TEJON RANCH CO
Form 10-K
March 17, 2014

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

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

For the fiscal year ended December 31, 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 incorporation or organization)	(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
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark 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 ((§232.405of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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	x
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 x

The aggregate market value of registrant's Common Stock, par value $.50 per share, held by persons other than those who may be deemed to be affiliates of registrant on June 28, 2013 was $477,145,905 based on the last reported sale price on the New York Stock Exchange as of the close of business on that date.

The number of the Company's outstanding shares of Common Stock on February 28, 2014 was 20,568,058.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 7, 2014 relating to the directors and executive officers of the Company are incorporated by reference into Part III.

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PART I

Forward Looking Statements

This annual report on Form 10-K contains forward-looking statements, including statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields and prices, 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”, “w
expressions. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, market and economic forces, availability of financing for land development activities, competition and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above and in Part I, Item 1A, “Risk Factors” of this report.

ITEM 1. BUSINESS

Tejon Ranch Co. (the Company, Tejon, we, us and our) is 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.

These activities are performed through our four major segments:

- Real Estate - Commercial/Industrial development
- Real Estate - Resort/Residential development
- Mineral Resources
- Farming

Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield. We create value by securing entitlements for our land, facilitating infrastructure development, strategic land planning, development, and conservation, in order to maximize the highest and best use for our land.

We are involved in several joint ventures, which facilitate the development of portions of our land. We are also actively engaged in land planning, land entitlement, and conservation projects.

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

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS
(Amounts in thousands of dollars)

	2013	2012	2011
Revenues			
Real estate—commercial/industrial	$ 11,148	$ 9,941	$ 13,746
Real estate—resort/residential	1,266	583	16,134
Mineral Resources (1)	10,242	14,012	12,206
Farming	22,682	22,553	21,012
Segment revenues	45,338	47,089	63,098
Investment income	941	1,242	1,260
Other income	66	113	98
Total revenues and other income	$ 46,345	$ 48,444	$ 64,456
Segment Profits and Net Income			
Real estate—commercial/industrial	$ (1,754)	$ (2,330)	$ 525
Real estate—resort/residential	(2,085)	(4,178)	12,192
Mineral Resources (1)	9,780	13,678	11,997
Farming	7,876	9,230	8,437
Segment profits (2)	13,817	16,400	33,151
Investment income	941	1,242	1,260
Other income	66	113	98
Interest expense	—	(12)	—
Corporate expenses	(12,641)	(13,272)	(12,277)
Operating income before equity in earnings of unconsolidated joint ventures	2,183	4,471	22,232
Equity in earnings of unconsolidated joint ventures	4,006	2,535	916
Income before income taxes	6,189	7,006	23,148
Income tax provision	2,086	2,723	7,367
Net income	4,103	4,283	15,781
Net loss attributable to noncontrolling interest	(62)	(158)	(113)
Net income attributable to common stockholders	$ 4,165	$ 4,441	$ 15,894
Identifiable Assets by Segment (3)			
Real estate—commercial/industrial	$ 58,390	$ 57,151	$ 56,552
Real estate—resort/residential	124,568	118,627	110,147
Mineral Resources (1)	1,063	1,449	1,193
Farming	31,925	29,538	24,326
Corporate	126,933	121,091	129,758
Total assets	$ 342,879	$ 327,856	$ 321,976

(1) During the fourth quarter of 2012, the Company evaluated its operations and determined that an additional segment should be reported, Mineral Resources. Mineral Resources collects royalty income from oil and gas leases, rock and aggregate leases, and from a cement company.

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

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

Real Estate Operations

Our real estate operations consist of the following activities: land planning and entitlement, real estate development, commercial sales and leasing, income portfolio management and conservation.

Interstate 5, one of the nation's most heavily traveled freeways, brings approximately 100,000 vehicles per day through our land, which includes 16 miles of Interstate 5 frontage on each side of the freeway and the commercial land surrounding four interchanges. The strategic plan for real estate focuses on development opportunities along the Interstate 5 corridor, which includes the Tejon Ranch Commerce Center, or TRCC, the Centennial master planned community on our land in Los Angeles County, or Centennial, our resort and residential community called Tejon Mountain Village, or TMV, and a master planned community within the Grapevine Development Area, or Grapevine. TRCC includes development west of Interstate 5, TRCC-West, and development east of Interstate 5, TRCC-East.

Our real estate activities within our commercial/industrial segment include: entitling, planning, and permitting of land for development; construction of infrastructure; the construction of pre-leased buildings; the construction of buildings to be leased or sold; and the sale of land to third parties for their own development. The commercial/industrial segment also includes activities related to communications leases, and ancillary land uses such as grazing leases, landscape maintenance fees, and game management revenues. Our real estate operations within our resort/residential segment at this time include land entitlement, land planning and pre-construction engineering, land stewardship and conservation activities.

Commercial/Industrial

Construction:

During early 2013 we completed road, water, and utility infrastructure in support of the Caterpillar distribution center that was completed in 2012. We also began road and utility relocation, water infrastructure development, and construction at TRCC-East at the beginning of 2013 to open up commercial development south of the TravelCenters of America travel plaza site. This infrastructure development is supporting increased retail development, including the development of the Outlets at Tejon.

Leasing:

Within our commercial/industrial segment, we lease land to various types of tenants. We currently lease land to three auto service stations with convenience stores, seven fast-food operations, two full-service restaurants, one motel, an antique shop, and a United States Postal Service facility.

In addition, the Company leases several microwave repeater locations, radio and cellular transmitter sites, and fiber optic cable routes; 32 acres of land to Calpine Generating Company, or Calpine, for an electric power plant; and one office building in Rancho Santa Fe, California.

The sale and leasing of commercial/industrial real estate is very competitive, with competition coming from numerous and varied sources around California. Our most direct regional competitors are in the Inland Empire region of Southern California and areas north of us in the San Joaquin Valley of California. The principal methods of competition in this industry are price, availability of labor, proximity to the port complex of Los Angeles/Long Beach and customer base. A potential disadvantage to our development strategy is our distance from the ports of Los Angeles and Long Beach in comparison to the warehouse/distribution centers located in the Inland Empire, a large industrial area located east of Los Angeles which continues its expansion eastward beyond Riverside and San Bernardino to include Perris, Moreno Valley, and Beaumont. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcles. During 2013, vacancy rates in the Inland Empire continued to decline despite significant construction activity. The decline in vacancy rates has also led to an improvement in lease rates within the Inland Empire. The decline in vacancy rates and improved pricing led developers to increase inventory within the Inland Empire through aggressive spec building programs which continued into late 2013. As lease rates increase in the Inland Empire, we may begin to have greater pricing advantages due to our lower land basis.

Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding our 2013 commercial/industrial activity.

Joint Ventures:

We are also involved in multiple joint ventures with several partners. Our joint venture with TravelCenters of America, or TA/Petro, owns and operates two travel and truck stop facilities, and also operates three separate gas stations with convenience stores within TRCC-West and TRCC-East. We are involved in three joint ventures with Rockefeller Development Group, the Five West Parcel LLC, which owns a 606,000 square foot building in TRCC-West, that is fully leased, the 18-19 West LLC, which owns 61.5 acres of land for future development within TRCC-West, and the TRCC/Rock Outlet Center LLC that is currently in the process of constructing an outlet center that is scheduled to be open during August 2014.

Resort/Residential

Our resort/residential segment activities include land entitlement, land planning and pre-construction engineering and land stewardship and conservation activities. We have three major resort/residential communities within this segment: TMV, which has litigation free entitlement approvals; the Centennial community, which is still progressing through the entitlement process in Los Angeles County; and the new Grapevine community project, which began in 2013 on land owned within Kern County. The entitlement process precedes the regulatory approvals necessary for land development and routinely takes several years to complete. The Conservation Agreement we entered into with five major environmental organizations in 2008 is designed to minimize the opposition from environmental groups to these projects and eliminate or reduce the time spent in litigation once governmental approvals are received. Litigation by environmental groups has been a primary cause of delay and loss of financial value for real estate development projects in California.

Centennial:

The Centennial development is a large master-planned community development encompassing approximately 11,000 acres of our land within Los Angeles County. Upon completion of Centennial, it is estimated that the community will include approximately 23,000 homes. The community will also incorporate business districts, schools, retail and entertainment centers, medical facilities and other commercial office and light industrial businesses that, when complete, would create a substantial number of jobs. Centennial is being developed by Centennial Founders, LLC, a consolidated joint venture in which we have a 72.83% ownership interest as of December 31, 2013. Our partners in this joint venture are Pardee Homes, Lewis Investment Company and Standard Pacific Corp.

Since the initial submittal of our administrative-level environmental impact report, or EIR, with respect to the Centennial community to Los Angeles County, we have continued to receive feedback from the Los Angeles Planning Department and have submitted several revisions of our administrative EIR as we work towards the public filing of our EIR and final approval. We are currently working with Los Angeles County to be included in the Antelope Valley Area Plan and the Los Angeles County General Plan in order to gain zoning for our project. We cannot estimate when this process will be completed or if approvals will be granted. Centennial is envisioned to be an ecologically friendly and commercially viable development. Our plan is for a sustainable program that provides for the needs of the community while protecting the environment and will be achieved through our continuing focus on responsible use of limited resources and progressive construction design. We recognize the need to balance expensive “Green Program” certifications with the practicality of investing those same funds in environmentally sound building elements.

Tejon Mountain Village Community:

TMV is planned to be an exclusive, very low-density, resort-based community that will provide owners and guests with a wide variety of recreational opportunities, lodging and spa facilities, world-class golf facilities, a range of housing options, and other exclusive services and amenities that are designed to distinguish TMV as the resort of choice for the Southern California market. TMV is being developed by Tejon Mountain Village LLC, an unconsolidated joint venture in which we have a 50% ownership interest. Our partner in this joint venture is DMB Pacific LLC, or DMB, which is a leading resort/recreational planned community developer. Under the joint venture agreement, the parties have agreed to secure all entitlements and all necessary regulatory approvals, to master plan, develop and sell parcels and homes to end users, and to develop and own, sell or joint venture commercial properties, hotels, and golf course sites in TMV.

TMV is fully entitled and all necessary permits have been issued to begin development. Timing of TMV development in the coming years will be dependent on the continued improvement of the economy and an improvement in the second home real estate market. Moving forward at TMV we will focus on the preparation of and analysis of market research studies, product and pricing studies, engineering estimates, and working with our partner regarding the preparation of a land development plan. As outlined in the joint venture operating agreement, upon the joint approval of a development business plan, the Company will be obligated to contribute our land to the joint venture through a deed of trust. If the members do not agree on a development business plan there are a series of additional steps the members must go through to attempt to come to an agreement. If an agreement cannot be reached then Tejon at that point will have the right to acquire our partner's interest at a fair market value.

Grapevine Development Area:
Grapevine is an approximately 15,315-acre potential development area located on the San Joaquin Valley floor area of our lands, adjacent to TRCC. We are currently focusing on approximately 8,800 acres for a mixed use development to include housing, retail, and commercial industrial components. The 2008 Conservation Agreement allows for the development of up to

12,400 acres in this area. California regulatory dynamics may impact the future ability to entitle new development so we began the land planning and entitlement process for Grapevine during 2013 to take advantage of the existing favorable pro-business and political climate in Kern County. We will be performing the necessary due diligence, documentation, and public process for what will ultimately be a new mixed-use community. This process will take several years and the investment of several million dollars to successfully complete.

The greatest competition for the Centennial and Grapevine communities will come from California developments in the Santa Clarita Valley, Lancaster, Palmdale, and Bakersfield. The developments in these areas will be providing similar housing product as our developments. We will attempt to differentiate our developments through land planning and product offerings. TMV will compete generally for discretionary dollars that consumers will allocate to recreation and second homes, so its competition will range over a greater area and range of projects.

Mineral Resources

As mineral resource revenues have grown management has increased its focus on this segment as an area of future growth. This focus and interest in mineral resources has resulted from the growth in revenues and from the potential of future growth through new leases and drilling. The overall improvement in revenues over the last few years has come from increased oil exploration, new production, and an overall higher price for oil in Kern County. Our goal is to continue to market our mineral assets for leasing and encourage new exploration to potentially increase revenues due to the high margins created from these activities.

We lease certain portions of our land to oil companies for the exploration and production of oil and gas, but do not ourselves engage in any such exploratory or extractive activities. As of December 31, 2013, approximately 7,317 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 539,000 barrels of oil and 423,000 MCF (each MCF being 1,000 cubic feet) of dry gas during 2013. Our share of production, based upon average royalty rates during the last three years, has been 196, 286, and 258, barrels of oil per day for 2013, 2012, and 2011, respectively. Approximately 317 active oil wells were located on the leased land as of December 31, 2013. Royalty rates on our leases averaged 13% in 2013. We also have a significant development and exploration lease with Sojitz Energy Venture, Inc. covering approximately 50,000 acres in the San Joaquin Valley portion of the Company’s land.

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

We have approximately 2,000 acres under lease to National Cement Company of California, Inc., or National, for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. National owns and operates a cement manufacturing plant on our property with a capacity of approximately 1,000,000 tons of cement per year. The amount of payment that we receive under the lease is based upon shipments from the cement plant, which increased during 2013 compared to 2012. The improvement in shipments is due to an increase in road construction activity as compared to the last two years. The term of this lease expires in 2026, but National has options to extend the term for successive periods of 20 and 19 years. Proceedings under environmental laws relating to the cement plant are in process. The Company is indemnified by the current and former tenants and at this time we have no cost related to the issues at the cement plant. See Item 3, “Legal Proceedings,” for a further discussion.

We also lease 521 acres to Granite Construction and Griffith Construction for the mining of rock and aggregate product that is used in construction of roads and bridges. The royalty revenues we receive under these leases are based upon the amount of product produced from the many sites.

Our royalty interests are contractually defined and based on a percentage of production and are received in cash. Our royalty revenues fluctuate based on changes in the market prices for oil, natural gas, and rock and aggregate product, the inevitable decline in production of existing wells and quarries, and other factors affecting the third-party oil and natural gas exploration and production companies that operate on our lands including the cost of development and production.

Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes—1,608 almonds—1,683; and pistachios—1,053. We manage the farming of alfalfa and forage mix on 775 acres in the Antelope Valley and we periodically lease 810 acres of land that is used for the growing of vegetables.

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

Sales of our grape crop typically occurs in the third and fourth quarter of the calendar year, while sales of our pistachio and almond crops also typically occur in the third and fourth quarter of the calendar year, but can occur up to a year or more after each crop is harvested.

In 2013, we sold 63% of our grape crop to one winery, 25% to a second winery and the remainder to one other customer. These sales are under long-term contracts ranging from one to thirteen years. In 2013, our almonds were sold to various commercial buyers, with the largest buyer accounting for 34% of our almond revenues. In 2013, the majority of our pistachios were sold to two customers, purchasing approximately 66% and 19% of the crop, respectively. We do not believe that we would be adversely affected by the loss of any or all of these large buyers because of the markets for these commodities, the large number of buyers that would be available to us, and the fact that the prices for these commodities do not vary based on the identity of the buyer or the size of the contract.

Nut and grape crop markets are particularly sensitive to the size of each year’s world crop and the demand for those crops. Large crops in California and abroad can rapidly depress prices. Crop prices, especially almonds, are also adversely affected by a strong U.S. dollar which makes U.S. exports more expensive and decreases demand for the products we produce. The value of the dollar over the last few years has helped to maintain strong almond prices in the U.S. and in overseas markets.

Our water entitlement for 2013, available from the California State Water Project, or SWP, when combined with supplemental water, was adequate for our farming needs. The State Department of Water Resources, or DWR, has announced its early 2014 estimated water supply delivery at 0% of full entitlement. We expect 2014 to be a difficult water year due to the continuing drought in California. The current 0% allocation of state SWP water is not enough for us to farm our crops, but our additional water resources, such as groundwater and surface sources, and those of the water districts we are in, should allow us to have sufficient water for our farming needs. It is too early in the year to determine the impact of low water supplies and the drought on 2014 California crop production for almonds, pistachios, and wine grapes, but it could be detrimental to statewide production. See discussion of water contract entitlement and long-term outlook for water supply under Item 2, “Properties.” Also see Note 6, Long Term Water Assets, to our Consolidated Financial Statements for additional information regarding our water assets.

General Environmental Regulation

Our operations are subject to federal, state and local environmental laws and regulations including laws relating to water, air, solid waste and hazardous substances. Although we believe that we are in material compliance with these requirements, there can be no assurance that we will not incur costs, penalties, and liabilities, including those relating to claims for damages to property or natural resources, resulting from our operations.

We also expect continued legislation and regulatory development in the area of climate change and greenhouse gases. It is unclear as of this date how any such developments will affect our business. Enactment of new environmental laws or regulations, or changes in existing laws or regulations or the interpretation of these laws or regulations, might require expenditures in the future.

Customers

In 2013 and 2012, Stockdale Oil and Gas, a subsidiary of Occidental Petroleum Corporation, an oil and gas leaseholder, accounted for 10% and 15%, respectively, of our revenues from continuing operations.

Organization

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

Employees

At December 31, 2013, we had 144 full-time employees. None of our employees are covered by a collective bargaining agreement.

Reports

We make available free of charge through our Internet website, www.tejonranch.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or to be furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. We also make available on our website our corporate governance guidelines, charters of our key Board of Directors’ Committees (audit, compensation, nominating and corporate governance, and real

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estate), and our Code of Business Conduct and Ethics for Directors, Officers, and Employees. These items are also available in printed copy upon request. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics for Directors, Officers, and Employees, or waivers of such provisions granted to executive officers and directors, on the web site within four business days following the date of such amendment or waiver. Any document we file with the Securities and Exchange Commission, or SEC, may be inspected, without charge, at the SEC’s public reference room at 100 F Street, N.E. Washington, D.C. 20549 or at the SEC’s internet site address at http://www.sec.gov. Information related to the operation of the SEC’s public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

Executive Officers of the Registrant

The following table shows each of our executive officers and the offices held as of February 28, 2014, the period the offices have been held, and the age of the executive officer. All of such officers serve at the pleasure of the Board of Directors.

Name	Office	Held since	Age
Gregory S. Bielli	President and Chief Executive Officer, Director	2013	53
Dennis J. Atkinson	Senior Vice President, Agriculture	2008	63
Joseph E. Drew	Senior Vice President, Real Estate	2003	71
Allen E. Lyda	Executive Vice President, Chief Financial Officer	2012	56
Greg Tobias	Vice President, General Counsel	2011	49

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

Mr. Bielli has been employed by the Company since September 2013. Mr. Bielli joined the Company as President and Chief Operating Officer and became President and Chief Executive Officer on December 17, 2013. Prior to joining the Company Mr. Bielli was President of Newland Communities' Western Region and was responsible for overseeing management of all operational aspects of Newland's real estate projects in the region. Mr. Bielli worked with Newland Communities from 2006 through August 2013.

Mr. Atkinson has been employed by us since July 1998, serving as Vice President, Agriculture, until 2008 when he was promoted to Senior Vice President, Agriculture.

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

Mr. Lyda has been employed by us since 1990, serving as Vice President, Finance and Treasurer. He was elected Assistant Secretary in 1995 and Chief Financial Officer in 1999. Mr. Lyda was promoted to Senior Vice President in 2008, and Executive Vice President in 2012.

Mr. Tobias has been employed by the Company since November 2011, serving as Vice President and General Counsel. For the five years prior to joining the Company, Mr. Tobias acted as Associate General Counsel for Olympia Land Corporation in Las Vegas, Nevada, where he was responsible for a wide variety of corporate and legal matters. Olympia is a privately held development company whose assets include retail, office, resort and gaming properties. Olympia is best known for developing the master planned golf course community of Southern Highlands.

ITEM 1A. RISK FACTORS

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

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

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

- Supply of similar product, whether residential or industrial

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

A downturn in national or regional economic conditions could adversely impact our business. Real estate industry conditions improved in 2012 and continued to improve throughout most of 2013 with some leveling of demand from homebuilders beginning in late 2013. We cannot predict whether or not the current economic recovery will continue to improve or remain relatively weak and what impact that will have on the real estate industry. Any deterioration in industry conditions as a result of slow economic growth could adversely affect our business or financial results.

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

We are subject to various land use regulations and require governmental approvals and permits for our developments that could be denied. In planning and developing our land, we are subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, infrastructure design, subdivision of land, and construction. All of our new developments require amending existing general plan and zoning designations, so it is possible that our entitlement applications could be denied. In addition, the zoning that ultimately is approved could include density provisions that would limit the number of homes and other structures that could be built within the boundaries of a particular area, which could adversely impact the financial returns from a given project. In addition, many states, cities and counties (including neighboring Ventura County) have in the past approved various “slow growth” or “urban limit line” measures. If that were to occur in the jurisdictions governing the Company’s land use, our future real estate development activities could be significantly adversely affected.

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

We are subject to environmental regulations and opposition from environmental groups that could cause delays and increase the costs of our development efforts or preclude such development entirely. Environmental laws that apply to a given site can vary greatly according to the site’s location and condition, present and former uses of the site, and the presence or absence of sensitive elements like wetlands and endangered species. Federal and state environmental laws also govern the construction and operation of our projects and require compliance with various environmental regulations, including analysis of the environmental impact of our projects and evaluation of our reduction in the projects’ carbon footprint and greenhouse gas emissions. Environmental laws and conditions may result in delays, cause us to incur additional costs for compliance, mitigation and processing land use applications, or preclude development in specific areas. In addition, in California, third parties have the ability to file litigation challenging the approval of a project, which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. While we have worked with representatives of various environmental interests and wildlife agencies to minimize and mitigate the impacts of our planned projects, certain groups opposed to development have made clear they intend to oppose our projects vigorously, so litigation challenging their approval is expected. The issues most commonly cited in opponents’ public comments include the poor air quality of the San Joaquin Valley air basin, potential impacts of projects on the California condor and other species of concern, the potential for our lands to function as wildlife movement corridors, potential impacts of our projects on traffic and air quality in Los Angeles

County, emissions of greenhouse gases, water availability and criticism of proposed development in rural areas as being “sprawl”. In addition, California has a specific statutory and regulatory scheme intended to reduce greenhouse gas emissions in the state and efforts to enact federal legislation to address climate change concerns could require further reductions in our projects’ carbon footprint in the future.

Constriction of the credit markets could limit our ability to access capital and increase our cost of capital. During the recent economic downturn, we relied principally on positive operating cash flow, cash and investments, and equity offerings to meet current working capital needs, entitlement investment, and investment within our developments. While the current economy has seen improvement, any slowdown in the economy could negatively impact our access to credit markets and may limit our sources of liquidity in the future and potentially increase our costs of capital.

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

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

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

Increases in taxes or government fees could increase our cost, and adverse changes in tax laws could reduce demand for homes in our future residential communities. Increases in real estate taxes and other local government fees, such as fees imposed on developers to fund schools, open space, and road improvements, could increase our costs and have an adverse effect on our operations. In addition, any changes to income tax laws that would reduce or eliminate tax deductions or incentives to homeowners, such as a change limiting the deductibility of real estate taxes or interest on home mortgages, could make housing less affordable or otherwise reduce the demand for housing, which in turn could reduce future sales.

Within our real estate projects we incur significant costs before we can begin development or construction of our projects, sell and deliver units to our customers or begin the collection of rent and recover our costs.

We may be subject to delays in the entitlement process and construction, which could lead to higher costs, which could adversely affect our operating results. Changing market conditions during the entitlement and construction periods could negatively impact selling prices and rents, which could adversely affect our operating results. Before any of our real estate projects can generate revenues we make material expenditures to obtain entitlements, permits, and development approvals. It generally takes several years to complete this process and completion times vary based on complexity of the project and the community and regulatory issues involved. As a result of the time and complexity involved in getting approvals for our projects we face the risk that demand for housing, retail and industrial product may decline and we may be forced to sell or lease product at a loss or for prices that generate lower profit margins than we anticipated. If values decline, we may be required to make material write-downs of the book value of real estate projects in accordance with GAAP.

If we experience shortages or increased costs of labor and supplies or other circumstances beyond our control, there could be delays or increased costs within our industrial development, which could adversely affect our operating results. Our ability to develop our current industrial development may be adversely affected by circumstances beyond our control including: work stoppages, labor disputes and shortages of qualified trades people; changes in laws relating to union organizing activity; and shortages, delays in availability, or fluctuations in prices of building materials. Any of these circumstances could give rise to delays in the start or completion of, or could increase the cost of, developing infrastructure and buildings within our industrial development. If any of the above happens, our operating results could be harmed.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. Our future success depends, to a significant degree, on the efforts of our senior management. The loss of key personnel could materially and adversely affect our results of operations, financial condition, or our ability to pursue land development. Our success will also depend in part on our ability to attract and retain additional qualified management personnel.

Our business model is very dependent on transactions with strategic partners. We may not be able to successfully (1) attract desirable strategic partners; (2) complete agreements with strategic partners; and/or (3) manage relationships with strategic partners going forward, any of which could adversely affect our business. For several years a key to our development and value creation strategies has been the use of joint ventures and strategic relationships. These joint venture partners bring development experience, industry expertise, financial resources, financing capabilities, brand recognition and credibility or other competitive assets.

A complicating factor in any joint venture is that strategic partners may have economic or business interests or goals that are inconsistent with ours or that are influenced by factors related to our business. These competing interests lead to the difficult challenges of successfully managing the relationship and communication between strategic partners and monitoring the execution of the partnership plan. We may also be subject to adverse business consequences if the market reputation or financial position of the strategic partner deteriorates. If we cannot successfully execute transactions with strategic partners, our business could be adversely affected.

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

Concentrated ownership of our Common Stock creates a risk of sudden change in our share price. As of February 28, 2014, directors and members of our executive management team beneficially owned or controlled approximately 29% of our Common Stock. Investors who purchase our Common Stock may be subject to certain risks due to the concentrated ownership of our Common Stock. The sale by any of our large shareholders of a significant portion of that shareholder’s holdings could have a material adverse effect on the market price of our Common Stock. In addition, the registration of any significant amount of additional shares of our Common Stock will have the immediate effect of increasing the public float of our Common Stock and any such increase may cause the market price of our Common Stock to decline or fluctuate significantly.

Decreases in the market value of our investments in marketable securities could have an adverse impact on our results of operations. We have significant amount of funds invested in marketable securities the market value of which is subject to changes from period to period. Decreases in the market value of our marketable securities could have an adverse impact on our results of operations.

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

Within our real estate operations, inflation can result in increased costs of construction and can reduce operating margins as increases in operating costs result in deteriorating margins on long term fixed lease agreements.

A prolonged downturn in the real estate market or instability in the mortgage and commercial real estate financing industry, could have an adverse effect on our real estate business. Our residential housing projects, Centennial, TMV, and Grapevine, are currently in the entitlement phase or fully entitled and waiting for development to begin. If a downturn in the real estate market or an instability in the mortgage and commercial real estate financing industry exists at the time these projects move into their development and marketing phases, our resort/residential business could be adversely affected. Excess supply of homes available due to foreclosures or the expectation of deflation in housing prices could also have a negative impact on our ability to sell our inventory when it becomes available. The inability of potential commercial/industrial clients to get adequate financing for the expansion of their businesses could lead to reduced lease revenues and sales of land within our industrial development.

Volatile oil and natural gas prices could adversely affect our cash flows and results of operations. Our cash flows and results of operations are dependent in part on oil and gas prices, which are volatile. Oil and natural gas prices also impact the amount we receive for selling and renewing our mineral leases. Moreover, oil and natural gas prices depend on factors we cannot control, such as: changes in foreign and domestic supply and demand for oil and natural gas; actions by the Organization of Petroleum Exporting Countries; weather; political conditions in other oil-producing countries, including the possibilities of insurgency or war in such areas; prices of foreign exports; domestic and international drilling activity; price and availability of alternate fuel sources; the value of the U.S. dollar relative to other major currencies; the level and effect of trading in commodity markets; the effect of worldwide energy conservation measures and governmental regulations. Any substantial or extended decline in the price of oil and gas could have a negative impact on our business, liquidity, financial condition and results of operations.

Our reserves and production will decline from their current levels. The rate of production from oil and natural gas properties generally decline as reserves are produced. Any decline in production or reserves could materially and adversely affect our future cash flow, liquidity and results of operations.

Water delivery and water availability continues to be a long-term concern within California. Any limitation of delivery of SWP water, limitations to our ability to move our water resources, and the absence of available reliable alternatives during drought periods could potentially cause permanent damage to orchards and vineyards and possibly impact future development opportunities.

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

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

Information technology failures and data security breaches could harm our business. We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, telephone systems and other aspects of the Internet infrastructure that have experienced security breaches, cyber-attacks, significant systems failures and electrical outages in the past. A material network breach in the security of our information technology systems could include the theft of customer, employee or company data. The release of confidential information as a result of a security breach may also lead to litigation or other proceedings against us by affected individuals or business partners, or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have significant negative impact on our business. We may also be required to incur significant costs to protect against damages caused by these information technology failures or security breaches in the future. We routinely utilize information technology experts to assist us in our evaluation of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures to protect our systems and data. However, we cannot provide assurance that a security breach, cyber-attack, data theft or other significant systems failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Land

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

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

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

Portions of our land consist of mountainous terrain, much of which is not presently served by paved roads or by utility or water lines. Much of this property is included within the Conservation Agreement we entered into with five of the major environmental organizations in June 2008. As we receive entitlement approvals over the life span of our developments we will dedicate conservation easements on 145,000 acres of this land, which will preclude future development of the land. This acreage includes many of the most environmentally sensitive areas of our property and is home to many plant and wildlife species whose environments will remain undisturbed.

Any significant development on our currently undeveloped land would involve the construction of roads, utilities and other expensive infrastructure and would have to be done in a manner that accommodates a number of environmental concerns, including endangered species, wetlands issues, and greenhouse gas emissions. Accommodating these environmental concerns which may limit development of portions of the land or result in substantial delays or certain changes to the scope of development in order to obtain governmental approval.

Water Operations

Our existing long-term water contracts with the Wheeler Ridge-Maricopa Water Storage District, or WRMWSD, provide for water entitlements and deliveries from the SWP, to our agricultural operations in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts, we are entitled to annual water for 5,496 acres of land, which is adequate for our present farming operations. It is assumed, that at the end of the current contract period all water contracts will be extended for approximately the same amount of annual water.

In addition to our agricultural contract water entitlements, we have an additional water entitlement from the SWP sufficient to service a substantial amount of future residential and/or commercial development in Kern County. The Tejon-Castac Water District, or TCWD, a local water district serving only our land and land we have sold in TRCC, has 5,278 acre-feet of SWP entitlement (also called Table A amount). In addition, TCWD has approximately 38,945 acre-feet of water stored in Kern County water banks. Both the entitlement and the banked water are the subject of a long-term water supply contract extending to 2035 between TCWD and our Company. TCWD is the water supplier to TRCC, and would be the principal water supplier for any significant residential and recreational development in TMV.

We have a 150-acre water bank consisting of nine ponds on our land in southern Kern County. Water is pumped into these ponds and then percolates into underground aquifers. Since 2006, we have purchased 8,818 acre feet of water from the Antelope Valley-East Kern Water Agency, or AVEK, which has been pumped from the California aqueduct and is currently retained in this water bank. In 2007 and 2008 we contracted for 2,362 additional acre-feet of water from AVEK, but have deferred delivery of the water to a future year. We anticipate adding additional water to the water bank in the future, as water is available. In 2010 we began participating in the newly formed AVEK water-banking program and we have approximately 12,280 acre-feet of water to our credit in this program.

In recent years we have also been purchasing water for our future use or sale. In 2008 we purchased 8,393 acre-feet of transferable water and in 2009 we purchased an additional 6,393 acre-feet of transferable water, all of which is currently held on our behalf by AVEK. We also have secured SWP entitlement under long-term SWP water contracts within the Tulare Lake Basin Water Storage District and the Dudley-Ridge Water District, totaling 3,444 acre-feet of SWP entitlement annually, subject to SWP allocations These contracts extend through 2035. On November 6, 2013, the Company completed the acquisition of a water purchase agreement from DMB that will allow the Company to purchase 6,693 acre feet of water each year from the Nickel Family, LLC, or Nickel, a California limited liability company that is located in Kern County. The aggregate purchase price was approximately $18,700,000 and was paid one-half in cash and one-half in shares of Company Common Stock. The number of shares of Common Stock delivered was determined based on the volume weighted average price of Common Stock for the ten trading days that ended two days prior to closing, which calculated to be 251,876 shares of Common Stock.

This Nickel water purchase is similar to other transactions the Company has completed over the last several years as the Company has been building its water assets for internal needs as well as for investment purposes due to the tight water environment within California.

The initial term of the water purchase agreement with Nickel runs through 2044 and includes a Company option to extend the contract for an additional 35 years. This contract allows us to purchase water each year and the purchase cost of water in 2014 is $656 per acre-foot. Purchase costs in 2015 and beyond are subject to annual cost increases based on the greater of the consumer price index and 3%.

The water purchased will ultimately be used in the development of the Company’s land for commercial/industrial development, residential development, and farming. Interim uses may include the sale of portions of this water to third party users on an annual basis until the water is fully used for the Company’s internal uses.

During 2013, SWP allocations were approximately 50% of contract levels, and WRMWSD was able to supply us with sufficient water to meet our farming demands from various sources. In some years, there is also sufficient runoff from local mountain streams to allow us to capture some of this water in reservoirs and utilize it to offset some of the SWP water. In years where the supply of water is sufficient, both WRMWSD and TCWD are able to bank (percolate into underground aquifers) some of their excess supplies for future use. At this time, Wheeler Ridge expects to be able to deliver our entire contract water entitlement in any year that the SWP allocations exceed 30% by drawing on its ground water wells and water banking assets. Based on historical records of water availability, we do not believe we have material problems with our water supply. However, if SWP allocations are less than 30% of our entitlement in any year, or if shortages continue for a sustained period of several years, then WRMWSD may not be able to deliver 100% of our entitlement and we will have to rely on our own ground water sources, mountain stream runoff, water transfer from others, and water banking assets to supply the needs of our farming and development activities. Water from these sources may be more expensive than SWP water because of pumping costs and/or transfer costs. A 0% preliminary SWP water allocation has been made by the DWR for 2014.

All SWP water contracts require annual payments related to the fixed costs of the SWP and each water district, whether or not water is used or available. WRMWSD and TCWD contracts also establish a lien on benefited land.

Portions of our property also have available groundwater, which we believe would be sufficient to supply commercial development in the Interstate 5 corridor. Ground water in the Antelope Valley Basin is the subject of litigation. See Item 3, “Legal Proceedings” for additional information about this litigation.

There have been many environmental challenges regarding the movement of SWP water through the Sacramento Delta. Operation of the Delta pumps, are of primary importance to the California water system because these pumps are part of the system that moves water from Northern California to Southern California. Biological Opinions, or BOs, issued by the U.S. Fish and Wildlife Service and National Marine Fisheries Service in 2008 and 2009 contain restrictions on pumping from the Delta. These BOs are being challenged in the courts by both water agencies and environmental groups. Judge Wanger of the Federal District Court, Eastern District of California, has determined that parts of the new BOs related to the Delta Smelt and salmon species are insufficient and remanded the BOs back to the U.S. Fish and Wildlife Service and National Marine Fisheries Service for further analysis. There are many groups, governmental and private, working together to develop a solution in the future to alleviate the curtailment of water from the Delta.

Historic SWP restrictions on the right to use agricultural water entitlement for municipal purposes were removed in 1995. For this purpose, “municipal” use includes residential and industrial use. Therefore, although only 2,000 of TCWD's 5,278 acre feet of entitlement are labeled for municipal use, there is no practical restriction on TCWD's ability to deliver the remaining water to residential or commercial/industrial developments.

Other Activities

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company’s Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company’s land to secure payment of special taxes related to $28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company’s land to secure payments of special taxes related to $39,750,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $80,250,000 of additional bond debt authorized by TRPFFA. Proceeds from the sales of these bonds are to reimburse the Company for public infrastructure related to TRCC-East. During 2013, we received approximately $17,800,000 in reimbursement from East CFD bonds. During 2013, our portion of taxes increased due to new bond sales during December 2012.

In 2013, 2012, and 2011, we paid approximately $886,000, $606,000, and $1,061,000, respectively, in special taxes related to the CFDs. 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, our obligation is reduced. It is expected that we will have special tax payments in 2014 of approximately $886,000, but this could change in the future based on the amount of bonds outstanding within each CFD and the amount of taxes paid by other owners and tenants.

During February 2012, TRPFFA refinanced approximately $22,500,000 of bonds within the West CFD. This refinancing, due to values in the West CFD and changes to bond requirements, allowed the Company to be released

from the requirement to provide a letter of credit and also allowed the West CFD to meet the value test for release of approximately 1,400 acres of the Company's land from West CFD liens reducing the lien acreage to 328 acres.
During December 2012, TRPFFA sold $39,750,000 of bonds within the East CFD. These bonds were sold in a Series A tranche and a Series B tranche. Series A bonds totaled $13,695,000 and are to be used to refinance the $12,670,000 of outstanding existing bonds. The refinancing reduces overall interest cost, which reduces property taxes to land owners. TRPFFA also sold an additional $26,055,000 of new Series B bonds to be used by TRPFFA to reimburse the Company for completed public infrastructure within TRCC-East.

ITEM 3. LEGAL PROCEEDINGS

Tejon Mountain Village

On November 10, 2009, a suit was filed in the U.S. District Court for the Eastern District of California (Fresno Division) by David Laughing Horse Robinson, or the plaintiff, an alleged representative of the federally-unrecognized "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. The suit named as defendants the Company, two affiliates (Tejon Mountain Village, LLC and Tejon Ranchcorp), the County of Kern, or the County, and Ken Salazar, in his capacity as U.S. Secretary of the Interior.

The Company and other defendants filed motions to the dismiss plaintiff's complaint for failure to state a claim and lack of jurisdiction. On January 24, 2011, the Company received a ruling by Judge Wanger dismissing 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 filed his second amended complaint against the Company, alleging similar items as in the original suit. The plaintiff filed new materials during July, 2011 related to his second amended complaint. Thereafter, the case was reassigned to Magistrate Judge McAuliffe. On January 18, 2012, Judge McAuliffe issued an order dismissing all claims in the plaintiff's second amended complaint 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 the plaintiff file an amended complaint on or before February 17, 2012. The court also indicated that it was considering dismissing the case due to the lack of federal recognition of the "Kawaiisu Tribe". The court then granted the plaintiff an extension until March 19, 2012 to file his third amended complaint.

The plaintiff filed his third amended complaint on March 19, 2012. The defendants filed motions to dismiss all claims in the third amended complaint without further leave to amend on April 30, 2012. The plaintiff thereafter substituted in new counsel and with leave of court filed his opposition papers on June 8, 2012. The defendants filed their reply papers on June 22, 2012. Oral argument of the motions to dismiss the third amended complaint was conducted on July 20, 2012. On August 7, 2012, the court issued its Order dismissing all of Robinson's claims without leave to amend and with prejudice, on grounds of lack of jurisdiction and failure to state a claim.

On September 24, 2012, Robinson (through another new counsel) filed a timely notice of appeal to the U.S. Court of Appeals for the Ninth Circuit. On September 26, 2012, the Court of Appeals issued its time schedule order calling for briefing to be completed by February, 2013. Robinson's brief was due to be filed on January 2, 2013. On February 26, 2013, the Ninth Circuit issued an order dismissing the appeal for failure to prosecute including failure to file an opening brief. Forty-five days later, Robinson's counsel filed a motion to reinstate the appeal. As an excuse Robinson’s new counsel offered that he overlooked the court of appeal's briefing schedule order and assumed that state court procedure would be followed. The motion to reinstate the appeal was accompanied by a proposed opening brief. In response, the Company and the County filed oppositions to the motion to reinstate the appeal. Despite objections by the Company and the County (in which the U.S. Department of Justice, or the DOJ, did not join), the Ninth Circuit granted Robinson's motion to reinstate, rejected the appeal of that reinstatement decision by the County and the Company, and set a due date of July 7, 2013 for the opposition briefs of the Company and the County to be filed. Thereafter, the DOJ and the County exercised their right to obtain an automatic 30-day extension to August 6, 2013, and the Company filed an unopposed motion (which the Ninth Circuit granted) extending the Company's date for its opposition brief to August 6, 2013 as well. Thereafter, the DOJ requested and obtained further extensions of time to file its answering brief, first to August 27, 2013, and finally to September 17, 2013. The Company filed its answering brief and supplemental excerpts of record on August 27, 2013. Kern County and DOJ both filed their answering briefs on September 17, 2013. Both the Company and Kern County (but not the DOJ) included in their answering briefs the argument that the Court of Appeal lacks jurisdiction to hear the appeal because the plaintiff did not show the required extraordinary good cause for his failure to file his opening briefs. The plaintiff filed a short reply brief on November 4, 2013. The matter is now fully briefed but the Ninth Circuit has not yet indicated whether it will entertain oral argument before deciding the case. In the meantime, the Company continues to believe that a negative outcome of this case is remote and the monetary impact of an adverse result, if any, 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

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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.

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 near the Centennial project. Four 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 fourth phase of trial occurred in first half 2013 and resulted in confirmation of each party's groundwater pumping for 2011 and 2012. The next phase of trial is scheduled to occur in the first quarter of 2014 and will address 1) whether federal government parties operating in the basin have established a priority right to basin groundwater, and 2) the rights to return flows from land-applied water. At this time, it is difficult to ascertain what the outcome of the court proceedings will be or whether an alternative settlement agreement will be reached and what effect, if any, this case may have on the Centennial project or the Company's remaining lands in the Antelope Valley. Because the water supply plan for the Centennial project includes several sources of water in addition to groundwater underlying the Company's lands, and because the creation of an efficient market for local water rights is frequently an outcome of adjudication proceedings, the Company remains hopeful 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 tendered defense of the lawsuit to TA, under the "defend and indemnify" clause in the TA/Petro LLC's operating agreement, and also secured the services of an outside law firm to work with TA's outside counsel under a joint defense agreement. On September 16, 2011, the Company and Tejon Industrial Corporation were dismissed from the lawsuit, without prejudice. The remaining parties recently reached agreement on a negotiated resolution of the claims asserted in the litigation, and they executed a comprehensive settlement agreement in early February 2014. A final consent judgment was entered on February 20, 2014, resulting in a full and final settlement of all claims asserted in the litigation, with no material adverse impact on the Company.

Water Bank Lawsuits

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including the Center for Biological Diversity, filed a complaint in the Sacramento County Superior Court, or the 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 SWP contracts that were originally approved in 1995, known as the “Monterey Amendments.” The original Environmental Impact Report, or EIR, for the Monterey Amendments was determined to be insufficient in an earlier lawsuit.The current lawsuit principally (i) challenges the adequacy of the remedial EIR that DWR prepared as a result of the original lawsuit and (ii) challenges the validity of the Monterey Amendments on various grounds, including 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 has a 2% interest in the KWBA. A parallel lawsuit was also filed by the same plaintiffs in Sacramento Superior Court against Kern County Water Agency, also naming the Company and TCWD as real parties in interest, which has been stayed pending the outcome of the other action against DWR. The Company is named on the ground that it “controls” TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. Counsel for the Company is pursuing a dismissal of the Company from these lawsuits. In an initial favorable ruling on January 25, 2013, Judge Frawley determined that the challenges to the validity of the Monterey Amendments, including the transfer of the KWB, were not timely and barred by the statutes of litigation and doctrine of latches. The substantive hearing on the challenges to the EIR was held on January 31, 2014 and the EIR matter was taken under submission and the Court provided no indication of the direction it was leaning at this time. Given the preliminary nature of these lawsuits, the Company has an insufficient basis to address the merits or potential outcomes of the lawsuits. The monetary value of a potential adverse outcome on the claims likewise cannot be estimated at this time.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table shows the high and low sale prices for our Common Stock, which trades under the symbol TRC on the New York Stock Exchange, or the "Exchange" for each calendar quarter during the last two years:

	2013		2012	
Quarter	High	Low	High	Low
First	$30.81	$28.44	$31.64	$24.33
Second	$31.00	$26.66	$30.94	$25.10
Third	$34.23	$28.58	$31.08	$25.25
Fourth	$38.79	$29.49	$30.78	$25.70

As of February 28, 2014, there were 342 registered owners of record of our Common Stock.

No cash dividends were paid in 2013 or 2012 and at this time there is no intention of paying cash dividends in the future. During 2013, the Company did provide a dividend consisting of warrants to our shareholders. Please see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations, Capital Structure and Financial Condition" for information concerning the warrant dividend program.

For information regarding equity compensation plans pursuant to Item 201(d) of Regulation S-K, please see Item 11, “Executive Compensation” and Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Form 10-K, below.

The annual stockholder performance graph will be provided separately in our annual report to stockholders.

ITEM 6. SELECTED FINANCIAL DATA

	2013	2012	2011		2010	2009
Total revenues from operations, including interest and other income	$46,345	$48,444	$64,456	(1)	$36,553	$29,936
Income (loss) from operations before equity in earnings of unconsolidated joint ventures	$2,183	$4,471	$22,232		$6,270	$(6,161)
Equity in earnings of unconsolidated joint ventures	4,006	2,535	916		541	374
Net income (loss)	$4,103	$4,283	$15,781		$3,959	$(3,433)
Net income (loss) attributable to noncontrolling interests	(62)	(158)	(113)		(216)	(56)
Net income (loss) attributable to common stockholders	$4,165	$4,441	$15,894		$4,175	$(3,377)
Total assets	$342,879	$327,856	$321,976		$288,091	$234,744
Long-term debt, less current portion	$4,459	$212	$253		$290	$325
Equity	$320,187	$308,259	$300,439		$276,652	$214,381
Net income (loss) attributable to common stockholders per share, diluted	$0.20	$0.22	$0.80		$0.22	$(0.19)

(1) Includes revenue of $15,750,000 from the sale of conservation easements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See Part I, "Forward Looking Statements" for our cautionary statement regarding forward-looking information.

Overview

We are a diversified real estate development and agribusiness company committed to responsibly using our land and resources to meet the housing, employment, and lifestyle needs of Californians and to create value for our shareholders. In support of these objectives, we have been investing in land planning and entitlement activities for new industrial and residential land developments and in infrastructure improvements within our active industrial development. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield.

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

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

Our commercial/industrial real estate development segment generates revenues from building, grazing, and land lease activities, land and building sales, and ancillary land management activities. The primary commercial/industrial development is TRCC. The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. Its revenues are generated through farming activities within the Centennial joint venture. Within our resort/residential segment, the three active developments are TMV, Centennial, and Grapevine. During the first quarter of 2013 we began land planning activities and the first steps of gathering information to prepare an environmental impact report to entitle Grapevine, which is an approximately 15,315-acre potential development area located on the San Joaquin Valley floor area of our lands, adjacent to TRCC. Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, and a lease with National Cement. The farming segment produces revenues from the sale of wine grapes, almonds, and pistachios.

The Conservation Agreement we entered into with five of the major environmental organizations in June 2008 calls for the possible permanent protection of up to 240,000 acres of our land through phased dedicated conservation easements on approximately 145,000 acres of our land at the time specific development milestones are achieved for TMV, Centennial, and the Grapevine Development Area, 33,000 acres of open space within permitted project areas, and the purchase of conservation easements on an additional 62,000 acres of our land, which was completed during February 2011.

For 2013 we had net income attributable to common stockholders of $4,165,000 compared to net income attributable to common stockholders of $4,441,000 for 2012. This decline is driven by a reduction in revenue, primarily from mineral resources revenue, which is partially offset by improved equity in earnings of unconsolidated joint ventures of $1,471,000 and a reduction in income taxes. During 2013, farming had another excellent revenue year and revenues improved in the commercial/industrial segment due to higher hunting permit revenues. Equity in earnings of unconsolidated joint ventures improved primarily due to the earnings growth within the TA/Petro joint venture.

For 2012 we had net income attributable to common stockholders of $4,441,000 compared to net income attributable to common stockholders of $15,894,000 for the first twelve months of 2011. When comparing to 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 oil royalties, farming revenues, and a lower tax provision. Oil royalties improved $1,200,000 due primarily to a 6% increase in production. Farming revenues grew by $1,541,000 during 2012 due largely to an increase in pistachio revenues that was partially offset by lower wine grape revenues.

During 2014, we will continue to invest funds in our joint ventures and internally toward the achievement of entitlements for our land and for infrastructure and building development within our active commercial and industrial developments. Securing entitlements for our land is a long, arduous process that can take several years and often involves litigation. During the next few years, our net income will fluctuate from year-to-year based upon commodity prices, production within our farming segment, and the timing of sales of land and the leasing of land within our industrial developments.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations provides a narrative discussion of our results of operations. It contains the results of operations for each operating segment of the business and is followed by a discussion of our financial position. It is useful to read the business segment information in conjunction with Note 14 of the Notes to Consolidated Financial Statements.

Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles, or “GAAP,” requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical if: (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimates that are likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, impairment of long-lived assets, capitalization of costs, profit recognition related to land sales, stock compensation, our future ability to utilize deferred tax assets, and defined benefit retirement plans. 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.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and the Audit Committee has reviewed the foregoing disclosure. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements. See also Note 1 of the Notes to the Consolidated Financial Statements, which discusses accounting policies that we have selected from acceptable alternatives.

We believe the following critical accounting policies reflect our more significant judgments and estimates used in the preparation of the consolidated financial statements:

Revenue Recognition – The Company’s revenue is primarily derived from lease revenue from our rental portfolio, royalty revenue from mineral leases, sales of farm crops, and land sales. Revenue from leases with rent concessions or fixed escalations is recognized on a straight-line basis over the initial term of the related lease unless there is a considerable risk as to collectibility. The financial terms of leases are contractually defined. Lease revenue is not accrued when a tenant vacates the premises and ceases to make rent payments or files for bankruptcy. Royalty revenues are contractually defined as to the percentage of royalty and are tied to production and market prices. Our royalty arrangements generally require payment on a monthly basis with the payment based on the previous month's activity. We accrue monthly royalty revenues based upon estimates and adjust to actual as we receive payments.

From time to time the Company sells easements over its land. The easements are either in the form of rights of access granted for such things as utility corridors or are in the form of conservation easements that generally require the Company to divest its rights to commercially develop a portion of its land, but do not result in a change in ownership of the land or restrict the Company from continuing other revenue generating activities on the land. The sales of conservation easements that occurred in 2011 have been accounted for in accordance with Staff Accounting Bulletin Topic 13 - Revenue Recognition (SAB Topic 13). SAB Topic 13 requires that the following four criteria be met before revenue may be recognized:

- Persuasive evidence of arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Since the conservation easements do not impose any significant continuing performance obligations on the Company, revenue from conservation easement sales has been recognized when the four criteria of SAB Topic 13 have been met, which generally occurs in the period the sale has closed and consideration has been received.

In recognizing revenue from land sales, the Company follows the provisions in Accounting Standards Codification 976, or ASC 976, "Real Estate – Retail Land" to record these sales. ASC 976 provides specific sales recognition criteria to determine when land sales revenue can be recorded. For example, ASC 976 requires a land sale to be consummated with a sufficient down payment of at least 20% to 25% of the sales price depending upon the type and timeframe for development of the property sold, and that any receivable from the sale cannot be subject to future subordination. In addition, the seller cannot retain any material continuing involvement in the property sold or be required to develop the property in the future.

At the time farm crops are harvested, contracted, and delivered to buyers and revenues can be estimated, revenues are recognized and any related inventoried costs are expensed, which traditionally occurs during the third and fourth quarters of each year. It is not unusual for portions of our almond or pistachio crop to be sold in the year following the harvest. Orchard (almond and pistachio) revenues are based upon the contract settlement price or estimated selling price, whereas vineyard revenues are typically recognized at the contracted selling price. Estimated prices for orchard crops are based upon the quoted estimate of what the final market price will be by marketers and handlers of the orchard crops. These market price estimates are updated through the crop payment cycle as new information is received as to the final settlement price for the crop sold. These estimates are adjusted to actual upon receipt of final payment for the crop. This method of recognizing revenues on the sale of orchard crops is a standard practice within the agribusiness community.

Actual final crop selling prices are not determined for several months following the close of our fiscal year due to supply and demand fluctuations within the orchard crop markets. Adjustments for differences between original estimates and actual revenues received are recorded during the period in which such amounts become known.

Capitalization of Costs - The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance, and indirect project costs that are clearly associated with the acquisition, development, or construction of a project. Costs currently capitalized that in the future would be related to any abandoned development opportunities will be written off if we determine such costs do not provide any future benefits. Should development activity decrease, a portion of interest, property taxes, and insurance costs would no longer be eligible for capitalization, and would be expensed as incurred.

Allocation of Costs Related to Land Sales and Leases – When we sell or lease land within one of our real estate developments and we have not completed all infrastructure development related to the total project, we follow ASC 976 to determine the appropriate costs of sales for the sold land and the timing of recognition of the sale. In the calculation of cost of sales or allocations to leased land, we use estimates and forecasts to determine total costs at completion of the development project. These estimates of final development costs can change as conditions in the market and costs of construction change.

In preparing these estimates, we use internal budgets, forecasts, and engineering reports to help us estimate future costs related to infrastructure that has not been completed. These estimates become more accurate as the development proceeds forward, due to historical cost numbers and to the continued refinement of the development plan. These estimates are updated periodically throughout the year so that, at the ultimate completion of development, all costs have been allocated. Any increases to our estimates in future years will negatively impact net profits and liquidity due to an increased need for funds to complete development. If, however, this estimate decreases, net profits as well as liquidity will improve.

We believe that the estimates used related to cost of sales and allocations to leased land are critical accounting estimates and will become even more significant as we continue to move forward as a real estate development company. The estimates used are very susceptible to change from period to period, due to the fact that they require management to make assumptions about costs of construction, absorption of product, and timing of project completion, and changes to these estimates could have a material impact on the recognition of profits from the sale of land within our developments.

Impairment of Long-Lived Assets – We evaluate our property and equipment and development projects for impairment when events or changes in circumstances indicate that the carrying value of assets contained in our financial statements may not be recoverable. The impairment calculation compares the carrying value of the asset to the asset's estimated future cash flows (undiscounted). If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on estimated future cash flows (discounted). We recognize an impairment loss equal to the amount by which the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset will be its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited.

We currently operate in four segments, commercial/industrial real estate development, resort/residential real estate development, mineral resources, and farming. At this time, there are no assets within any of our segments that we believe are in danger of being impaired due to market conditions.

We believe that the accounting estimate related to asset impairment is a critical accounting estimate because it is very susceptible to change from period to period; it requires management to make assumptions about future prices, production, and costs, and the potential impact of a loss from impairment could be material to our earnings. Management's assumptions regarding future cash flows from real estate developments and farming operations have fluctuated in the past due to changes in prices, absorption, production and costs and are expected to continue to do so in the future as market conditions change.

In estimating future prices, absorption, production, and costs, we use our internal forecasts and business plans. We develop our forecasts based on recent sales data, historical absorption and production data, input from marketing consultants, as well as discussions with commercial real estate brokers and potential purchasers of our farming products.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to impairment losses that could be material to our results of operations.

Defined Benefit Retirement Plans – The plan obligations and related assets of our defined benefit retirement plan are presented in Note 13 of the Notes to Consolidated Financial Statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued using level one and level two indicators, which are quoted prices in active markets and quoted prices for similar types of assets in active markets for the investments. Pension benefit obligations and the related effects on operations are calculated using actuarial models. The estimation of our pension obligations, costs and liabilities requires that we make use of estimates of present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

The assumptions used in developing the required estimates include the following key factors:

- Discount rates;
- Salary growth;
- Retirement rates;
- Expected contributions;
- Inflation;
- Expected return on plan assets; and
- Mortality rates

The discount rate enables us to state expected future cash flows at a present value on the measurement date. In determining the discount rate, the Company utilizes the yield on high-quality, fixed-income investments currently available with maturities corresponding to the anticipated timing of the benefit payments. Salary increase assumptions are based upon historical experience and anticipated future management actions. To determine the expected long-term rate of return on pension plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. At December 31, 2013, the weighted-average actuarial assumption of the Company’s defined benefit plan consisted of a discount rate of 5.0%, a long-term rate of return on plan assets of 7.5%, and assumed salary increases of 3.5%. The effects of actual results differing from our assumptions and the effects of changing assumptions are recognized as a component of other comprehensive income, net of tax. Amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost. If we were to assume a 50 basis point change in the discount rate used, our projected benefit obligation would change approximately $790,000.

Stock-Based Compensation - We apply the recognition and measurement principles of ASC 718, “Compensation – Stock Compensation” in accounting for long-term stock-based incentive plans. Our stock-based compensation plans include both restricted stock units and restricted stock grants. We have not issued any stock options to employees or directors since January 2003, and our 2013 financial statements do not reflect any compensation expenses for stock options. All stock options issued in the past have been exercised or forfeited.

We make stock awards to employees based upon time-based criteria and through the achievement of performance-related objectives. Performance-related objectives are either stratified into threshold, target, and maximum goals or based on the achievement of a milestone event. These stock awards are currently being expensed over the expected vesting period based on each performance criterion. We make estimates as to the number of shares that will actually be granted based upon estimated ranges of success in meeting the defined performance measures. If our estimates of performance shares vesting were to change by 25%, stock compensation expense would increase or decrease by $150,000 depending on whether the change in estimate increased or decreased shares vesting.

See Note 9 of the Notes to Consolidated Financial Statements, Stock Compensation - Restricted Stock and Performance Share Grants, for total 2013 stock compensation expense related to stock grants.

Fair Value Measurements – The Financial Accounting Standards Board's (FASB) authoritative guidance for fair value measurements of certain financial instruments defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the exchange (exit) price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance establishes a three-level hierarchy for fair value measurements based upon the inputs to the valuation of an asset or liability. Observable inputs are those which can be easily seen by market participants while unobservable inputs are generally developed internally, utilizing management’s estimates and assumptions:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on our own estimates about the assumptions that market participants would use to value the asset or liability.

When available, we use quoted market prices in active markets to determine fair value. We consider the principal market and nonperformance risk associated with our counterparties when determining the fair value measurement. Fair value measurements are used for marketable securities, investments within the pension plan and hedging instruments.

New Accounting Standards

For discussion of recent accounting pronouncements, see Note 1 of the Notes to Consolidated Financial Statements, Summary of Significant Accounting Policies.

Results of Operations by Segment

We evaluate the performance of our operating segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluation as we monitor current market conditions, market opportunities, and available resources. The performance of each segment is discussed below:

Real Estate – Commercial/Industrial

During 2013, our commercial/industrial segment profits improved $576,000 compared to 2012. Commercial/industrial segment revenues increased $1,207,000 during 2013 compared to 2012 primarily due to a $1,036,000 increase in hunting revenues. The hunting program re-opened in September 2012 after an eight month closure. Additionally, percentage rent from our Calpine power plant increased $551,000. Percentage rent is based on a spark spread arrangement that is tied to the price of electricity and natural gas. These increases were partially offset by a $648,000 decrease in land sale revenue recognized in the first half of 2012 related to the deferred gain from the land sale to Caterpillar that occurred in December of 2011.

When compared to 2012, commercial/industrial expenses increased $631,000 primarily due to a $553,000 increase in hunting department expenses resulting from the re-opening of the hunting program in September 2012 and a $473,000 increased allocation from corporate general and administrative. These increases are partially offset by a $211,000 decrease in stock compensation mainly due to a change in estimate in 2012 of a performance condition tied to the TMV and Centennial projects. An additional $140,000 decrease in expenses is tied to the cost of land recognized in 2012.

During 2012, our commercial/industrial segment profits fell $2,855,000 compared to 2011 primarily as a result of a decrease in revenues that was partially offset by lower 2012 expenses. Commercial/industrial segment revenues declined $3,805,000 during 2012 compared to 2011 primarily due to a $3,702,000 decrease in land sales revenue due to a land sale to Caterpillar that occurred in December of 2011. There was also a $1,000,000 decrease in hunting revenues during 2012 compared to 2011, resulting from the closure of our hunting program for the first eight months of 2012. The hunting program was closed for the first eight months of the year in order to update operational and ranch access programs and update hunting programs being offered. On the positive side, revenues from our power plant lease with Calpine improved $362,000 due to the growth in 2012 of percentage rent. Revenues from a grazing lease increased $245,000 during the year due to an annual lease adjustment, which is tied to the price of cattle.

Our focus during 2014 in the commercial retail sector will be the completion of construction and opening of the Outlets at Tejon in late Summer. As the project is moving forward, we will also be working to lease surrounding lands for support services such as restaurants, convenience stores with gas stations, and motels. Within the industrial market, we continue to focus our efforts for TRCC-East and TRCC-West on the labor and logistical benefits of our site and success that current tenants and owners within our development have experienced. Our 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. The world class logistics operators located within TRCC have demonstrated success in serving all of California and the western United States through utilization of large centralized distribution centers which have been strategically located to maximize outbound efficiencies. Buildings of 1.0 million square feet or larger are becoming difficult to build in the Inland Empire due to the number of entitled acres necessary for a building of that size. We believe that our ability to provide fully entitled shovel-ready 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 ports of Los Angeles and Long Beach in comparison to the warehouse/distribution centers located in the Inland Empire, a large industrial area located east of Los Angeles which continues its expansion eastward beyond Riverside and San Bernardino to include Perris, Moreno Valley, and Beaumont. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcles. During 2013, vacancy rates in the Inland Empire continued to decline despite significant construction activity. The decline in vacancy rates has also led to an improvement in lease rates within the Inland Empire. The decline in vacancy rates and improved pricing led developers to increase inventory within the Inland Empire through aggressive spec building programs which continued into late 2013. As lease rates increase in the Inland Empire, we may begin to have greater pricing advantages due to our lower land basis.

We expect the commercial/industrial segment to continue to experience costs, net of amounts capitalized, primarily related to professional service fees, marketing costs, commissions, planning costs, and staffing costs as we continue to pursue development opportunities.

The actual timing and completion of development is difficult to predict due to the uncertainties of the market. Infrastructure development and marketing activities and costs could continue over several years as we develop our land holdings. We will also continue to evaluate land resources to determine the highest and best uses for our land holdings. Future sales of land are dependent on market circumstances and specific opportunities. Our goal in the future is to increase land value and create future revenue growth through planning and development of commercial and industrial properties.

Real Estate – Resort/Residential

The resort/residential segment reported revenues increased to $1,266,000 during 2013 compared to $583,000 during 2012 primarily due to a $345,000 increase in ancillary hay sales at the Centennial project and a $312,000 increase in management fees from the TMV project. Resort/residential segment expenses decreased $1,410,000 primarily due to a $1,425,000 decrease in compensation expense. The decrease in compensation expense is primarily due to the reversal of previously recorded stock compensation expense related to the forfeiture unvested awards of an executive who left the Company and a change in estimate in 2012 of a performance condition tied to the TMV and Centennial projects. These changes in activity between 2013 and 2012 resulted in a segment loss of $2,085,000 for 2013, an improvement of $2,093,000 from the segment loss reported in 2012.

The resort/residential segment reported revenues were $583,000 during 2012 compared to $16,134,000 during 2011. The 2011 period reflects the sale of five conservation easements covering approximately 62,000 acres for $15,750,000 to the Tejon Ranch Conservancy. Resort/residential segment expenses increased $819,000 during 2012 compared to 2011 primarily due to a $381,000 increase in crop cultural costs at Centennial and a $199,000 increase in compensation mainly due to higher bonuses and benefit costs. Additionally, professional services increased $145,000 due to costs related to the entitlement approval of TMV, the implementation of the 2008 Conservation and Land Use Agreement and water supply strategy for our development projects. These changes in activity between 2012 and 2011 resulted in a segment loss of $4,178,000 for 2012, a reduction of $16,370,000 from the segment profits reported in 2011.

Our resort/residential segment activities include land planning and entitlement activities related to our potential residential developments, which include the Centennial master-planned community, the Grapevine Development Area and TMV. TMV and Centennial communities are being developed through joint ventures. The intent of the joint ventures is to provide complementary management experience, a source of capital, and allow the significant costs and business risks inherent in these projects to be shared with our venture partners.

We expect near-term activities within this segment to be focused on obtaining entitlements for the Centennial project, located in Los Angeles County, pre-development activity at TMV, and the entitlement process within the Grapevine Development Area. The resort/residential segment will continue to incur costs in the future related to professional service fees, public relations costs, and staffing costs as we continue forward with entitlement and permitting activities for the above communities and continue to meet our obligations under the Conservation Agreement. The actual timing and completion of entitlement-related activities is difficult to predict due to the uncertainties of the approval process and the possibility of litigation upon approval of our entitlements in the future. We will also continue to evaluate land resources to determine the highest and best use for our land holdings. Our long-term goal through this process is to increase the value of our land and create future revenue opportunities through resort and residential development.

Since we are in the process of achieving entitlements for the Centennial and the Grapevine communities, we do not have a fully approved project and therefore we do not have inventory for sale in the current market for these communities. For TMV, we have a fully permitted and entitled project and, we are in the process of preparing marketing studies, land plans and engineering studies in preparation for development in the future as the economy improves and the second home market improves.

Recent economic results and other national data have indicated that the overall demand for new homes continued to improve throughout most of 2013. However, it appears there was some leveling of demand from home builders in late 2013.

We are continuously monitoring the markets in order to identify the appropriate time in the future to begin infrastructure improvements and lot sales. Our long-term business plan of developing the communities of TMV, Centennial, and Grapevine remains unchanged. As the economy improves we believe the perception of land values will also begin to improve and the long-term fundamentals that support housing demand in our region, primarily California population growth and household formation will also improve.

Within our Centennial joint venture, our partners are Pardee Homes, Lewis Investment Company and Standard Pacific Corp. We have stated in past filings that the Centennial joint venture operating agreement was amended in August 2009 to allow our partners to become non-funding members during the entitlement phase of the project while we continue as the sole funding partner. During this period any non-funding partner’s percentage ownership interest will be diluted by a 2-to-1 ratio with regard to the amount of capital contributed on such partner’s behalf. As a result of the change in control and funding that resulted from the amended joint venture operating agreement, the operating results of Centennial Founders, LLC were consolidated effective July 1, 2009. Despite this change, our partners continue to be involved in an advisory capacity and may re-elect contributing status at a later time. At December 31, 2013 we have a 72.83% ownership position in Centennial Founders, LLC.

See Item 1, “Business – Real Estate Operations” for a further discussion of real estate development activities.

Mineral Resources

We view the mineral resources segment as an area of future growth for the Company as we continue to work with and encourage our tenants to increase exploration and production activity.

Revenues from our mineral resources segment decreased $3,770,000, or 27%, to $10,242,000 during 2013 compared to 2012, primarily due to a $3,401,000 decrease in oil royalty revenues. The decline in oil royalty revenues is because of a decrease in production of 29% resulting from temporary closures of existing wells for maintenance, expansion of lessees production facilities, and regulatory permitting management, which reduced the number of new wells being drilled. In addition, the price per barrel of oil decreased by 3% when compared to the 2012. Leasehold payments also declined during the year. These unfavorable oil royalty and lease payments were partially offset by $105,000 of improvements in rock and aggregate royalties and in production at the National Cement lease. These improvements were driven by improved construction activity in our region.

Revenues from our mineral resources segment increased $1,806,000 or 15%, to $14,012,000 during 2012 compared to 2011, primarily due to a $1,200,000 increase in oil royalty revenues due to a 6% increase in oil production while the average price per barrel remained relatively unchanged at approximately $103. Oil exploration lease revenue increased $446,000 as a result of a full year of revenue recognition related to a $2,000,000 agreement signed in mid-2011.

Oil and gas production numbers and average pricing for the last three-years is as follows:

	For the Year		
	2013	2012	2011
Oil production (barrels)	539,000	786,000	738,000
Average price per barrel	$ 100.00	$ 103.00	$ 102.00
Natural gas production (millions of cubic feet)	423,000	547,000	433,000
Average price per thousand cubic feet	$ 2.32	$ 2.00	$ 3.00

Please refer to Item 1, "Business - Mineral Resources" for additional information regarding oil barrels per day production.

There continues to be interest from tenants to enhance their oil production activities on our lands. We anticipate new drilling activity on our lands over the next several years. The timing of new activity and the speed of occurrence we cannot predict at this time.

Since we only receive royalties based on tenant production and market prices and do not produce oil, we do not have information as to the potential size of oil reserves.

Our royalty revenues are contractually defined and based on a percentage of production and are received in cash. Royalty revenues fluctuate based on changes in market price for oil, gas, rock and aggregate, and Portland cement. In addition, royalty revenue is impacted by new production, the inevitable decline in production in existing wells and rock and limestone quarries, and the cost of development and production.

Farming

During 2013, farming revenues increased $129,000 compared to 2012. Farming revenue activities consisted of higher almond revenues, an increase in other farming revenue, lower pistachio revenues, and lower grape revenues. This $1,959,000 improvement in almond revenue compared to the same period in 2012 is driven by a 45% increase in average price for the sale of our prior year almond crop inventory as well as sales for our current 2013 crop. This increase in pricing was slightly offset by a 17% decrease in almond pounds sold. During the summer, high winds damaged all of our crops at varying degrees resulting in lower production levels for all crops. Pistachio revenues decreased $1,107,000 resulting from a 26% decrease in pounds sold, as a result of this being a down production cycle year coupled with the wind damage. Average price per pound of pistachios increased 9%. Wine grape revenues decreased $1,042,000 resulting from a 22% decrease in tons sold, as a result of a 25% reduction of the French Columbard variety due removal of old vines, coupled with the wind damage. The price per ton of wine grapes increased 3% during 2013.

Farming expenses increased $1,483,000, or 11% during 2013 compared to 2012, primarily due to increases in cost of sales of $847,000, $349,000 and $129,000 for almonds, wine grapes and pistachios, respectively. The increases were due to cost of sales of 2012 almond carry-over inventory sold in 2013, higher variable water costs due to drought conditions and cost to repair damage caused by the high winds.

Farming revenues increased $1,541,000 during 2012 compared to 2011 primarily due to an increase of $2,100,000 in pistachio revenue. There was a carry-forward of the 2011 pistachio crop year inventory into 2012, the sale of which increased 2012 revenues, in contrast to no inventory carry-forward in 2011 from the 2010 pistachio crop. Pounds sold increased 19% and average price per pound, including price adjustments, increased 11% during 2012 compared to 2011. Almond revenues increased $463,000 during 2012 compared to 2011, primarily due to a 12% increase in the average price per pound, partially offset by a 9% decrease in pounds sold. These increases were partially offset by an $828,000 decrease in wine grape revenues primarily due to a 14% decline in production as the number of acres of the French Colombard variety was reduced because of the age of the vines, while prices improved to $316 a ton. In addition, we had a net loss of $216,000 due to the removal of older French Colombard grapes.

Farming expense increased $748,000 or 6% during 2012 compared to 2011, primarily due to a $884,000 net increase in cost of crop sales, partially offset by $102,000 decrease in water costs. The $884,000 increase in cost of sales includes a $1,002,000 increase in pistachio cost of sales, partially offset by a $147,000 decrease in wine grape cost of sales.

Thus far in 2014, the price for our crops has remained consistent with 2013 pricing due to the stable demand in U.S. and world markets. As the value of the dollar has remained competitive against foreign currencies, the demand for our crops remained steady and built on the growth from prior years.

The following table reflects crop revenues in thousands for the last three years by variety of product and crop year. Quantity of almonds and pistachios are stated in thousands of pounds and quantity of wine grapes is stated in thousands of tons. Average prices are stated on a per pound basis for almonds, and pistachios, and average prices are stated on a per ton basis for wine grapes.

	2013			2012			2011		
	Revenue	Quantity Sold	Average Price	Revenue	Quantity Sold	Average Price	Revenue	Quantity Sold	Average Price
ALMONDS (lbs.)									
Current year crop	$4,949	1,990		$4,831	2,419		$4,409	2,524	
Prior year crops	4,528	1,562		3,015	1,840		3,495	2,017	
Price adjustment	1,326			992			531		
Signing bonus	54			60			—		
Subtotal Almonds	$10,857	3,552	$3.06	$8,898	4,259	$2.09	$8,435	4,541	$1.86
PISTACHIOS (lbs.)									
Current year crop	$4,291	1,767		$5,632	2,532		5,209	2,401	
Prior year crops	1,244	345		1,259	305		—	—	
Price adjustment	2,002			1,753			1,335		
Subtotal Pistachios	$7,537	2,112	$3.57	$8,644	2,837	$3.05	$6,544	2,401	$2.73
WINE GRAPES (tons)									
Current year crop	$4,094	13.0	$325.13	$5,136	16.0	$316.00	$5,948	20.0	$302.00
Price adjustment	—			—			16		
Subtotal Wine Grapes	$4,094			$5,136			$5,964		
Total crop proceeds	$22,488			$22,678			$20,943		
Other farming revenues	194			(125)			69		
Total farming revenues	$22,682			$22,553			$21,012		

All of our crops are sensitive to the size of each year’s world crop. Large crops in California and abroad can depress prices. Our long-term projection is that crop production, especially of almonds and pistachios will continue to increase on a statewide basis over time because of new plantings, which could negatively impact future prices if the growth in demand does not keep pace with production. While demand for product continues to be strong and growing, any significant increase in the U.S. dollar along with slow global economic growth could have a negative impact on the markets. It is too early to project 2014 crop yields and what impact that may have on prices later in 2014.

Water delivery and water availability continues to be a long-term concern within California. Any limitation of delivery of SWP water and the absence of available alternatives during drought periods could potentially cause permanent damage to orchards and vineyards throughout California. While this could impact us, we believe we have sufficient water resources available to meet our requirements in 2014. Please see our discussion on water in Item 2, "Properties - Water Operations."

Our water entitlement for 2013, available from SWP, when combined with supplemental water, was adequate for our farming needs. The DWR has announced its early 2014 estimated water supply delivery at 0% of full entitlement. We expect 2014 to be a difficult water year due to the continuing drought in California. The current 0% allocation of SWP water is not enough for us to farm our crops, but our additional water resources, such as groundwater and surface sources, and those of the water districts we are in should allows us to have sufficient water for our farming needs. It is too early in the year to determine the impact of low water supplies and the drought on 2014 California crop production for almonds, pistachios, and wine grapes, but it could be detrimental. For additional information regarding water see our water discussion Item 2, “Properties” and Note 6, Long Term Water Assets, to our Consolidated Financial Statements for additional information regarding our water assets.

For further discussion of the farming operations, refer to Item I “Business—Farming Operations.”

Investment Income

Investment income declined $301,000, or 24%, during 2013 when compared to 2012. Investment income declined slightly during 2012 when compared to 2011. The decline in both periods is primarily attributable to lower average investment balances and a decline in overall yield on the portfolio as higher yielding securities matured through the year. The above interest income relates to our marketable securities portfolio as further disclosed in Note 3 of the Notes to Consolidated Financial Statements, Marketable Securities.

Corporate Expenses
Corporate general and administrative costs decreased $631,000, or 5%, during 2013 compared to the same period in 2012, primarily due to a $1,544,000 decrease in total compensation, mainly stock compensation, due to the reversal of expense associated with grants that did not vest upon the Chief Executive Officer's retirement in December 2013, coupled with a change in estimate in the second quarter of 2012 of a performance condition tied to the TMV project. In addition, there was a $913,000 increase in cost allocations to our business operating segments. These decreases were partially offset by a $1,139,000 increase in professional services primarily related to general business consulting, costs related to hiring a new CEO, the warrant dividend program, and consulting services in preparation for increased business activity from the outlet center. Other expenses that increased are stock compensation to the board of directors, higher licensing fees for IT software and an increase in charitable donations.
Corporate general and administrative costs increased $995,000, or 8%, during 2012 compared to the same period in 2011, primarily due to a $708,000 increase in compensation expense because of a combination of the timing of hiring new employees, higher benefit costs, bonus accruals and a $525,000 increase in pension expense. In addition, we had a $185,000 increase in licenses & fees mainly related to information management systems and a $141,000 increase in depreciation expense related to information management systems placed in service. These increases were partially offset by $356,000 increase in allocations of general and administrative expenses to other divisions and a $236,000 decrease in professional services primarily related to lower recruiter fees and the timing of audit services.
Equity in Earnings of Unconsolidated Joint Ventures
Equity in earnings of unconsolidated joint ventures is an important and growing component of our commercial/industrial activities and in the future through the TMV joint venture, equity in earnings of unconsolidated joint ventures will become a significant part of our operational activity within the resort/residential segment. As we expand our current ventures and add new joint ventures, such as a the outlet center joint venture, these investments will become a growing revenue source for the Company.
Internally, we manage and evaluate our commercial/industrial and resort/residential segments by including the appropriate equity in earnings from joint ventures to each segment. We do this because it provides us with an overall view of the operations and profitability of our real estate activities. As an example, with equity in earnings of joint ventures included in our commercial/industrial segment our commercial/industrial activities produced operating profits of $2,311,000. Refer to Note 14, Business Segments, and Note 15, Investment in Unconsolidated and Consolidated Joint Ventures, included in the Notes to the Consolidated Financial Statements for additional detail regarding our current joint ventures.
During 2013, equity in earnings of unconsolidated joint ventures grew to $4,006,000, or an increase of $1,471,000, compared to 2012 primarily due to $940,000 of higher income from our TA/Petro joint venture mainly due to improved fuel sales, margins and lower interest expense.
Equity in income of our unconsolidated joint ventures increased $1,619,000 during 2012 compared to 2011. Our TA/Petro joint venture generated $799,000 higher income mainly due to higher gasoline sales and improved fuel margins. Our Rockefeller joint ventures generated $836,000 higher net income due to the occupancy of a building by Dollar General and rental payments beginning in April 2012.
Income Taxes
For the twelve months ended December 31, 2013, the Company incurred a net income tax expense of $2,086,000 compared to a net income tax expense of $2,723,000 for the twelve months ended December 31, 2012. These represent effective income tax rates of approximately 31% and 38% for the twelve months ended December 31, 2013 and, 2012, respectively. The effective tax rate is impacted by the noncontrolling interest held in the Centennial joint venture and the impact of depletion allowances. During 2013, permanent tax differences declined due to lower depletion allowances. Depletion allowances declined due to a reduction in oil and gas revenues. As of December 31, 2013 and December 31, 2012, we had no tax payable.
As of December 31, 2013, we had net deferred tax assets of $2,044,000. Our largest deferred tax assets were made up of temporary differences related to the capitalization of costs, pension adjustments, and stock grant expense. Deferred tax liabilities consist of depreciation, deferred gains, cost of sale allocations, and straight-line rent. Due to the nature of most of our deferred tax assets, we believe they will be used in future years and an allowance is not necessary.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. The Company made total income tax payments of $15,000 in 2013 and $4,601,000 during 2012. The Company received federal refunds of $580,000 in 2012.

Liquidity and Capital Resources
Cash Flow and Liquidity. Our financial position allows us to pursue our strategies of land entitlement, development, and conservation. Accordingly, we have established well-defined priorities for our available cash, including investing in core business segments to achieve profitable future growth. We have historically funded our operations with cash flows from operating activities, cash and investments, and short-term borrowings from our bank credit facilities. In the past, we have also issued common stock and used the proceeds for capital investment activities. To enhance shareholder value, we will continue to make investments in our real estate segments to secure land entitlement approvals, build infrastructure for our developments, ensure adequate future water supplies, and provide funds for general land development activities. Within our farming segment, we will make investments as needed to improve efficiency and add capacity to its operations when it is profitable to do so.
Our cash, cash equivalents and marketable securities totaled approximately $64,467,000 at December 31, 2013, a decrease of $7,801,000, or 11%, from the corresponding amount at the end of 2012. Cash, cash equivalents and marketable securities decreased during 2013 due to property and equipment expenditures that included infrastructure development costs, investment in joint ventures, and investments in long term water assets. These investments were partially offset by an increase in long term debt and reimbursements from the East CFD.
The following table summarizes the cash flow activities for the last three years:

	Year Ended December 31		
(in thousands)	2013	2012	2011
Operating activities	$9,536	$14,092	$9,484
Investing activities	$(7,611)	$(23,273)	$(18,168)
Financing activities	$(113)	$(1,972)	$5,029

During 2013, our operations provided $9,536,000 of cash primarily attributable to operating results mainly from farming revenues, mineral resources revenues, investment income, and add back of non-cash expenses. Supplementing operations was a reduction in receivables and inventory, both of which are tied to farming activities.
During 2012, our operations provided $14,092,000 of cash primarily from $7,200,000 in cash distributions from our TA/Petro joint venture, improved operating results mainly from oil royalties and crop revenues and the add back of non-cash expenses. These increases in cash were partially offset by income tax payments, net of refunds, totaling approximately $4,021,000 related to the 2011 tax year and an increase in farming receivables outstanding.
During 2013, investing activities used $7,611,000 of cash primarily as a result of the $21,558,000 in capital expenditures, $9,635,000 in water investments and $3,415,000 net investment in our unconsolidated joint ventures of which $3,400,000 was contributed to TMV. These expenditures were partially offset by net proceeds of $8,387,000 from marketable securities, a $17,809,000 reimbursement for public infrastructure costs through the East CFD and $512,000 in reimbursements for outlet center costs incurred prior to the formation of the joint venture. Included in the $21,558,000 of capital expenditures during 2013 was $2,619,000 related to Centennial Founders LLC. The remaining capital expenditures consisted of $18,939,000 of investments in TRCC infrastructure, primarily associated with the development of the outlet center on land at TRCC-East and ordinary capital expenditures such as farm equipment replacements and crop development.
During 2012, investing activities used $23,273,000 of cash primarily as a result of the $20,669,000 in capital expenditures, described below, $6,154,000 in contributions in our unconsolidated joint ventures of which $3,200,000 was contributed to TMV, partially offset by a $1,012,000 distribution from our Five West Parcel LLC joint venture. Included in the $20,669,000 of capital expenditures during the first twelve months of 2012 was $4,682,000 related to Centennial Founders LLC. The remaining capital expenditures consisted of $15,987,000 of investments in TRCC infrastructure and ordinary capital expenditures such as farm equipment replacements and crop development.
We anticipate that our capital investment requirements could increase for 2014 when compared to 2013. These estimated investments include approximately $11,600,000 of infrastructure development at TRCC-East. This new infrastructure is to support continued commercial retail and industrial development within TRCC-East and to expand water facilities to support future new absorption. We are also investing approximately $1,600,000 to complete development of new grape vineyards and begin removal of old vineyards as a part of a long-term farm management program to redevelop declining orchards and vineyards to maintain and improve future farm revenues. We expect to possibly invest up to $14,200,000 for land planning and entitlement activities for the Grapevine Development Area as

described in Item 1, "Business - Real Estate Operations." We may potentially invest up to $12,000,000 in our various joint ventures, including Centennial Founders LLC, Tejon Mountain Village LLC, and TRCC/Rock Outlet Center LLC. Our plans also include the potential investment of $4,000,000 in water infrastructure and water purchases during 2014. We will continue to add to our current water assets and water infrastructure as opportunities arise to help secure our ability to supply water to our real estate and farming activities and as an investment, since we believe that the cost of water in California will continue to increase. We are also planning to invest approximately $2,500,000 in the replacement of operating equipment, such as farm equipment, and updates to our information technology systems.

During 2013, financing activities used $113,000 in cash. This use of cash was tied to the buyback of stock at time of the vesting of stock grants for the payment of payroll taxes. This cash usage was offset by a $4,750,000 increase in long-term debt during 2013 and the exercise of stock options. At December 31, 2013, there was no outstanding balance on our line of credit.

During 2012, financing activities used $1,972,000 in cash, primarily as a result of the buy back of vested stock grants for payroll taxes on issuance of restricted stock grants. During the first twelve months of 2011, financing activities provided $5,029,000 in cash, primarily as a result of proceeds from the exercise of stock options partially offset by payroll taxes on issuance of restricted stock grants.

It is difficult to accurately predict cash flows due to the nature of our businesses and fluctuating economic conditions. Our earnings and cash flows will be affected from period to period by the commodity nature of our farming operations, the timing of sales and leases of property within our development projects, and the beginning of development within our residential projects. The timing of sales and leases within our development projects is difficult to predict due to the time necessary to complete the development process and negotiate sales or lease contracts. Often, the timing aspect of land development can lead to particular years or periods having more or less earnings than comparable periods. Based on our experience, we believe we will have adequate cash flows and cash balances over the next twelve months to fund internal operations.

Capital Structure and Financial Condition. At December 31, 2013, total capitalization at book value was $324,880,000 consisting of $4,693,000 of debt and $320,187,000 of equity, resulting in a debt-to-total-capitalization ratio of approximately 1.45%, which is a slight increase when compared to the debt-to- total-capitalization ratio at December 31, 2012.

We have a long-term revolving line of credit of $30,000,000 that, as of December 31, 2013, had no outstanding balance. At the Company’s option, the interest rate on this line of credit can float at 1.75% over a selected LIBOR rate or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in December 2016), 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, not less than $225,000,000 and liquid assets of not less than $25,000,000 including available borrowing on the line of credit. At December 31, 2013, our tangible net worth was $324,880,000 and liquid assets were $64,467,000, not including availability in line of credit. This line of credit is secured by a portion of our farm acreage. The outstanding long-term debt, less current portion of $234,000, is $4,459,000 at December 31, 2013. This debt is being used to provide long-term financing for commercial retail development within TRCC-West.

Our current and future capital resource requirements will be provided primarily from current cash and marketable securities, cash flow from on-going operations, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, additional use of debt, proceeds from the reimbursement of public infrastructure costs through Community Facilities District bond debt (described below under “Off-Balance Sheet Arrangements”), and the issuance of common stock. During October 2012, we filed a shelf registration statement on Form S-3 that went effective in May 2013. Under the shelf registration statement, we may offer and sell in the future one or more offerings, common stock, preferred stock, debt securities, warrants or any combination of the foregoing. The shelf registration allows for efficient and timely access to capital markets and when combined with our other potential funding sources just noted, provides us with a variety of capital funding options that can then be used and appropriately matched to the funding need.

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 3,000,000 warrants to purchase shares of Company common stock, par value $0.50 per share, or Warrants, to holders of record of Common Stock as of August 21, 2013, the Record Date. The Warrants were distributed to shareholders on August 28, 2013. Each Warrant will entitle the holder to purchase one share of Common Stock at an initial exercise price of $40.00 per share and will be exercisable through August 31, 2016, subject to the Company's right to accelerate the expiration date under certain circumstances when the Warrants are in-the-money. Each holder of Common Stock as of the Record

Date received a number of Warrants equal to the number of shares held multiplied by 0.14771, rounded to the nearest whole number. No cash or other consideration was paid in respect of any fractional Warrants that were rounded down. The Company issued the Warrants pursuant to a Warrant Agreement, dated as of August 7, 2013, between the Company, Computershare, Inc. and Computershare Trust Company, N.A., as warrant agent. Proceeds received from the exercise of the Warrants will be used to provide additional working capital for generate corporate purposes, including development activities within the Company's industrial and residential projects and to continue its investments into water assets and water facilities.

As noted above, at December 31, 2013, we had $64,467,000 in cash and securities and as of the filing date of this Form 10-K, we have $30,000,000 available on credit lines to meet any short-term liquidity needs.

We continue to expect that substantial future investments will be required in order to develop our land assets. In order to meet these long-term capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we will use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. We will use a combination of the above funding sources to properly match funding requirements with the assets or development project being funded. There is no assurance that we can obtain financing or that we can obtain financing at favorable terms. We believe we have adequate capital resources to fund our cash needs and our capital investment requirements as described earlier in the cash flow and liquidity discussions.

Contractual Cash Obligations. The following table summarizes our contractual cash obligations and commercial commitments as of December 31, 2013, to be paid over the next five years:

	Payments Due by Period				
(In thousands)	Total	One Year or Less	Years 2-3	Years 4-5	After 5 Years
CONTRACTUAL OBLIGATIONS:					
Long-term debt	$4,693	$234	$499	$543	$3,417
Interest on fixed rate debt	1,632	195	359	315	763
Line of Credit	32	32	—	—	—
Letter of Credit Fee	83	83	—	—	—
Tejon Ranch Conservancy	3,920	640	1,080	880	1,320
Defined Benefit Plan	5,001	1,119	702	816	2,364
SERP	6,951	550	1,318	1,403	3,680
Cash contract commitments	5,252	5,252	—	—	—
Estimated minimum payments to WRMWSD	55,000	2,500	5,000	5,000	42,500
Total contractual obligations	$82,564	$10,605	$8,958	$8,957	$54,044

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 and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.” Based on this definition, the table above includes only those contracts that include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business. A total of 5,488 acres of the Company’s land is subject to water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, requiring minimum future annual payments through the life of the contract which is 2035, for as long as the Company owns such land. The estimated future minimum annual payments are estimated to be $2,500,000 before any potential credits are received, whether or not water is available or is used.

Our cash contract commitments consist of contracts in various stages of completion related to infrastructure development within our industrial developments and entitlement costs related to our industrial and residential development projects. At the present time, we do not have any capital lease obligations or purchase obligations outstanding. Our operating lease obligations are for office equipment, several vehicles, and a temporary trailer providing office space and average approximately $25,000 per month.

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

As discussed in Note 13 of the Notes to Consolidated Financial Statements, we have long-term liabilities for deferred employee compensation, including pension and supplemental retirement plans. Payments above reflect estimates of future defined benefit plan contributions from the Company to the plan trust and estimates of future payments to employees from the Company that are in the SERP program. During 2013, we made approximately $1,000,000 in pension plan contributions, compared to $860,000 in pension plan contributions in 2012.

Off-Balance Sheet Arrangements

The following table shows contingent obligations we have with respect to the CFDs.

	Amount of Commitment Expiration Per Period				
($ in thousands)	Total	< 1 year	1 -3 Years	4 -5 Years	After 5 Years
OTHER COMMERCIAL COMMITMENTS:					
Standby letter of credit	$5,426		$5,426	$—	$—
Total other commercial commitments	$5,426		$5,426	$—	$—

TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company's Kern County developments. TRPFFA created two CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company's land to secure payment of special taxes related to $28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to $39,750,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $80,250,000 of additional bond debt authorized by TRPFFA.

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

ITEM 7A. 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 five years and an investment grade rating from Moody's or Standard and Poor's. See Note 3 of the Notes to Consolidated Financial Statements, Marketable Securities.

Our line-of-credit currently has no outstanding balance. The interest rate on our line-of-credit can either float with LIBOR or be tied to a specific LIBOR rate on a fixed basis and change only at maturity of the fixed-rate feature. We are exposed to interest rate risk on our long term debt currently outstanding. The long-term debt of $4,693,000 has a fixed interest rate of 4.25%, and the fair value of this long-term debt will change based on interest rate movements in the market. The floating rate feature in our line of credit can expose us to variability in interest payments due to changes in interest rates. We believe it is prudent at times to limit the variability of floating-rate interest payments and in the past have entered into interest rate swaps to manage those fluctuations.

At December 31, 2013, we had no outstanding interest rate swap agreements. However, TA/Petro, an unconsolidated joint venture of the Company, had an interest rate swap agreement with respect to its long-term debt to manage interest rate risk by converting floating interest rate debt to fixed-rate debt. This swap agreement matured in August 2012. Changes in the value of the interest rate swap are reflected in other comprehensive income of the joint venture, and the Company accounts for its share of the change in the interest rate swap in other comprehensive income.

Market risk related to our farming inventories ultimately depends on the value of almonds, grapes, and pistachios at the time of payment or sale. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and periodic credit evaluations of our customers' financial conditions, we believe our credit risk is minimal. Market risk related to our farming inventories 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 December 31, 2013
(In thousands except percentage data)

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value at 12/31/2013
Assets:								