

TEJON RANCH CO  
Form 10-Q  
November 12, 2013

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

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

For the quarterly period ended September 30, 2013  
Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-7183

TEJON RANCH CO.  
(Exact name of Registrant as specified in its charter)

Delaware 77-0196136  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

P.O. Box 1000, Lebec, California 93243  
(Address of principal executive offices)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Non-accelerated filer

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

The number of the Company's outstanding shares of Common Stock on November 1, 2013 was 20,140,872.

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## 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		Nine Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Revenues:				
Real estate - commercial/industrial	\$2,842	\$2,738	\$8,389	\$7,509
Real estate - resort/residential	410	132	881	267
Mineral resources	2,424	3,447	8,055	11,232
Farming	9,452	9,797	15,038	14,534
Total revenues	15,128	16,114	32,363	33,542
Costs and Expenses:				
Real estate - commercial/industrial	3,290	3,056	9,544	8,994
Real estate - resort/residential	804	1,430	2,378	3,585
Mineral resources	152	33	377	190
Farming	6,224	5,003	9,660	8,224
Corporate expenses	2,913	2,590	7,402	9,437
Total expenses	13,383	12,112	29,361	30,430
Operating income	1,745	4,002	3,002	3,112
Other Income:				
Investment income	216	313	729	948
Interest income (expense)	—	33	—	(2
Other income	20	15	37	50
Total other income	236	361	766	996
Income from operations before equity in earnings of unconsolidated joint ventures	1,981	4,363	3,768	4,108
Equity in earnings of unconsolidated joint ventures, net	1,241	1,114	2,920	1,648
Income before income tax expense	3,222	5,477	6,688	5,756
Income tax expense	919	1,525	1,752	1,461
Net income	2,303	3,952	4,936	4,295
Net income (loss) attributable to non-controlling interest	11	(69	) (55	) (119
Net income attributable to common stockholders	\$2,292	\$4,021	\$4,991	\$4,414
Net income per share attributable to common stockholders, basic	\$0.11	\$0.20	\$0.25	\$0.22
Net income per share attributable to common stockholders, diluted	\$0.11	\$0.20	\$0.25	\$0.22

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## TEJON RANCH CO. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Three Months Ended		Nine Months Ended		
	September 30		September 30		
	2013	2012	2013	2012	
Net income	\$2,303	\$3,952	\$4,936	\$4,295	
Other comprehensive income (loss):					
Unrealized gains (losses) on available for sale securities	99	193	(353	) 344	
Equity in other comprehensive income of unconsolidated joint venture	—	33	—	152	
Other comprehensive income (loss) before taxes	99	226	(353	) 496	
(Provisions) benefit for income taxes related to other comprehensive income (loss) items	(40	) (90	) 141	(198	)
Other comprehensive income (loss)	59	136	(212	) 298	
Total comprehensive income	2,362	4,088	4,724	4,593	
Total comprehensive income (loss) attributable to non-controlling interests	11	(69	) (55	) (119	)
Total comprehensive income attributable to common stockholders	\$2,351	\$4,157	\$4,779	\$4,712	

See accompanying notes.

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TEJON RANCH CO. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share and share data)

	September 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$9,082	\$7,219
Marketable securities - available-for-sale	64,487	65,049
Accounts receivable	10,341	8,768
Inventories	6,555	3,839
Prepaid expenses and other current assets	3,798	4,881
Deferred tax assets	1,180	997
Total current assets	95,443	90,753
Property and equipment - net of depreciation (includes \$74,426 at September 30, 2013 and \$72,115 at December 31, 2012, attributable to Centennial Founders LLC, Note 12)	143,284	146,590
Investments in unconsolidated joint ventures	62,000	54,022
Long-term water assets	30,349	28,565
Long-term deferred tax assets	5,166	5,376
Other assets	2,151	2,550
<b>TOTAL ASSETS</b>	<b>\$338,393</b>	<b>\$327,856</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$1,855	\$3,845
Accrued liabilities and other	4,252	2,132
Income taxes payable	835	—
Deferred income	1,147	1,195
Current portion of long-term debt	231	41
Total current liabilities	8,320	7,213
Long-term debt, less current portion	4,519	212
Long-term deferred gains	2,248	2,248
Other liabilities	7,382	6,508
Pension liability	2,929	3,416
Total liabilities	25,398	19,597
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, \$.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 20,140,872 at September 30, 2013 and 20,085,865 at December 31, 2012	10,070	10,043
Additional paid-in capital	205,032	198,117
Accumulated other comprehensive loss	(5,330	) (5,118 )
Retained earnings	63,611	65,550
Total Tejon Ranch Co. Stockholders' Equity	273,383	268,592
Non-controlling interest	39,612	39,667
Total equity	312,995	308,259
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$338,393</b>	<b>\$327,856</b>

See accompanying notes.

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

	Nine Months Ended September 30	
	2013	2012
Operating Activities		
Net income	\$4,936	\$4,295
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,836	3,656
Amortization of premium/discount of marketable securities	682	638
Equity in earnings of unconsolidated joint ventures, net	(2,920)	(1,648)
Non-cash retirement plan expense	487	313
Gains on sales of real estate/assets	(50)	(606)
Deferred income taxes	210	—
Amortization of stock compensation expense	401	4,184
Distribution of earnings from unconsolidated joint ventures	—	7,200
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(2,260)	(5,458)
Current liabilities, net	703	(1,088)
Net cash provided by operating activities	5,025	11,486
Investing Activities		
Maturities and sales of marketable securities	20,364	14,266
Funds invested in marketable securities	(20,837)	(13,831)
Property and equipment expenditures	(15,789)	(15,777)
Investment in long term term water assets	(2,315)	—
Investment in unconsolidated joint ventures	(2,899)	(5,404)
Distribution of equity from unconsolidated joint ventures	—	1,012
Reimbursement of outlet center costs	512	—
Reimbursement proceeds from community facilities district	14,139	—
Other	(200)	(776)
Net cash used in investing activities	(7,025)	(20,510)
Financing Activities		
Borrowings of short-term debt	—	1,500
Repayments of short-term debt	—	(1,500)
Borrowings of long-term debt	4,750	—
Repayments of long-term debt	(253)	(28)
Proceeds from exercise of stock options	211	158
Taxes on vested stock grants	(845)	(2,270)
Net cash provided by (used in) financing activities	3,863	(2,140)
Increase (decrease) in cash and cash equivalents	1,863	(11,164)
Cash and cash equivalents at beginning of year	7,219	18,372
Cash and cash equivalents at end of period	\$9,082	\$7,208
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	\$73	\$31
Sale of assets accounted as direct finance leases	\$—	\$913
See accompanying notes.		





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TEJON RANCH CO. AND SUBSIDIARIES  
 UNAUDITED 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 January 1, 2012	19,975,706	\$9,988	\$194,273	\$ (4,756 )	\$61,109	\$ 260,614	\$ 39,825	\$ 300,439
Net income	—	—	—	—	4,441	4,441	(158 )	4,283
Other comprehensive income	—	—	—	(362 )	—	(362 )	—	(362 )
Exercise of stock options and related tax benefit of \$8	13,641	7	363	—	—	370	—	370
Restricted stock issuance	179,172	89	(89 )	—	—	—	—	—
Stock compensation	—	—	5,832	—	—	5,832	—	5,832
Shares withheld for taxes	(82,654 )	(41 )	(2,262 )	—	—	(2,303 )	—	(2,303 )
Balance at December 31, 2012	20,085,865	10,043	198,117	(5,118 )	65,550	268,592	39,667	308,259
Net income	—	—	—	—	4,991	4,991	(55 )	4,936
Other comprehensive income	—	—	—	(212 )	—	(212 )	—	(212 )
Exercise of stock options and related tax benefit of \$3	7,567	4	207	—	—	211	—	211
Restricted stock issuance	75,749	37	(37 )	—	—	—	—	—
Stock compensation	—	—	646	—	—	646	—	646
Shares withheld for taxes	(28,309 )	(14 )	(831 )	—	—	(845 )	—	(845 )
Warrants issued as dividends (3,000,000 warrants)	—	—	6,930	—	(6,930 )	—	—	—
Balance at September 30, 2013	20,140,872	\$10,070	\$205,032	\$ (5,330 )	\$63,611	\$ 273,383	\$ 39,612	\$ 312,995

See accompanying notes.

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## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

## 1. BASIS OF PRESENTATION

The summarized information of Tejon Ranch Co. and its subsidiaries, (collectively, the “Company”), furnished pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of the Company’s management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature. The Company has reclassified certain prior period amounts in the consolidated statements of operations, and cash flows to conform to the current year presentation. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

The periods ending September 30, 2013 and 2012 include the consolidation of Centennial Founders, LLC’s statement of operations within the resort /residential segment and statements of cash flows. The Company’s September 30, 2013 and December 31, 2012 balance sheets and statements of equity are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

The Company has identified four reportable segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; and farming. The Company determined that the mineral resources segment should be reported, as a result of an evaluation of the Company’s operations during the fourth quarter of 2012. Mineral resources collects royalty income from oil and gas leases, rock and aggregate leases, and from a cement company. Information for the Company’s reported segments is presented in its consolidated statements of operations. The Company’s reporting segments follow the same accounting policies used for the Company’s consolidated financial statements. Management evaluates a segment’s performance based upon a number of factors including pretax results.

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

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

## 2. EQUITY

## Earnings Per Share (EPS)

Net income (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, warrants to purchase common stock, and vesting of stock grants per U.S. generally accepted accounting principles, or GAAP.

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted average number of shares outstanding:				
Common stock	20,140,473	20,074,233	20,125,792	20,030,396
Common stock equivalents-stock options, grants	45,489	18,821	40,864	58,695
Diluted shares outstanding	20,185,962			