the investment due to its having only 50% voting rights, and because our partner in the joint venture performs the day-to-day operations at the facility. At March 31, 2012, the Company had an equity investment balance of \$11,776,000 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, 2012, the Company's equity investment balance in this joint venture was \$38,256,000.

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 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, 2012, the Company's combined equity investment balance in these two joint ventures was \$7,360,000.

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, 2012 the Company had a 68.66% ownership position in Centennial Founders, LLC.

Table of Contents

Unaudited condensed balance sheet information of the Company's unconsolidated and consolidated joint ventures as of March 31, 2012 and December 31, 2011 and condensed statements of operations for the three months ended March 31, 2012 and March 31, 2011 are as follows:

Statement of Operations

for the three months ending March 31, 2012

(In thousands)

| | UNCONSOLIDATED | | | | CONSOLIDATED | |
|-----------------------------|-----------------------------------|-------------------|------------------------|------------------------------|--------------|------------|
| | Petro Travel Plaza Holdings | 18-19 West LLC | Five West Parcel | Tejon Mountain Village | Total | Centennial |
| Gross revenues | \$ 27,873 | \$ 71 | \$ 199 | \$ | \$ 28,143 | \$ 41 |
| Net income (loss) | (63) | 66 | (247) | (33) | (277) | (134) |
| Partner's share of net loss | (25) | 33 | (124) | (16) | (132) | (42) |
| Equity in income (losses) | \$ (252) | \$ 33 | \$ (123) | \$ (17) | (359) | \$ (92) |

Balance Sheet Information as of March 31, 2012

| | | | | | | |
|-----------------------------|-----------|----------|-----------|-----------|------------|-----------|
| Current assets | \$ 17,348 | \$ 109 | \$ 2,661 | \$ 1,734 | \$ 21,852 | \$ 25 |
| Property and equipment, net | 44,179 | 4,310 | 20,199 | 86,894 | 155,582 | 68,586 |
| Other assets | 274 | | 99 | | 373 | |
| Long-term debt | (17,900) | | (8,625) | | (26,525) | (868) |
| Other liabilities | (3,673) | (71) | (2,465) | (337) | (6,546) | |
| Net assets | \$ 40,228 | \$ 4,348 | \$ 11,869 | \$ 88,291 | \$ 144,736 | \$ 67,743 |

Table of Contents**Statement of Operations**

for the three months ending March 31, 2011

(In thousands)

| | UNCONSOLIDATED | | | | CONSOLIDATED | |
|-----------------------------|-----------------------------------|-------------------|---------------------|------------------------------|--------------|------------|
| | Petro Travel Plaza Holdings | 18-19 West LLC | Five West Parcel | Tejon Mountain Village | Total | Centennial |
| Gross revenues | \$ 23,798 | \$ | \$ 108 | \$ | \$ 23,906 | \$ |
| Net income (loss) | \$ (400) | \$ (34) | \$ (343) | \$ (25) | \$ (802) | \$ 114 |
| Partner s share of net loss | \$ (160) | \$ (17) | \$ (171) | \$ (12) | \$ (360) | \$ (41) |
| Equity in income (losses) | \$ (240) | \$ (17) | \$ (172) | \$ (13) | \$ (442) | \$ (73) |

Balance Sheet Information as of December 31, 2011

| | | | | | | |
|-----------------------------|-----------|----------|----------|-----------|------------|-----------|
| Current assets | \$ 16,940 | \$ 12 | \$ 116 | \$ 1,020 | \$ 18,088 | \$ 325 |
| Property and equipment, net | 44,092 | 4,255 | 16,509 | 85,127 | 149,983 | 67,684 |
| Other assets | 307 | | 37 | | 344 | |
| Long-term debt | (18,076) | | (8,625) | | (26,701) | |
| Other liabilities | (2,648) | | (201) | (1,122) | (3,971) | (1,106) |
| Net assets | \$ 40,615 | \$ 4,267 | \$ 7,836 | \$ 85,025 | \$ 137,743 | \$ 66,903 |

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

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

Long term assets consist of water and water contracts held for future use or sale. 8,700 acre feet of water are currently held in a water bank on Company land in southern Kern County. The water is held at cost which includes the price paid for the water and the cost to pump and deliver the water from the California aqueduct into the water bank. This amount also includes the right to receive an additional 2,362 acre feet of water in the future from Antelope Valley East Kern Water Agency, or AVEK and we have approximately 8,900 acre feet of water in AVEK's water bank. An additional 14,786 acre-feet of transferable water purchased for \$8,985,000 is owned by the Company. The Company holds State Water Project, or SWP, contracts for 3,444 acre feet of water with the Tulare Water Storage District and the Dudley-Ridge Water Storage District to supply water through 2035. 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 and the Tejon-Castac Water District are also in place, but were entered into with each District at inception 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. Water assets consist of the following at March 31, 2012 and December 31, 2011:

| (\$ in thousands) | March 31, 2012 | December 31, 2011 |
|--|------------------|-------------------|
| Banked water and water for future delivery | \$ 4,002 | \$ 3,546 |
| Transferable water | 8,988 | 8,988 |
| SWP Contracts (net of accumulated amortization of \$1,495 and \$1,317 at March 31, 2012 and December 2011, respectively) | 16,331 | 16,510 |
| Total long-term assets | \$ 29,321 | \$ 29,044 |
| less: Current portion | (708) | (708) |
| | \$ 28,613 | \$ 28,336 |

NOTE G - SHORT-TERM AND LONG-TERM DEBT

The Company had no outstanding balance on its line of credit at March 31, 2012 and December 31, 2011.

Long-term debt consists of the following:

(\$ in thousands)

| | March 31, 2012 | December 31, 2011 |
|------------------------|----------------|-------------------|
| Note payable to a bank | \$ 281 | \$ 290 |
| Less current portion | (38) | (37) |
| | \$ 243 | \$ 253 |

We have a long-term revolving line of credit of \$30,000,000 that, as of March 31, 2012, had no outstanding balance. At the Company's option, the interest rate on this line of credit can be fixed at 2.50% over a selected LIBOR rate or can be fixed at 2.25% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in October 2013), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. Under the terms of the line of credit, we must maintain tangible net worth, defined as total equity, including noncontrolling 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, 2012 our tangible net worth was \$301,365,000 and liquid assets were \$75,508,000. A portion of our farm acreage secures this line of credit. The outstanding long-term debt, less current portion of \$38,000, is \$243,000 at March 31, 2012. 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, which has a book value of \$337,000. The balance of the long-term debt instrument listed above approximates the fair value of the instrument.

Table of Contents**NOTE H INTEREST RATE RISK MANAGEMENT**

At March 31, 2012, the Company had no outstanding interest rate swap agreements. However, a joint venture of the Company, TA/Petro, has an interest rate swap agreement with respect to \$18,568,000 of its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matures in August 2012 and is a contract to exchange variable-rate for fixed-rate interest payments periodically over the life of the agreement. The interest rate swap fixed rate is 6.05%. TA/Petro accounts for the swap as a cash flow hedge with changes in the fair value of the swap recorded in other comprehensive income. The Company accounts for its share of the change in the interest rate swap in other comprehensive income and investments in unconsolidated joint ventures. As of March 31, 2012, the Company's portion of the fair value of the interest rate swap was a liability of \$97,000.

NOTE I STOCK COMPENSATION - OPTIONS

The Company's 1998 Stock Incentive Plan, or the 1998 Plan, provides for the making of awards to employees, consultants, and advisors of the Company with respect to 2,350,000 shares of the Company's common stock. Since the adoption of the 1998 Plan through March 31, 2012, the Company has granted options under the plan to purchase 1,129,292 shares at a price equal to the fair market value at date of grant, of which 1,077,792 have been exercised or forfeited, leaving 51,500 granted options outstanding at March 31, 2012. Options granted under the 1998 Plan vest over a five-year period and have ten-year contractual terms. All options granted under the 1998 Plan to date are currently vested.

The Non-Employee Director Stock Incentive Plan, or NDSI Plan, is intended to enable the Company to attract, retain, and motivate non-employee directors by providing for or increasing the proprietary interest of such persons in the Company. The NDSI Plan provides for the grant of awards to non-employee directors with respect to an aggregate of 200,000 shares of the Company's common stock. Since the adoption of the NDSI Plan through March 31, 2012, the Company has granted options under the plan to purchase 83,518 shares at a price equal to the fair market value at date of grant, of which 75,951 options have been exercised or forfeited, leaving 7,567 granted options outstanding at March 31, 2012. Options granted under the NDSI Plan vest one year from the date of grant and have ten year contractual terms. All outstanding options granted under the NDSI plan are currently vested.

There were no options granted in 2012 or 2011 under either the 1998 Plan or the NDSI Plan.

Exercise prices for options outstanding under the 1998 Plan and NDSI Plan as of September 30, 2011 ranged from \$27.66 to \$27.90. The weighted-average remaining contractual life of those options is approximately 1 year. None of the options granted under the 1998 Plan or NDSI Plan contains conversion features.

The following is a summary of the Company's stock option activity and related information for the three month period ended March 31, 2012:

| | Options | Weighted-Average Exercise Prices Per Share |
|-----------------------------------|---------|--|
| Outstanding beginning of period | 66,693 | \$ 27.32 |
| Granted | | |
| Exercised | (5,013) | 24.49 |
| Forfeited/Cancelled | (2,613) | 24.49 |
| Outstanding end of period | 59,067 | \$ 27.69 |
| Options exercisable end of period | 59,067 | \$ 27.69 |

As of March 31, 2012, there was no unrecognized compensation cost related to stock options. No shares vested during the three months ended March 31, 2012, therefore, the fair value of shares vesting was zero. The total intrinsic value of options exercised during the three months ended March 31, 2012 and 2011 were \$3,000 and \$475,000, respectively. As of March 31, 2012, there were 59,067 options vested and exercisable with a weighted-average exercise price of \$27.69, aggregate intrinsic value of \$56,000, and weighted-average remaining contractual life of approximately 1 year.

Table of Contents**NOTE J STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS**

The Company's stock incentive plans provide for the making of awards to employees based upon time-based criteria or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with time-based vesting, performance share grants that only vest upon the achievement of specified performance conditions, and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance conditions. The Company has issued 167,561 shares of restricted stock that vest over three and four-year periods of time and of this amount 132,814 shares have vested. The Company also has granted performance units with stock awards ranging from zero shares if below threshold performance conditions to 102,650 for threshold performance, 683,903 shares for target performance, and 1,006,975 for maximum performance. These awards are tied to corporate cash flow goals and the achievement of specified milestone development activities.

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 2012 | December 31 2011 |
|---|------------------|---------------------|
| Stock Grants Outstanding Beginning of the Year - Target | 744,508 | 782,087 |
| New Stock Grants/Additional shares maximum achievement | 42,543 | 64,679 |
| Vested Grants | (68,401) | (36,980) |
| Expired/Forfeited Grants | | (65,278) |
| Stock Grants Outstanding End of Year - Target | 718,650 | 744,508 |

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

For the three months ending March 31, 2012 there was total employee stock compensation of \$1,167,000 with \$971,000 being expensed and \$196,000 being capitalized to projects. For the three months ending March 31, 2011 we recognized \$1,231,000 in expense.

Under the NDSI Plan, each non-employee director receives his or her annual compensation in stock. Under this plan, 72,875 shares of stock have been granted since the plan was adopted in 2004. During 2012, 2,837 shares have been granted. Total expenses relating to non-employee director stock compensation during the three months ended March 31, 2012 and 2011 was \$81,000.

NOTE K RETIREMENT PLAN

The Company has a defined benefit plan that covers many of its employees. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to date and expected to be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. The Company anticipates contributing approximately \$750,000 to the plan during 2012.

Table of Contents

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, 2012, the investment mix was approximately 70% equity, 27% debt, and 3% money market funds. At December 31, 2011, the investment mix was approximately 66% equity, 29% debt and 5% 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 4.4% in 2012 and 2011. The expected long-term rate of return on plan assets is 7.5% in 2012 and 2011. The long-term rate of return on plan assets is based on the historical returns within the plan and expectations for future returns.

The expected total pension and retirement expense was as follows for the three months ended March 31, 2012 and 2011:

| (In thousands) | 2012 | 2011 |
|--|--------------|--------------|
| Cost components: | | |
| Service cost-benefits earned during the period | \$ (63) | \$ (60) |
| Interest cost on projected benefit obligation | (96) | (79) |
| Expected return on plan assets | 111 | 86 |
| Net amortization and deferral | (105) | (47) |
| Total net periodic pension cost | \$ (153) | \$ (100) |

NOTE L INCOME TAXES

For the three months ended March 31, 2012, the Company incurred income tax benefits of \$228,000 compared to a net income tax expense of \$4,660,000 for the three months ended March 31, 2011. These represent effective income tax rates of approximately 40% and 35% for the three months ended March 31, 2012 and, 2011, respectively. The effective tax rate is calculated based on net income during the first quarter of 2012 adjusted for estimated permanent tax differences such as depletion allowances. The large increase in depletion allowances for the quarter is due to higher oil and gas revenues and is the primary driver of the increase in permanent tax differences that is creating the current period tax benefit. As of March 31, 2012, our balance sheet reflects an income tax receivable of \$258,000.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. During the first three months ended March 31, 2012, the Company made income tax payments of \$3,401,000 for the 2011 tax year.

Table of Contents**NOTE M SEGMENT REPORTING**

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

| (In thousands) | 2012 | 2011 |
|--|----------|----------|
| Commercial leases | \$ 1,396 | \$ 1,305 |
| Oil and Gas revenue | 3,665 | 1,637 |
| Mineral revenue | 261 | 220 |
| Grazing leases | 293 | 284 |
| Land Sale | 141 | |
| All other land management ancillary services | 298 | 840 |
| | \$ 6,054 | \$ 4,286 |

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

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

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

Table of Contents

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

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

Overview

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

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

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

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

For the first three months of 2012 we had net income of \$233,000 compared to net income of \$8,695,000 for the first three months of 2011. When comparing to the first three months of 2011, the decrease is largely the result of the sale of conservation easements for \$15,750,000 in 2011, which is partially offset by improved in oil royalties and farming revenues.

Critical Accounting Policies

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

Table of Contents

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

Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2011. Please refer to that filing for a description of our critical accounting policies.

Results of Operations

Comparison of three months ended March 31, 2012 to three months ended March 31, 2011

Total revenue from segment operations for the first three months of 2012 was \$9,579,000 compared to \$22,646,000 for the first three months of 2011, representing a decrease of \$13,067,000, or 58%.

Commercial/industrial segment revenues increased \$1,768,000 in the first three months of 2012 compared to the same period of 2011 primarily due to increased oil lease and royalty payments of \$2,028,000. All other services were in line with the 2011 three-month period. Oil royalties improved as they are tied directly to the market price of oil, which has increased 24% compared to the same period of 2011. Production increased 52% during the first three months of 2012 compared to the same three-month period in 2011. We continue to see increased interest in our exploration activities on our lands and have seen two new wells drilled during 2012 in addition to the two wells drilled in the fourth quarter of 2011. These four new wells were a major player in the increase in production during the first three months of 2012 compared to the same period in 2011. This increase in activity does not mean there will be any increase in royalty revenue because new sources of oil may not be found.

The resort/residential segment reported revenues of \$41,000 during the first three months of 2012 compared to \$15,750,000 during the first three months of 2011. The 2011 period reflects the sale of five conservation easements totaling approximately 62,000 acres for \$15,750,000 to the Tejon Ranch Conservancy, an independent non-profit organization set up as a part of the 2008 Conservation and Land Use Agreement by the conservation groups that signed the agreement. The Company will retain fee ownership of the 62,000 acres and continue to operate current revenue generating activities including farming, cattle grazing, filming, oil and gas and other mineral exploration and production on portions of the acreage. The conservation easements will preclude the Company from pursuing any long-term development on the 62,000 acres.

Farming revenues increased \$874,000 in the first three months of 2012 compared to the same period in 2011 primarily due to an increase of \$930,000 in pistachio revenue, of which \$406,000 was due to a price adjustment for the 2010 crop year. There was a carry-forward of the 2011 pistachio crop year inventory into 2012, the sale of which increased 2012 revenues, and no inventory carry-forward occurred in 2011 from the 2010 pistachio crop. The increase in pistachio revenues was partially offset by a decrease of \$82,000 in almond revenue compared to the prior year mainly due to a 12% decrease in average price during the first three months of 2012 compared to the same period in 2011. As 2012 progresses, we expect prices for almonds to improve due to continued strong demand for almonds.

Net income attributable to common stockholders for the first three months of 2012 was \$275,000, or \$0.01 per share, compared to net income attributable to common stockholders of \$8,736,000, or \$0.44 per share, for the same period in 2011. The decline for the first three months of 2012 is primarily due to the sale of the conservation easements during the first three months of 2011, as described above, and increases in operating expenses. These negative impacts to income were partially offset by net increases in oil revenues and farming revenues during the first quarter of 2012.

Expenses within our commercial/industrial segment increased \$63,000, or 2% during the first three months of 2012 compared to the same period in 2011. Within the commercial expense category there was a \$119,000 increase in professional fees mainly due to the refinancing of CFD bonds. Property taxes increased by \$88,000 related to reassessments from property improvements. These increases were partially offset by \$222,000 lower assessments by the Tejon-Castac Water District.

Expenses within our resort/residential segment increased \$70,000, or 7%, during the first three months of 2012 compared to the same period in 2011. The increase is primarily due to higher hay and alfalfa harvesting expenses.

Farming expenses decreased \$82,000, or 3%, during the first three months of 2012 compared to the first three months of 2011 primarily due to a \$157,000 decrease in almond cost of sales. This decrease is partially offset by a \$126,000 increase in pistachio cost of sales.

Edgar Filing: TEJON RANCH CO - Form 10-Q

Corporate general and administrative costs increased \$332,000, or 12%, during the first three months of 2012 compared to the same period in 2011, primarily due to a \$202,000 increase in compensation costs resulting from the hiring employees during the later half of 2011 and early 2012.

Table of Contents

Our unconsolidated joint ventures generated net losses of \$359,000 in the first three months of 2012 compared to net losses of \$442,000 in the first three months of 2011. Our Rockefeller joint ventures had a \$99,000 lower net loss in the first three months of 2012 compared to the first three months of 2011, mainly as a result of their share of oil royalties from the production of new wells. This decrease is partially offset by \$12,000 higher net loss from our TA/Petro joint venture and \$4,000 higher loss at our TMV joint venture.

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 evaluating and performing due diligence related to the viability of an outlet center within TRCC-East to expand our retail product offerings within that development.

We continue to focus our industrial development marketing efforts for TRCC-East and TRCC-West on the labor and logistical benefits of our site and the success that current tenants and owners within our development have experienced. Our development strategy fits within the logistics model that many companies are using, which favors larger single-site buildings rather than a number of decentralized smaller distribution centers. Buildings of 1.0 million square feet or larger are becoming difficult to build in Los Angeles due to the number of acres necessary for a building of that size. We believe that our ability to provide land parcels to support buildings of that size can provide us with a potential marketing advantage in the future. A potential disadvantage to our development strategy is our distance from the Port of Los Angeles in comparison to the traditional warehouse/distribution centers east of Los Angeles. During 2011 and the first three months of 2012, vacancy rates have declined in the Inland Empire region of Los Angeles, a large industrial area within Los Angeles. Lease rates however, continue to be depressed when compared to lease rates prior to the economic recession.

During 2012, we anticipate that our commercial/industrial and resort/residential real estate segments will incur costs, net of amounts capitalized, related to professional service fees, marketing costs, commissions, planning costs, and staffing costs as we continue to pursue development opportunities. Infrastructure development and marketing activities and costs could continue over the next several years as we develop our land holdings.

Most of the expenses incurred within our resort/residential segment during 2012 will be focused on the ongoing implementation of the Conservation and Land Use Agreement and in coordinating efforts with our joint venture partners in the achievement of entitlement for Centennial Founders, LLC and reacting to the legal challenges against TMV.

All of our crops are sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices. While it is still too early in the year to predict with any certainty, we estimate that our 2012 almond crop production will be on par with 2011 production due to what appears to be a good spring growing period. Almond prices, declined slightly in the first quarter, but with demand remaining strong for almonds we expect pricing for the year to be comparable to 2011. We were still holding 360,000 pounds of 2011 crop almonds in inventory at March 31, 2012. The market value of our remaining 2011 almond inventory exceeds the carrying value of that inventory.

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, 2011, or Annual Report, and to "Risk Factors" under Part II, Item 1A of this report and in Part I, Item 1A of our Annual Report.

Table of Contents

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

Income Taxes

For the three months ended March 31, 2012, the Company incurred income tax benefits of \$228,000 compared to a net income tax expense of \$4,660,000 for the three months ended March 31, 2011. These represent effective income tax rates of approximately 40% and 35% for the three months ended March 31, 2012 and, 2011, respectively. The effective tax rate is calculated based on net income during the first quarter of 2012 adjusted for estimated permanent tax differences such as depletion allowances. The large increase in depletion allowances for the quarter is due to higher oil and gas revenues and is the primary driver of the increase in permanent tax differences that is creating the current period tax benefit. As of March 31, 2012, our balance sheet reflects an income tax receivable of \$258,000.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. During the first three months ended March 31, 2012, the Company made income tax payments of \$3,401,000 for the 2011 tax year.

Cash Flow and Liquidity

Our cash, cash equivalents and marketable securities totaled approximately \$75,508,000 at March 31, 2012, a decrease of \$11,430,000, or 13%, from the corresponding amount at the end of 2011. Cash, cash equivalents and marketable securities decreased during the first three months of 2012 due to property and equipment expenditures that included infrastructure development costs, investment in joint ventures, and payment of income taxes.

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

| (In thousands) | 2012 | 2011 |
|----------------------|-------------|----------|
| Operating activities | \$ 3,049 | \$ 3,812 |
| Investing activities | \$ (12,368) | \$ 3,567 |
| Financing activities | \$ (1,010) | \$ 353 |

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

During the first three months of 2011, our operations provided \$3,812,000 of cash primarily from the collection of farming receivables and the positive impact to the results of add back adjustment of non-cash items.

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 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 and crop development.

During the first three months of 2011, investing activities provided \$3,567,000 of cash primarily as a result of the sale of conservation easements for \$15,750,000. During the period, we invested \$8,267,000 in marketable securities, net of maturities, \$2,602,000 in capital expenditures, \$727,000 in our unconsolidated joint ventures and \$485,000 in a pistachio processing company.

It is anticipated that throughout the remainder of 2012 we will continue to invest funds in our real estate development projects and joint ventures. We estimate that our investment requirements over the remainder of 2012 could total approximately \$18,000,000. These amounts include contributions to our joint ventures, primarily TMV and Centennial, investments in infrastructure within TRCC-East, and ordinary recurring capital investments within our operating segments. Throughout the remainder of 2012, contributions to joint ventures will be related to the entitlement process for Centennial Founders LLC and permitting, litigation costs, and water turnout development costs for TMV.

During the first three months of 2012, financing activities used \$1,010,000 in cash, primarily as a result of payroll taxes on issuance of restricted stock grants. During the first three months of 2011, financing activities provided \$353,000 in cash, primarily as a result of proceeds from the

Edgar Filing: TEJON RANCH CO - Form 10-Q

exercise of stock options partially offset by payroll taxes on issuance of restricted stock grants. At March 31, 2012 and at the date of filing of this Form 10-Q there was no outstanding balance on our line of credit.

Table of Contents**Capital Structure and Financial Condition**

At March 31, 2012, total capitalization at book value was \$301,365,000 consisting of \$281,000 of debt and \$301,084,000 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, 2011.

We have a long-term revolving line of credit of \$30,000,000 that, as of March 31, 2012, had no outstanding balance. At the Company's option, the interest rate on this line of credit can be fixed at 2.50% over a selected LIBOR rate or can be fixed at 2.25% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in October 2013), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. Under the terms of the line of credit, we must maintain tangible net worth, defined as total equity, including noncontrolling interests, plus debt less intangible assets, not less than \$175,000,000 and liquid assets of not less than \$25,000,000. At March 31, 2012 our tangible net worth was \$301,365,000 and liquid assets were \$75,508,000. This line of credit is secured by a portion of our farm acreage.

The outstanding long-term debt, less current portion of \$38,000, is \$243,000 at March 31, 2012. This debt is being used to provide long-term financing for a building being leased to Starbucks and the debt is secured by the leased building and land.

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

As noted above, at March 31, 2012, we had \$75,508,000 in cash and securities and as of the filing date of this Form 10-Q, we have \$30,000,000 available on credit lines to meet any short-term liquidity needs. We continue to expect that substantial future investments will be required in order to develop our land assets upon full entitlement of our community projects. In order to meet these long-term capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we may use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. There is no assurance that we can obtain financing from any of these sources or that we can obtain financing at favorable terms. Based on the Company's current financial position, we believe that we will have adequate capital resources to fund our cash needs and our capital investment requirements over the next few years.

Contractual Cash Obligations

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

| (In thousands) | Total | Payments Due by Period | | | |
|--------------------------------------|-----------------|------------------------|---------------|---------------|------------------|
| | | One Year or Less | Years 2-3 | Years 4-5 | After 5 Years |
| CONTRACTUAL OBLIGATIONS: | | | | | |
| Long-term debt | \$ 281 | \$ 38 | \$ 84 | \$ 96 | \$ 63 |
| Interest on fixed rate debt | 63 | 18 | 27 | 15 | 3 |
| Line of Credit | 30 | 30 | | | |
| Letter of Credit Fee | 69 | 69 | | | |
| Tejon Ranch Conservancy | 4,440 | 590 | 880 | 880 | 2,090 |
| Cash contract commitments | 3,788 | 3,788 | | | |
| Total contractual obligations | \$ 8,671 | \$ 4,533 | \$ 991 | \$ 991 | \$ 2,156 |

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.

Table of Contents

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

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

As discussed in Note J Retirement Plan in the Notes to Unaudited Consolidated Financial Statements in this report, we have long-term liabilities for employee retirement plans. The payments related to retirement plans are not included above since they are dependent upon when the employee retires or leaves the Company. In addition, minimum pension funding requirements are not included above, as such amounts are not available for all periods presented. We estimate that we will contribute approximately \$750,000 to the pension plan in 2012.

Off-Balance Sheet Arrangements

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

| (In thousands) | Amount of Commitment Expiration Per Period | | | | |
|---|--|---------------------|-----------|-----------|------------------|
| | Total | One Year or Less | Years 2-3 | Years 4-5 | After 5 Years |
| OTHER COMMERCIAL COMMITMENTS: | | | | | |
| Standby letter of credit | \$ 2,189 | \$ 2,189 | \$ | \$ | \$ |
| Total other commercial commitments | \$ 2,189 | \$ 2,189 | | \$ | \$ |

The standby letter of credit described above is related to the issuance of East CFD bonds by TRPFFA. The standby letter of credit, requested by TRPFFA, is in place to provide additional credit enhancement and cover approximately two years worth of interest on the outstanding bonds. The annual cost for the letter of credit is approximately \$33,000. The letter of credit will not be drawn upon unless we, as the largest landowner in each CFD, fail to make its property tax payments. The letter of credit is for two-year period of time and will be renewed in two-year intervals as necessary. We anticipate renewing the letter of credit because we continue to be the largest landowner within the development. During the first quarter of 2012, TRPFFA refinanced \$22,500,000 of West CFD bonds to lower bond interest rates. The refinancing allowed for the release of the West CFD letter of credit that was outstanding at year-end.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Financial Market Risks

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

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

Edgar Filing: TEJON RANCH CO - Form 10-Q

Our line-of-credit currently has no outstanding balance. The interest rate on our new line-of-credit can either float with LIBOR or be tied to a specific LIBOR rate on a fixed basis and change only at maturity of the fixed-rate feature. We are exposed to interest rate risk on our long term debt currently outstanding. The long-term debt of \$281,000 has a fixed interest rate of 6.75%, and the fair value

Table of Contents

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, 2012, we had no outstanding interest rate swap agreements. However, TA/Petro, an unconsolidated joint venture of the Company, has an interest rate swap agreement with respect to \$18,568,000 of its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matures in August 2012 and is a contract to exchange variable-rate for fixed-rate interest payments periodically over the life of the agreement. The interest rate swap fixed rate is 6.05%. Changes in the value of the interest rate swap are reflected in other comprehensive income of the joint venture, and the Company accounts for its share of the change in the interest rate swap in other comprehensive income. At March 31, 2012, the Company's share of the loss in the interest rate swap is \$97,000.

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

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

Interest Rate Sensitivity Financial Market Risks

Principal Amount by Expected Maturity

At March 31, 2012

(In thousands)

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair Value at 3/31/2012 |
|--------------------------------|----------|-----------|-----------|-----------|----------|------------|-----------|----------------------------|
| Assets: | | | | | | | | |
| Marketable securities | \$ 8,110 | \$ 25,992 | \$ 23,185 | \$ 14,478 | \$ 1,176 | \$ | \$ 72,941 | \$ 73,563 |
| Weighted average interest rate | 2.80% | 1.85% | 1.42% | 1.58% | 1.52% | | 1.76% | |
| Liabilities | | | | | | | | |
| Long-term debt | \$ 28 | \$ 40 | \$ 43 | \$ 46 | \$ 46 | \$ 75 | \$ 281 | \$ 281 |
| Weighted average interest rate | 6.75% | 6.75% | 0.00% | 6.75% | 6.75% | 6.75% | 6.75% | |

Table of Contents

Interest Rate Sensitivity Financial Market Risks

Principal Amount by Expected Maturity

At December 31, 2011

(In thousands)

| | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total | Fair Value 12/31/2011 |
|--------------------------------|-----------|-----------|-----------|-----------|-------|------------|-----------|--------------------------|
| Assets: | | | | | | | | |
| Marketable securities | \$ 10,622 | \$ 25,756 | \$ 21,100 | \$ 10,686 | \$ | \$ | \$ 68,164 | \$ 68,566 |
| Weighted average interest rate | 3.19% | 1.87% | 1.47% | 1.72% | | | 1.86% | |
| Liabilities: | | | | | | | | |
| Long-term debt | \$ 37 | \$ 40 | \$ 43 | \$ 46 | \$ 49 | \$ 75 | \$ 290 | \$ 290 |
| Weighted average interest rate | 6.75% | 6.75% | 6.75% | 6.75% | 6.75% | 6.75% | 6.75% | |

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

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

Commodity Price Exposure

As of March 31, 2012, 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 \$7,112,000 of accounts receivable outstanding at March 31, 2012, \$3,932,000 is at risk to changing prices. Of the amount at risk to changing prices, \$2,405,000 is attributable to pistachios, and \$1,527,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2011 was \$5,239,000 of the total accounts receivable of \$7,832,000. Of the December 31, 2011 amount at risk to changing prices, \$3,616,000 is related to pistachios and \$1,623,000 is related to almonds.

The price estimated for recording accounts receivable for pistachios recorded at March 31, 2012 was \$2.40 per pound, as compared to \$2.17 per pound at December 31, 2011. For each \$.01 change in the price of pistachios, our receivable for pistachios increases or decreases by \$10,000. Although the final price of pistachios (and therefore the extent of the risk) is not presently known, over the last three years

Table of Contents

prices have ranged from \$1.91 to \$2.75. With respect to almonds, the price estimated for recording the receivable was \$1.71 per pound. For each \$0.01 change in the price of almonds, our receivable for almonds increases or decreases by \$9,000. The range of final prices over the last three years for almonds has ranged from \$1.54 to \$1.75 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 D Commitments and Contingencies in the Notes to Unaudited Consolidated financial Statements in this report.

Item 1A. Risk Factors

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

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

None.

Table of Contents

3. 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 Agreement | FN 9 |
| 10.19 | *Form of Restricted Stock Unit Agreement for Directors | FN 9 |
| 10.23 | Tejon Mountain Village LLC Operating Agreement | FN 11 |
| 10.24 | Tejon Ranch Conservation and Land Use Agreement | FN 12 |

Table of Contents

| | | |
|---------|--|-------|
| 10.25 | Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC | FN 15 |
| 31.1 | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 200295 | |
| 31.2 | Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 200296 | |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 200297 | |
| 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 1-7183) as Exhibit 4.4 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 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.

Table of Contents

- 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.
- 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.

(b) Exhibits

The exhibits being filed with this report are attached at the end of this report.

(c) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

Table of Contents

SIGNATURES

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

TEJON RANCH CO.
(The Company)

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

May 4, 2012
DATE