

TEJON RANCH CO
Form 10-Q
May 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2016

Or

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

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

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

Delaware 77-0196136
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)
P.O. Box 1000, Tejon Ranch, California 93243

(Address of principal executive offices)
Registrant's telephone number, including area code: (661) 248-3000

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

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

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

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

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

The number of the Company's outstanding shares of Common Stock on April 30, 2016 was 20,726,089.

TEJON RANCH CO. AND SUBSIDIARIES
TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Unaudited Consolidated Statements of Income for the Three Months Ended March 31, 2016 and 2015	<u>3</u>
Unaudited Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015	<u>4</u>
Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015	<u>5</u>
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015	<u>6</u>
Unaudited Consolidated Statement of Changes in Equity and Noncontrolling Interests for the Three Months Ended March 31, 2016	<u>7</u>
Notes to Unaudited Consolidated Financial Statements	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>23</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>31</u>
Item 4. Controls and Procedures	<u>33</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>33</u>
Item 1A. Risk Factors	<u>33</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>33</u>
Item 3. Defaults Upon Senior Securities	<u>33</u>
Item 4. Mine Safety Disclosures	<u>33</u>
Item 5. Other Information	<u>33</u>
Item 6. Exhibits	<u>34</u>
SIGNATURES	<u>38</u>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEJON RANCH CO. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 (In thousands, except per share amounts)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Revenues:		
Real estate - commercial/industrial	\$2,154	\$ 2,279
Mineral resources	8,740	10,200
Farming	1,221	3,071
Ranch operations	838	1,083
Total revenues	12,953	16,633
Costs and Expenses:		
Real estate - commercial/industrial	1,679	1,609
Real estate - resort/residential	542	751
Mineral resources	4,693	5,774
Farming	1,506	2,343
Ranch operations	1,347	1,593
Corporate expenses	3,003	3,443
Total expenses	12,770	15,513
Operating income	183	1,120
Other Income:		
Investment income	118	155
Other income	51	38
Total other income	169	193
Income from operations before equity in earnings of unconsolidated joint ventures	352	1,313
Equity in earnings of unconsolidated joint ventures, net	1,455	1,150
Income before income tax expense	1,807	2,463
Income tax expense	612	862
Net income	1,195	1,601
Net loss attributable to non-controlling interest	(14)	(16)
Net income attributable to common stockholders	\$1,209	\$ 1,617
Net income per share attributable to common stockholders, basic	\$0.06	\$ 0.08
Net income per share attributable to common stockholders, diluted	\$0.06	\$ 0.08

See accompanying notes.

TEJON RANCH CO. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Three Months Ended	
	March 31, 2016	March 31, 2015
Net income	\$1,195	\$ 1,601
Other comprehensive income:		
Unrealized gains on available for sale securities	188	62
Unrealized losses on interest rate swap	(2,276)	(1,395)
Other comprehensive loss before taxes	(2,088)	(1,333)
Provision benefit from income taxes related to other comprehensive income (loss) items	730	534
Other comprehensive loss	(1,358)	(799)
Comprehensive (loss) income	(163)	802
Comprehensive loss attributable to non-controlling interests	(14)	(16)
Comprehensive (loss) income attributable to common stockholders	\$(149)	\$ 818
See accompanying notes.		

TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,307	\$ 1,930
Marketable securities - available-for-sale	32,719	32,815
Accounts receivable	3,570	6,511
Inventories	6,601	3,517
Prepaid expenses and other current assets	5,365	4,120
Total current assets	49,562	48,893
Real estate and improvements - held for lease, net	23,326	21,942
Real estate development (includes \$85,181 at March 31, 2016 and \$84,194 at December 31, 2015, attributable to Centennial Founders, LLC, Note 15)	234,235	235,466
Property and equipment, net	45,008	44,469
Investments in unconsolidated joint ventures	32,155	30,680
Long-term water assets	44,462	43,806
Deferred tax assets	5,390	4,659
Other assets	2,090	2,004
TOTAL ASSETS	\$436,228	\$ 431,919
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 3,126	\$ 3,252
Accrued liabilities and other	3,166	3,492
Income taxes payable	499	1,237
Deferred income	2,131	1,525
Revolving line of credit	2,000	—
Current maturities of long-term debt	1,659	815
Total current liabilities	12,581	10,321
Long-term debt, less current portion	72,320	73,223
Long-term deferred gains	3,816	3,816
Other liabilities	15,647	13,251
Total liabilities	104,364	100,611
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, \$.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 20,716,380 at March 31, 2016 and 20,688,154 at December 31, 2015	10,358	10,344
Additional paid-in capital	217,508	216,803
Accumulated other comprehensive loss	(8,260)	(6,902)
Retained earnings	72,598	71,389
Total Tejon Ranch Co. Stockholders' Equity	292,204	291,634
Non-controlling interest	39,660	39,674
Total equity	331,864	331,308
TOTAL LIABILITIES AND EQUITY	\$436,228	\$ 431,919

See accompanying notes.

5

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Operating Activities		
Net income	\$1,195	\$1,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,366	1,098
Amortization of premium/discount of marketable securities	123	160
Equity in earnings of unconsolidated joint ventures	(1,455)	(1,150)
Non-cash retirement plan expense	242	(166)
Gain on sale of real estate/assets	(14)	—
Stock compensation expense	973	953
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(2,435)	(1,883)
Current liabilities	(1,026)	1,131
Net cash (used in) provided by operating activities	(1,031)	1,744
Investing Activities		
Maturities and sales of marketable securities	1,383	5,590
Funds invested in marketable securities	(1,222)	(7,487)
Property and equipment expenditures	(5,667)	(6,117)
Reimbursement proceeds from Communities Facilities District	4,162	4,971
Proceeds from sale of real estate/assets	145	—
Investment in unconsolidated joint ventures	(20)	—
Distribution of equity from unconsolidated joint ventures	—	1,100
Net cash used in investing activities	(1,219)	(1,943)
Financing Activities		
Borrowings of short-term debt	2,000	4,110
Repayments of short-term debt	—	(7,300)
Repayments of long-term debt	(63)	(62)
Taxes on vested stock grants	(310)	(515)
Net cash provided by (used in) financing activities	1,627	(3,767)
Decrease in cash and cash equivalents	(623)	(3,966)
Cash and cash equivalents at beginning of year	1,930	5,638
Cash and cash equivalents at end of period	\$1,307	\$1,672
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	\$319	\$2,135
Taxes paid	\$1,350	\$2,100
See accompanying notes.		

TEJON RANCH CO. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND NONCONTROLLING
 INTERESTS

(In thousands, except shares outstanding)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 31, 2015	20,688,154	\$ 10,344	\$ 216,803	\$ (6,902)	\$ 71,389	\$ 291,634	\$ 39,674	\$ 331,308
Net income	—	—	—	—	1,209	1,209	(14)	1,195
Other comprehensive income	—	—	—	(1,358)	—	(1,358)	—	(1,358)
Restricted stock issuance	44,205	22	(22)	—	—	—	—	—
Stock compensation	—	—	1,029	—	—	1,029	—	1,029
Shares withheld for taxes and tax benefit of vested shares	(15,979)	(8)	(302)	—	—	(310)	—	(310)
Balance, March 31, 2016	20,716,380	\$ 10,358	\$ 217,508	\$ (8,260)	\$ 72,598	\$ 292,204	\$ 39,660	\$ 331,864

See accompanying notes.

TEJON RANCH CO. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The summarized information of Tejon Ranch Co. and its subsidiaries, (the Company, Tejon, we, us and our), furnished pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of the Company's management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

The periods ending March 31, 2016 and 2015 include the consolidation of Centennial Founders, LLC's statement of operations within the resort /residential real estate development segment and statements of cash flows. The Company's March 31, 2016 and December 31, 2015 balance sheets and statements of changes in equity and noncontrolling interests are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

The Company has identified five reportable segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; farming; and ranch operations. Information for the Company's reported segments is presented in its consolidated statements of operations. The Company's reporting segments follow the same accounting policies used for the Company's consolidated financial statements. We use segment profit or loss as the primary measure of profitability to evaluate operating performance and to allocate capital resources.

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on results of operations.

Ranch Operations

During the fourth quarter of 2015, the Company reclassified revenues and expenses comprised of grazing leases, game management and other ancillary services supporting the ranch, from commercial/industrial into a new segment called ranch operations. As a result, the Company reclassified prior period ranch operation revenues and expenses on the consolidated statements of income. For the three months ended March 31, 2015, revenues and expenses reclassified were \$1,083,000 and \$1,593,000, respectively.

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. ASU 2015-02 is effective for the Company beginning December 15, 2015. As a result of adopting this ASU, we were not required to consolidate any legal entities that were previously unconsolidated or deconsolidate any legal entities that were previously consolidated. Therefore, upon adoption, we were not required to retrospectively adjust any prior period information or recognize a cumulative effect of the change in retained earnings as a result of the initial application of this update.

2. EQUITY

Earnings Per Share (EPS)

Basic net income per share attributable to common stockholders is based upon the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share attributable to common stockholders is based upon the weighted-average number of shares of common stock outstanding and the weighted-average number of shares outstanding assuming the issuance of common stock upon exercise of warrants to purchase common stock, and the vesting of restricted stock grants per ASC 260, "Earnings Per Share."

	Three Months Ended	
	March 31, 2016	March 31, 2015
Weighted average number of shares outstanding:		
Common stock	20,702,103	20,645,846
Common stock equivalents-stock options, grants	71,364	60,737
Diluted shares outstanding	20,773,467	20,706,583

Warrants

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 3,000,000 warrants, or the Warrants, to purchase shares of Company common stock, par value \$0.50 per share, or Common Stock, to holders of record of Common Stock as of August 21, 2013, the Record Date. The Warrants were issued pursuant to a Warrant Agreement between the Company, Computershare, Inc. and Computershare Trust Company, N.A., as warrant agent. The Warrants were distributed to shareholders on August 28, 2013. Each Warrant entitles the holder to purchase one share of Common Stock at an initial exercise price of \$40.00 per share. The Warrants are 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. On February 26, 2016, the Company received a notice from NYSE MKT indicating the Warrants are not in compliance with the NYSE MKT's continued listing standard due to the security's abnormally low market value of less than \$0.01. Consequently, the NYSE has delisted the Warrants.

3. MARKETABLE SECURITIES

ASC 320, "Investments – Debt and Equity Securities" requires that an enterprise classify all debt securities as either held-to-maturity, trading or available-for-sale. The Company has elected to classify its securities as available-for-sale and therefore is required to adjust securities to fair value at each reporting date. All costs and both realized and unrealized gains and losses on securities are determined on a specific identification basis. The following is a summary of available-for-sale securities at:

(\$ in thousands)	Fair Value Hierarchy	March 31, 2016		December 31, 2015	
		Cost	Estimated Fair Value	Cost	Estimated Fair Value
Marketable Securities:					
Certificates of deposit					
with unrecognized losses for less than 12 months		\$465	\$ 464	\$4,810	\$ 4,797
with unrecognized losses for more than 12 months		—	—	239	238
with unrecognized gains		6,481	6,510	2,800	2,805
Total Certificates of deposit	Level 1	6,946	6,974	7,849	7,840
US Treasury and agency notes					
with unrecognized losses for less than 12 months		—	—	860	857
with unrecognized losses for more than 12 months		—	—	—	—
with unrecognized gains		2,028	2,037	736	738
Total US Treasury and agency notes	Level 2	2,028	2,037	1,596	1,595
Corporate notes					
with unrecognized losses for less than 12 months		5,084	5,056	14,638	14,516
with unrecognized losses for more than 12 months		3,160	3,139	2,080	2,061
with unrecognized gains		11,949	11,981	3,334	3,339
Total Corporate notes	Level 2	20,193	20,176	20,052	19,916
Municipal notes					
with unrecognized losses for less than 12 months		666	661	1,742	1,725
with unrecognized losses for more than 12 months		330	329	301	298
with unrecognized gains		2,528	2,542	1,435	1,441
Total Municipal notes	Level 2	3,524	3,532	3,478	3,464

\$32,691 \$ 32,719 \$32,975 \$ 32,815

We evaluate our securities for other-than-temporary impairment based on the specific facts and circumstances surrounding each security valued below its cost. Factors considered include the length of time the securities have been valued below cost, the financial condition of the issuer, industry reports related to the issuer, the severity of any decline, our intention not to sell the security, and our assessment as to whether it is not more likely than not that we will be required to sell the security before a recovery of its amortized cost basis. We then segregate the loss between the amounts representing a decrease in cash flows expected to be collected, or the credit loss, which is recognized through earnings, and the balance of the loss which is recognized through other comprehensive income. At March 31, 2016, the fair market value of investment securities was \$28,000 higher than their cost basis.

As of March 31, 2016, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflected an increase in the market value of available-for-sale securities of \$188,000, which includes estimated taxes of \$66,000. As of March 31, 2016, the Company's gross unrealized holding income equaled \$84,000 and gross unrealized holding losses equaled \$56,000.

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

	March 31, 2016				
(\$ in thousands)	2016	2017	2018	2019	Total
Certificates of deposit	\$1,594	\$631	\$4,510	\$169	\$6,904
U.S. Treasury and agency notes	100	1,234	579	143	2,056
Corporate notes	4,159	6,525	6,669	2,301	19,654
Municipal notes	975	940	1,455	75	3,445
	\$6,828	\$9,330	\$13,213	\$2,688	\$32,059

	December 31, 2015				
(\$ in thousands)	2016	2017	2018	2019	Total
Certificates of deposit	\$2,492	\$631	\$4,510	169	\$7,802
U.S. Treasury and agency notes	100	759	579	188	1,626
Corporate notes	4,572	6,525	6,462	1,881	19,440
Municipal notes	995	940	1,455	—	3,390
	\$8,159	\$8,855	\$13,006	\$2,238	\$32,258

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

4. REAL ESTATE

(\$ in thousands)	March 31, 2016	December 31, 2015
Real estate development		
Mountain Village	\$122,191	\$120,954
Centennial	85,181	84,194
Grapevine	19,267	18,285
Tejon Ranch Commerce Center	7,596	12,033
Real estate development	234,235	235,466
Real estate and improvements - held for lease, net		
Tejon Ranch Commerce Center	21,260	19,783
Rancho Santa Fe and Other	4,242	4,242
Real estate and improvements - held for lease	25,502	24,025
Less accumulated depreciation	(2,176)	(2,083)
Real estate and improvements - held for lease, net	\$23,326	\$21,942

5. LONG-TERM WATER ASSETS

Long-term water assets consist of water and water contracts held for future use or sale. The water is held at cost, which includes the price paid for the water and the cost incurred to pump and deliver the water. A portion of our water is currently held in a water bank on Company land in southern Kern County. Banked water costs also include costs related to the right to receive additional acre-feet of water in the future from the Antelope Valley East Kern Water Agency, or AVEK. The Company has also banked water within an AVEK owned water bank.

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 State Water Project, or 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 and now have been transferred to AVEK for our use in the Antelope Valley. In 2013, the Company acquired from DMB Pacific, or DMB, a contract to purchase water that obligates 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 initial term of the water purchase agreement with Nickel runs to 2044 and includes a Company option to extend the contract for an additional 35 years. Purchase costs in 2016 were \$695 per acre-foot. For future years, the purchase cost is subject to annual increases based on the greater of the consumer price index and 3%.

The water purchased under the contract with Nickel is expected to 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 this water is fully allocated to Company uses.

On August 6, 2015, Tejon Ranchcorp, or Ranchcorp, a wholly-owned subsidiary of Tejon Ranch Co., entered into a Water Supply Agreement with Pastoria Energy Facility, L.L.C., or PEF. PEF is the current lessee under the power plant lease. Pursuant to the Water Supply Agreement, on January 1, 2016, PEF may purchase from Ranchcorp up to 2,000 acre feet of water and from January 1, 2017 through July 31, 2030, with an option to extend the term, PEF may purchase from Ranchcorp up to 3,500 acre feet of water per year. PEF is under no obligation to purchase water from Ranchcorp in any year, but is required to pay Ranchcorp an annual option payment equal to 30% of the maximum annual payment. The price of the water under the Water Supply Agreement is \$1,025 per acre foot of annual water, subject to 3% annual increases commencing January 1, 2017. The Water Supply Agreement contains other customary terms and conditions, including representations and warranties, which are typical for agreements of this type. The Company's commitments to sell water can be met through current water assets.

During the first three months of 2016, we sold 5,954 acre feet of water totaling \$7,791,000 with a cost of \$4,215,000, which are recorded in the mineral resources segment on the unaudited consolidated statements of income.

Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSA, and the Tejon-Castac Water District, or TCWD, are also in place, but were entered into with each district at inception of the contract and not purchased later from third parties, and do not have a related financial carrying cost on the books of the Company.

Therefore, there is no amortization expense related to these contracts. Water assets consist of the following:

(in acre feet, unaudited)	March 31, 2016	December 31, 2015
Banked water and water for future delivery		
AVEK water bank	13,033	13,033
Company water bank	17,287	8,700
AVEK water for future delivery	2,362	2,362
Total Company and AVEK banked water	32,682	24,095
Transferable water*	9,061	14,786
Water Contracts	10,137	10,137
Total purchased water - third parties	51,880	49,018
WRMWSA - Contracts with Company	15,547	15,547
TCWD - Contracts with Company	5,749	5,749

Edgar Filing: TEJON RANCH CO - Form 10-Q

TCWD - Banked water contracted to Company	33,466	34,496
Total purchased and contracted water sources in acre feet	106,642	104,810

*Any transferable water with AVEK that is used by the Company or returned by AVEK to the Company will be returned at a 1.5 to 1 factor giving the Company use of a total of 13,592 (9,061 x 1.5) acre feet.

(\$ in thousands)	March 31, December	
	2016	31, 2015
Banked water and water for future delivery	\$4,779	\$4,779
Transferable water	10,110	9,117
Water contracts	30,924	31,261
Total long-term water assets	45,813	45,157
less: Current portion	(1,351)	(1,351)
	\$44,462	\$43,806

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

(\$ in thousands)	March 31, December	
	2016	31, 2015
Accrued vacation	\$ 801	\$ 801
Accrued paid personal leave	554	585
Accrued bonus	419	1,549
Property tax payable	937	—
Other	455	557
	\$ 3,166	\$ 3,492

7. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

(\$ in thousands)	March 31, December	
	2016	31, 2015
Revolving line of credit	\$2,000	\$—
Notes payable	74,153	74,215
Total short-term and long-term debt	76,153	74,215
Less: line-of-credit and current maturities of long-term debt	(3,659)	(815)
Less: deferred loan costs	(174)	(177)
Long-term debt, less current portion	\$72,320	\$73,223

On October 13, 2014, the Company, through its wholly-owned subsidiary Tejon Ranchcorp, as borrower, entered into an Amended and Restated Credit Agreement, a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. The Credit Facility amends and restates the Company's existing credit facility dated as of November 5, 2010 and extended on December 4, 2013. The Credit Facility adds a \$70,000,000 term loan, or Term Loan, to the existing \$30,000,000 revolving line of credit, or RLC. Funds from the Term Loan were used to finance the Company's purchase of DMB TMV LLC's interest in Tejon Mountain Village LLC. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties. As of March 31, 2016 and December 31, 2015, the RLC had an outstanding balance of \$2,000,000 and \$0, respectively. At the Company's option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR rate or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. The interest rate per annum applicable to the Term Loan is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Loan requires interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Loan at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's

farmland and farm assets, which include equipment, crops and crop receivables and the power plant lease and lease site, and related accounts and other rights to payment and inventory.

12

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than \$20,000,000. At March 31, 2016 and December 31, 2015, we were in compliance with all financial covenants.

During the third quarter of 2013, we entered into a promissory note agreement to pay a principal amount of \$4,750,000 with principal and interest due monthly starting on October 1, 2013. The interest rate on this promissory note is 4.25% per annum, with principal and interest payments ending on September 1, 2028. The proceeds from this promissory note were used to eliminate debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment. The current balance on the note is \$4,153,000. The balance of this long-term debt instrument listed above approximates the fair value of the instrument.

8. OTHER LIABILITIES

Other liabilities consist of the following:

(\$ in thousands)	March 31, December 31,	
	2016	2015
Pension liability (See Note 13)	\$ 2,338	\$ 2,263
Interest rate swap liability (See Note 10)	5,181	2,905
Supplemental executive retirement plan liability (See Note 13)	7,992	7,999
Other	136	84
Total	\$ 15,647	\$ 13,251

For the captions presented in the table above, please refer to the respective Notes to Unaudited Consolidated Financial Statements for further detail.

9. STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS

The Company's stock incentive plans provide for the making of awards to employees based upon time-based criteria or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with time-based vesting; performance share grants that only vest upon the achievement of specified performance conditions, such as corporate cash flow goals, or Performance Condition Grants; and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones, or Performance Milestone Grants. The Company has granted performance share grants that contain both performance-based and market-based conditions. Compensation cost for these awards is recognized based on either the achievement of the performance-based conditions, if they are considered probable, or if they are not considered probable, on the achievement of the market-based condition. Failure to satisfy the threshold performance conditions will result in the forfeiture of shares. Forfeiture of share awards with time-based or performance-based restrictions results in a reversal of previously recognized share-based compensation expense. Forfeiture of share awards with market-based restrictions does not result in a reversal of previously recognized share-based compensation expense.

The following is a summary of the Company's performance share grants with performance conditions for the three months ended March 31, 2016:

Performance Share Grants with Performance Conditions	
Below threshold performance	—
Threshold performance	205,712
Target performance	377,385
Maximum performance	569,972

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

	March 31, December 31,	
	2016	2015
Stock grants outstanding beginning of the year at target achievement	272,353	237,045
New stock grants/additional shares due to maximum achievement	245,781	114,221
Vested grants	(36,028)	(52,436)
Expired/forfeited grants	(524)	(26,477)
Stock grants outstanding March 31, 2016 at target achievement	481,582	272,353

The unamortized costs associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of March 31, 2016 were \$5,218,000 and 19 months, respectively. The fair value of restricted stock with time-based vesting features is based upon the Company's share price on the date of grant and is expensed over the service period. Fair value of performance share grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company's stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance share grants that contain a range of shares from zero to maximum we determine, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance share grants is tied to the achievement of a performance condition, we estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition.

During the second quarter of 2015, the 2014 performance milestone grants were modified to fix the number of shares to be received rather than have the number of shares to be issued at vesting float with the price of the stock, which converted the awards from liability awards to equity awards. As such, we reclassified \$1,065,000 from other liabilities to equity. In accordance with ASC 718, "Compensation - Stock Compensation," this resulted in a probable-to-improbable modification resulting in no impact to earnings.

Under the Non-Employee Director Stock Incentive Plan, or NDSI Plan, each non-employee director receives his or her annual compensation in stock. The stock is granted at the end of each quarter based on the quarter ending stock price.

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

(\$ in thousands)	Three Months	
	Ended	
	March 31,	March 31,
Employee Plan:	2016	2015
Expensed	\$794	\$ 741
Capitalized	56	36
	850	777
NDSI Plan - Expensed	179	212
	\$1,029	\$ 989

10. INTEREST RATE SWAP LIABILITY

During October 2014, the Company entered into an interest rate swap agreement to hedge cash flows tied to changes in the underlying floating interest rate tied to LIBOR for the Term Loan as discussed in Note 7 (Line of Credit and Long-Term Debt) The ineffective portion of the change in fair value of our interest rate swap agreement is required to be recognized directly in earnings. During the quarter ended March 31, 2016, our interest rate swap agreement was 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in

the period during which the hedged transactions affect earnings. As of March 31, 2016, the fair value of our interest rate swap agreement aggregating a liability balance was classified in other liabilities.

We had the following outstanding interest rate swap agreement designated as a cash flow hedge of interest rate risk as of March 31, 2016 (\$ in thousands):

Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Rate	Fair Value	Notional Amount
October 15, 2014	October 5, 2024	Level 2	4.11%	\$(5,181)	\$70,000

11. INCOME TAXES

For the three months ended March 31, 2016, the Company's income tax expense was \$612,000 compared to an income tax expense of \$862,000 for the three months ended March 31, 2015. These represent effective income tax rates of approximately 34% and 35% for the three months ended March 31, 2016 and, 2015, respectively. The effective tax rate for the first three months of 2016 is based on forecasted annual pre-tax income for 2016. As of March 31, 2016, we had income taxes payable of \$499,000.

The Company classifies interest and penalties incurred on tax payments as income tax expense. During the three months ended March 31, 2016, the Company made \$1,350,000 of income tax payments for the 2015 tax year.

12. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts with minimum annual payments in 2016 of approximately \$8,240,000, of which \$6,432,000 was paid during the first quarter with the remainder to be paid throughout the year. These estimated water contract payments consist of SWP, contracts with Wheeler Ridge Maricopa Water Storage District, Tejon-Castac Water District, or TCWD, Tulare Lake Basin Water Storage District, Dudley-Ridge Water Storage District and the Nickel water contract. The SWP contracts run through 2035 and the Nickel water contract runs to 2044, with an option to extend an additional 35 years. The Tulare Lake Basin Water Storage District and Dudley-Ridge Water Storage District SWP contracts have now been transferred to AVEK, for our use in the Antelope Valley. As discussed in Note 5 (Long-Term Water Assets), we purchased the assignment of a contract to purchase water in late 2013. The assigned water contract is with Nickel Family, LLC, and obligates us to purchase 6,693 acre-feet of water annually starting in 2014.

The Company is obligated to make payments of approximately \$800,000 per year to the Tejon Ranch Conservancy as prescribed in the Conservation Agreement we entered into with five major environmental organizations in 2008. 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. These amounts are recorded in real estate development for the Centennial and Mountain Village at Tejon Ranch, or MV projects. Our obligation under this commitment terminates at the end of 2021.

The Company exited a consulting contract during the second quarter of 2014 related to the Grapevine Development and is obligated to pay an earned incentive fee at the time of successful receipt of project entitlements and at a value measurement date five-years after entitlements have been achieved for Grapevine. The final amount of the incentive fees will not be finalized until the future payment dates. The Company believes that net savings from exiting the contract over this future time period will more than offset the incentive payment costs.

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 \$55,000,000 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 \$65,000,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of bonds there is a standby letter of credit for \$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. The Company believes that the letter of credit will never be drawn upon. The letter of credit is for two years and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately \$83,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure related to the TRCC-West development. As of March 31, 2016, there were no additional improvement funds remaining from the West CFD bonds. During the first quarter of 2016, the East CFD reimbursed the Company approximately \$4,162,000 for public infrastructure. After this payment, there is \$13,923,000 in funds remaining in the East CFD improvement fund. During 2015, the Company paid approximately \$963,000 in special taxes. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple-net leases, will bear an increasing portion of the assessed special tax. This amount could change in the future based on the amount of bonds outstanding and the amount of taxes paid by new owners of land and new lease tenants. The assessment of each individual property sold or leased is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not currently required to recognize an obligation.

In July 2014, the Company received a copy of a Notice of Intent to Sue, or Notice, dated July 17, 2014 indicating that the Center for Biological Diversity, the Wishtoyo Foundation and Dee Dominguez intend to initiate a lawsuit against the U.S. Fish and Wildlife Service, or USFWS, under the federal Endangered Species Act challenging USFWS's approval of Tejon Ranchcorp's Tehachapi Uplands Multiple Species Habitat Conservation Plan, or TUMSHCP, and USFWS's issuance of an Incidental Take Permit, or ITP, to Tejon Ranchcorp for the take of federally listed species. The foregoing approvals authorize, among other things, removal of California condor habitat associated with Tejon Ranchcorp's potential future development of MV. No lawsuit has been filed at this time. It is not possible to predict whether any lawsuit will actually be filed or whether the Company or Tejon Ranchcorp will incur any damages from such a lawsuit.

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, an alleged representative of the federally-unrecognized "Kawaiisu Tribe" (collectively, "Robinson") alleging, inter alia, that the Company does not hold legal title to the land within the MV 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, and Ken Salazar, in his capacity as U.S. Secretary of the Interior. On March 28, 2016, the United States Supreme Court ruled in favor of the Company and as a result this matter is no longer capable of further litigation.

National Cement

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

One order directs the Company's former tenant Lafarge Corporation (or Lafarge), the current tenant National, and the Company to clean up groundwater contamination on the leased property. Lafarge and National installed a groundwater cleanup system in 2003 and that system continues to operate. National and Lafarge have consolidated, closed, and capped cement kiln dust piles located on land leased from the Company. A second order directs National, Lafarge, and the Company to maintain and monitor the effectiveness of the cap.

The Company is not aware of any failure by Lafarge or National to comply with directives of the RWQCB. Under current and prior leases, National and Lafarge are obligated to indemnify the Company for costs and liabilities arising out of their use of the leased premises. The Company believes that the matters described above are included within the scope of the National or Lafarge indemnity obligations. If 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 the first half of 2013 and resulted in confirmation of each party's groundwater pumping for 2011 and 2012. The fifth phase of the trial commenced in February 2014, and concerned 1) whether the United States has a federal reserved water right to basin groundwater, and 2) the rights to return flows from imported water. The court heard evidence on the federal reserve right but continued the trial on the return flow issues while most of the parties to the adjudication discussed a settlement, including rights to return flows. In February 2015, more than 140 parties representing more than 99% of the current water use within the adjudication boundary agreed to a settlement. On March 4, 2015, the settling parties, including Tejon, submitted a Stipulation for Entry of Judgment and Physical Solution to the court for approval. On December 23, 2015, the court entered Judgment approving the Stipulation for Entry of Judgment and Physical Solution. The Company's water supply plan for the Centennial project anticipated reliance on, among other sources, a certain quantity of groundwater underlying the Company's lands in the Antelope Valley. The Company's allocation in the Judgment is consistent with that amount. Prior to the Judgment becoming final, on February 19 and 22, 2016, several parties, including the Willis Class and Phelan Pinon Hills CSD, filed notices of appeal from the Judgment. Notwithstanding the appeals, the parties with assistance from the Court have begun establishment of the Watermaster and administration of the Physical Solution, consistent with the Judgment.

Summary and Status of Kern 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 (collectively, "Central Delta"), filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources, or 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 the Kern County Water Agency and in turn to the Kern Water Bank Authority, or KWBA, whose members are various Kern and Kings County interests, including TCWD, which TCWD has a 2% interest in the KWBA. A parallel lawsuit was also filed by Central Delta in Kern County Superior Court on July 2, 2010, 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. This lawsuit has since been moved to the Sacramento County Superior Court. Another lawsuit was filed in Kern County Superior Court on June 3, 2010, by two districts adjacent to the KWB, namely Rosedale Rio Bravo and Buena Vista Water Storage Districts, or Rosedale, asserting that the remedial EIR did not adequately evaluate potential impacts arising from operations of the KWB, but this lawsuit did not name the Company, only TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit has since been moved to the Sacramento County Superior Court. In an initial favorable ruling on January 25, 2013, the court determined that the challenges to the validity of the Monterey Amendments, including the transfer of the KWB, were not timely and were barred by the statutes of limitation, the doctrine of laches, and by the annual validating statute. The substantive hearing on the challenges to the EIR was held on January 31, 2014. On March 5, 2014 the court issued a decision, rejecting all of Central Delta's California Environmental Quality Act, or CEQA, claims, except the Rosedale claim, joined by Central Delta, that the EIR did not adequately evaluate future impacts from operation of the KWB, in particular potential impacts on groundwater and water quality.

On November 24, 2014, the court issued a writ of mandate that requires DWR to prepare a revised EIR regarding the Monterey Amendments evaluating the potential operational impacts of the KWB. The writ authorizes the continued

operation of the KWB pending completion of the revised EIR subject to certain conditions including those described in an interim operating plan negotiated between the KWBA and Rosedale. The writ of mandate, as revised by the court, requires DWR to certify the revised EIR by June 30, 2016. DWR is proceeding to prepare the revised EIR. We are uncertain as to whether in the future the writ of mandate or the revised EIR could result in some curtailment in KWBA operations. To the extent there may be an adverse outcome on the claims, the monetary value cannot be estimated at this time.

On November 24, 2014, the court entered a judgment in the Central Delta case (1) dismissing the challenges to the validity of the Monterey Amendments and the transfer of the KWB in their entirety and (2) granting in part, and denying, in part, the CEQA petition for writ of mandate. Central Delta has appealed the judgment and the KWBA and certain other parties have filed a cross-appeal with regard to certain defenses to the CEQA cause of action. The appeals are pending in the California Court of Appeal.

On December 3, 2014, the court entered judgment in the Rosedale case (i) in favor of Rosedale in the CEQA cause of action, and (ii) dismissing the declaratory relief cause of action. No appeal of the Rosedale judgment has been filed. From time to time, we are involved in other proceedings incidental to our business, including actions relating to employee claims, environmental law issues, real estate disputes, contractor disputes and grievance hearings before labor regulatory agencies.

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows either individually or in the aggregate.

From time to time, we are involved in other proceedings incidental to our business, including actions relating to employee claims, environmental law issues, real estate disputes, contractor disputes and grievance hearings before labor regulatory agencies.

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will not have a material adverse effect on our financial position, results of operations or cash flows either individually or in the aggregate.

13. RETIREMENT PLANS

The Company has a defined benefit plan that covers many of its employees, or the Benefit Plan. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to-date and expected-to-be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. The Company anticipates contributing approximately \$450,000 to the plan during 2016.

Plan assets consist of equity, debt and short-term money market investment funds. The plan's current investment policy targets 65% equities, 25% debt and 10% money market funds. Equity and debt investment percentages are allowed to fluctuate plus or minus 20% to take advantage of market conditions. As an example, equities could fluctuate from 78% to 52% of plan assets. At March 31, 2016, the investment mix was approximately 59% equity, 35% debt, and 6% money market funds. At December 31, 2015, the investment mix was approximately 61% equity, 33% debt and 6% money market funds. Equity investments consist of a combination of individual equity securities plus value funds, growth funds, large cap funds and international stock funds. Debt investments consist of U.S. Treasury securities and investment grade corporate debt. The weighted-average discount rate used in determining the periodic pension cost is 4.6% in 2016 and 2015. The expected long-term rate of return on plan assets is 7.5% in 2016 and 2015. The long-term rate of return on plan assets is based on the historical returns within the plan and expectations for future returns.

The expected total pension and retirement expense for the Benefit Plan was as follows:

(\$ in thousands)	Three Months Ended	
	March 2016	March 31, 2015
Cost components:		
Service cost-benefits earned during the period	\$(56)	\$(66)
Interest cost on projected benefit obligation	(102)	(117)
Expected return on plan assets	129	154
Net amortization and deferral	(46)	(70)
Total net periodic pension cost	\$(75)	\$(99)

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

Edgar Filing: TEJON RANCH CO - Form 10-Q

(\$ in thousands)	Three Months	
	Ended	March 31,
	March 31,	2015
	2016	2015
Cost components:		
Interest cost on projected benefit obligation	(81)	(69)
Net amortization and deferral	(86)	(84)
Total net periodic pension cost	\$(167)	\$(153)

18

14. BUSINESS SEGMENTS

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

Commercial lease revenue consists of land and building leases to tenants at our commercial retail and industrial developments, base and percentage rents from our Pastoria Energy Facility power plant lease, communication tower rents, and payments from easement leases.

The revenue components of the commercial/industrial real estate development segment were as follows:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Pastoria Energy Facility Lease	\$871	\$ 898
Commercial leases	894	684
Communication leases	196	205
Landscaping and other	193	492
Total commercial revenues	2,154	2,279
Equity in earnings from unconsolidated joint ventures	1,455	1,150
Income from commercial/industrial and unconsolidated joint ventures	\$ 1,930	\$ 1,820

The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. The segment produced losses of \$542,000 and \$751,000 for the three months ended March 31, 2016 and 2015, respectively.

The mineral resources segment receives oil and mineral royalties from the exploration and development companies that extract or mine the natural resources from our land and receives revenue from water sales. The revenue components of the mineral resources segment were as follows:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Oil and gas	\$386	\$ 776
Water sales	7,791	8,993
Rock aggregate	202	102
Cement	260	242
Land lease for oil exploration	101	87
Total mineral resources revenues	8,740	10,200
Income from mineral resources	\$4,047	\$ 4,426

The farming segment produces revenues from the sale of almonds, pistachios, wine grapes, and hay. The revenue components of the farming segment were as follows:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Almonds	\$985	\$ 2,716
Pistachios	199	249
Hay and other	37	106
Total farming revenues	1,221	3,071
(Loss) income from farming	\$(285)	\$ 728

Ranch operations consists of game management and ancillary land uses such as grazing leases and filming. Within game management we operate our High Desert Hunt Club, a premier upland bird hunting club. The High Desert Hunt Club offers over 6,400 acres and 35 hunting fields. The hunting season runs from mid-October through March. Ranch operations also includes game management, which offers a wide variety of guided big game hunts including trophy Rocky Mountain elk, deer, turkey and wild pig. We offer guided hunts and memberships for both the spring and fall hunting seasons. The revenue components of the ranch operations segment were as follows:

(\$ in thousands)	Three Months Ended	
	March 31, 2016	March 31, 2015
Game management	\$310	\$ 329
Grazing	250	387
High Desert Hunt Club	169	195
Filming and other	109	172
Total ranch operations revenues	838	1,083
(Loss) income from ranch operations	\$(509)	\$(510)

15. INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES

The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation or is a voting interest entity and is controlled by the Company. The Company's investment in its unconsolidated joint ventures at March 31, 2016 was \$32,155,000. The equity in the income of the unconsolidated joint ventures was \$1,455,000 for the three months ended March 31, 2016. The Company's current joint ventures are as follows:

Petro Travel Plaza Holdings LLC – TA/Petro is an unconsolidated joint venture with TravelCenters of America, LLC for the development and management of travel plazas and convenience stores. The Company has 50% voting rights and shares 60% of profit and losses in this joint venture. It houses multiple commercial eating establishments as well as diesel and gasoline operations in TRCC. The Company does not control the investment due to its having only 50% voting rights, and because our partner in the joint venture is the managing partner and performs all of the day-to-day operations and has significant decision making authority regarding key business components such as fuel inventory and pricing at the facility. At March 31, 2016, the Company had an equity investment balance of \$17,000,000 in this joint venture.

Rockefeller Joint Ventures - The Company has three joint ventures with Rockefeller Group Development Corporation or Rockefeller. At March 31, 2016, the Company's combined equity investment balance in these three joint ventures was \$15,155,000.

Two joint ventures are for the development of buildings on approximately 91 acres and are part of an agreement for the potential development of up to 500 acres of land in TRCC including pursuing Foreign Trade Zone, or FTZ, designation and development of the property within the FTZ for warehouse distribution and light manufacturing. The Company owns a 50% interest in each of the joint ventures. Currently the Five West Parcel LLC joint venture owns and leases a 606,000 square foot building to Dollar General which has now been extended to April 2022, and includes an option to extend for an additional three years. The Five West Parcel joint venture currently has an outstanding term loan with a balance of \$10,585,000 that matures on May 5, 2022. The Company and Rockefeller guarantee the performance of the debt. The second of these joint ventures, 18-19 West LLC, was formed in August 2009 through the contribution of 61.5 acres of land by the Company, which is being held for future development. Both of these joint ventures are being accounted for under the equity method due to both members having significant participating rights in the management of the ventures.

The third joint venture is the TRCC/Rock Outlet Center LLC joint venture that was formed during the second quarter of 2013 to develop, own, and manage a 326,000 square foot outlet center on land at TRCC-East. The cost of the outlet center was approximately \$87,000,000 and was funded through a construction loan for up to 60% of the costs and the remaining 40% was through equity contributions from the two members. The Company controls 50% of the voting interests of TRCC/Rock Outlet Center LLC, thus it does not control by voting interest alone. The Company is the named managing member, as such we considered the presumption that a managing member controls the limited liability company. The managing member's responsibilities relate to the routine day-to-day activities of TRCC/Rock Outlet Center LLC. However, all operating decisions during development and operations, including the setting and monitoring of the budget, leasing, marketing, financing and selection of the contractor for any of the project's construction, are jointly made by both members of the joint venture. Therefore, the Company concluded that both members have significant participating rights that are sufficient to overcome the presumption of the Company controlling the joint venture through it being named the managing member. Therefore, the investment in TRCC/Rock Outlet Center LLC is being accounted for under the equity method. The TRCC/Rock Outlet Center LLC joint venture is separate from the aforementioned agreement to potentially develop up to 500 acres of land in TRCC. During the fourth quarter of 2013, the TRCC/Rock Outlet Center LLC joint venture entered into a construction line of credit agreement with a financial institution for \$52,000,000 that, as of March 31, 2016, had an outstanding balance of \$51,325,000. The Company and Rockefeller guarantee the performance of the debt.

Centennial Founders, LLC – Centennial Founders, LLC is a joint venture with Pardee Homes (owned by TRI Pointe Homes), Lewis Investment Company, and CalAtlantic Group Inc. (formerly Standard Pacific Corp) that was organized to pursue the entitlement and development of land that the Company owns in Los Angeles County. Based on the Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC and the change in control and funding that resulted from the amended agreement, Centennial Founders, LLC qualified as a VIE, beginning in the third quarter of 2009 and the Company was determined to be the primary beneficiary. As a result, Centennial Founders, LLC has been consolidated into our financial statements beginning in that quarter. Our partners retained a noncontrolling interest in the joint venture. At March 31, 2016 the Company had a 75.92% ownership position in Centennial Founders, LLC.

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

Unaudited condensed balance sheet information of the Company's unconsolidated and consolidated joint ventures as of March 31, 2016 and December 31, 2015 and unaudited condensed statements of operations for the three months ended March 31, 2016 and March 31, 2015 are as follows:

Statement of Operations for the three months ended March 31, 2016

(\$ in thousands)	Unconsolidated				Total	Consolidated Centennial-VIE
	Petro Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center ¹		
Revenues	\$23,954	\$790	\$2	\$2,300	\$27,046	\$36
Net income (loss)	\$2,291	\$328	\$(43)	\$(124)	\$2,452	\$(57)
Partner's share of net income (loss)	\$916	\$164	\$(21)	\$(62)	\$997	\$(14)
Equity in earnings (loss)	\$1,375	\$164	\$(22)	\$(62)	\$1,455	\$—

¹ Revenue for TRCC/Rock Outlet Center is comprised of \$2.8 million in rental income less non-cash tenant allowance amortization of \$0.5 million (\$2.8 - \$0.5 = \$2.3).

Statement of Operations for the three months ended March 31, 2015

(\$ in thousands)	Unconsolidated				Total	Consolidated Centennial-VIE
	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center ¹		
Revenues	\$21,861	\$ 995	\$ 7	\$ 2,069	\$24,932	\$ 93
Net income (loss)	\$1,934	\$ 182	\$ (2)	\$ (201)	\$1,913	\$ (62)
Partner's share of net income (loss)	\$774	\$ 91	\$ (1)	\$ (101)	\$763	\$ (16)
Equity in earnings (loss)	\$1,160	\$ 91	\$ (1)	\$ (100)	\$1,150	\$ —

¹ Revenue for TRCC/Rock Outlet Center is comprised of \$2.7 million in rental income less non-cash tenant allowance amortization of \$0.6 million (\$2.7 - \$0.6 = \$2.1).

Balance Sheet Information as of March 31, 2016

(\$ in thousands)	Unconsolidated				Total	Consolidated Centennial-VIE
	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center		
Current assets	\$12,782	\$3,751	\$5	\$ 5,945	\$22,483	\$ 131
Real Estate	53,604	13,530	4,617	64,318	136,069	82,517
Other assets	174	324	—	18,892	19,390	4
Long-term debt	(14,707)	(10,585)	—	(51,325)	(76,617)	—
Other liabilities	(2,852)	(479)	(5)	(1,063)	(4,399)	(633)
Net assets	\$49,001	\$6,541	\$4,617	\$36,767	\$96,926	\$82,019

Balance Sheet Information as of December 31, 2015

(\$ in thousands)	Unconsolidated				Total	Consolidated Centennial-VIE
	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center		
Current assets	\$12,013	\$3,277	\$ 23	\$ 4,733	\$20,046	\$ 230
Real Estate	52,296	13,704	4,617	64,842	135,459	81,742
Other assets	264	297	—	19,714	20,275	9
Long-term debt	(14,973)	(10,725)	—	(51,557)	(77,255)	—
Other liabilities	(2,890)	(340)	—	(841)	(4,071)	(754)
Net assets	\$46,710	\$6,213	\$4,640	\$36,891	\$94,454	\$81,227

16. RELATED PARTY TRANSACTIONS

TCWD is a not-for-profit governmental entity, organized on December 28, 1965, pursuant to Division 13 of the Water Code, State of California. TCWD is a landowner voting district, which requires an elector, or voter, to be an owner of land located within the district. TCWD was organized to provide the water needs for future municipal and industrial development. The Company is the largest landowner and taxpayer within TCWD. The Company has a water service contract with TCWD that entitles us to receive all of TCWD's State Water Project entitlement and all of TCWD's banked water. TCWD is also entitled to make assessments of all taxpayers within the district, to the extent funds are required to cover expenses and to charge water users within the district for the use of water. From time to time, we transact with TCWD in the ordinary course of business.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, including without limitation statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields, prices and water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness and other future events and conditions. In some cases these statements are identifiable through the use of words such as “anticipate”, “believe”, “estimate”, “expect”, “intend”, “plan”, “project”, “target”, “can”, “could”, “will”, “should”, “would”, and similar expressions. In addition, any statements that refer to projections of our future financial performance, our anticipated growth, and trends in our business and other characterizations of future events or circumstances are forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, weather, 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 in the section entitled, “Risk Factors” in this report and our Annual Report on Form 10-K.

Overview

We are a diversified real estate development and agribusiness company committed to responsibly using our land and resources to meet the housing, employment, and lifestyle needs of Californians and to create value for our shareholders. In support of these objectives, we have been investing in land planning and entitlement activities for new industrial and residential land developments and in infrastructure improvements within our active industrial development. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield. Our primary business objective is to maximize long-term shareholder value through the monetization of our land-based assets. A key element of our strategy is to entitle and then develop large-scale residential and mixed use real estate communities to serve the growing populations of Southern and Central California. We are currently engaged in commercial sales and leasing at our fully operational commercial/industrial center. All of these efforts are supported by diverse revenue streams generated from other operations, including farming, mineral resources and our various joint ventures.

We currently operate in five business segments: commercial/industrial real estate, resort/residential real estate, mineral resources, farming and ranch operations.

Activities within the commercial/industrial real estate segment include: entitling, planning, and permitting of land for development; construction of infrastructure; construction of pre-leased buildings; 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 power plant leases, communications leases, and landscape maintenance services. The primary commercial/industrial development is the Tejon Ranch Commerce Center, or TRCC. TRCC includes developments east and west of Interstate 5 at TRCC-East and TRCC-West, respectively.

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 four separate gas stations with convenience stores within TRCC-West and TRCC-East. We are involved in three joint ventures with Rockefeller Development Group which includes the following: Five West Parcel LLC, which owns a 606,000 square foot building in TRCC-West that is fully leased, 18-19 West LLC, which owns 61.5 acres of land for future

development within TRCC-West, and TRCC/Rock Outlet Center LLC that operates the Outlets at Tejon. The resort/residential real estate segment is actively involved in the land entitlement and development process through wholly-owned subsidiaries and joint ventures. Our active developments within resort/residential are Mountain Village at Tejon, or MV, Centennial at Tejon, or Centennial, and Grapevine at Tejon, or Grapevine. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2015 for a more detail description of our active developments within resort/residential

Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, a lease with National Cement, and water sales. The farming segment produces revenues from the sale of wine grapes, almonds, pistachios, and hay.

Our ranch operations segment consist of game management revenues and ancillary land uses such as grazing leases and filming. Ranch operations is charged with the upkeep, maintenance, and security of all 270,000 acres of land. Within game management we operate High Desert Hunt Club, a premier upland bird hunting club, along with various game hunting memberships.

For the first three months of 2016 we had net income attributable to common stockholders of \$1,209,000 compared to net income attributable to common stockholders of \$1,617,000 for the first three months of 2015. This decrease was primarily attributable to declines in almond revenues, reduced water sales, and declining oil royalties, a result of depressed oil prices. These declines were partially offset by an increase in income from our unconsolidated joint ventures.

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 (Business Segments) of the Notes to Unaudited Consolidated Financial Statements.

Critical Accounting Policies

The preparation of our interim financial statements in accordance with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical if (1) the accounting estimate requires us to make assumptions about matters that were highly uncertain at the time the accounting estimate was made, and (2) changes in the estimates that are likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, impairment of long-lived assets, capitalization of costs, profit recognition related to land sales, stock compensation, and our defined benefit retirement plan. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2015. Please refer to that filing for a description of our critical accounting policies.

Non-GAAP Measures

EBITDA represents earnings before interest, taxes, depreciation, and amortization, a non-GAAP financial measure, and is used by us and others as a supplemental measure of performance. We use Adjusted EBITDA to assess the performance of our core operations, for financial and operational decision making, and as a supplemental or additional means of evaluating period-to-period comparisons on a consistent basis. Adjusted EBITDA is calculated as EBITDA, excluding stock compensation expense. We believe Adjusted EBITDA provides investors relevant and useful information because it permits investors to view income from our operations on an unleveraged basis before the effects of taxes, depreciation and amortization, and stock compensation expense. By excluding interest expense and income, EBITDA and Adjusted EBITDA allow investors to measure our performance independent of our capital structure and indebtedness and, therefore, allow for a more meaningful comparison of our performance to that of other companies, both in the real estate industry and in other industries. We believe that excluding charges related to share-based compensation facilitates a comparison of our operations across periods and among other companies without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. EBITDA and Adjusted EBITDA have limitations as measures of our performance. EBITDA and Adjusted EBITDA do not reflect our historical cash expenditures or future cash requirements for capital expenditures or contractual commitments. While EBITDA and Adjusted EBITDA are relevant and widely used measures of performance, they do not represent net income or cash flows from operations as defined by GAAP, and they should not be considered as alternatives to those indicators in evaluating performance or liquidity. Further, our computation of EBITDA and

Adjusted EBITDA may not be comparable to similar measures reported by other companies.

24

	Three Months Ended	
	March 31,	March 31,
	2016	2015
Net income	\$1,195,000	\$1,601,000
Interest, net	(132,000)	(155,000)
Income taxes	612,000	862,000
Depreciation and amortization	1,366,000	1,098,000
EBITDA	\$3,041,000	\$3,406,000
Stock compensation expense	973,000	953,000
Adjusted EBITDA	\$4,014,000	\$4,359,000

Results of Operations

Comparison of three months ended March 31, 2016 to three months ended March 31, 2015

Total revenues for the first three months of 2016 were \$12,953,000 compared to \$16,633,000 for the first three months of 2015. This decrease of \$3,680,000, or 22%, is primarily attributable to a decrease in farming revenues of \$1,850,000. Additionally, there were declines in mineral resources revenues of \$1,460,000 resulting from declines in water sales and oil royalties.

Commercial/industrial real estate segment revenues were \$2,154,000 for the first three months of 2016, a decrease of \$125,000, or 5%, compared to the first three months of 2015. During the first three months of 2015, we earned the remaining \$209,000 in developer fees for constructing the Outlets at Tejon. We did not earn a development fee in 2016. During the first quarter of 2016, we generated additional lease revenues of \$59,000 after delivering a multi-tenant building to Habit Burger and Baja Fresh, partially offsetting the decrease in developer fees.

Commercial/industrial real estate segment expenses were \$1,679,000 during the first three months of 2016, an increase of \$70,000, or 4%, compared to the same period in 2015. This variance is in-line with our expectations given the current business environment.

Resort/residential real estate segment expenses were \$542,000 during the first three months of 2016, a decrease of \$209,000, or 28%. The decrease is attributed to decreases in professional services of \$39,000 and other expenses of \$34,000. The remainder of the decrease is attributed to the capitalization of payroll and overhead costs that were identified to be directly related to our development projects.

Mineral resources segment revenues decreased \$1,460,000, or 14%, to \$8,740,000 during the first three months of 2016 compared to the same period in 2015. The \$1,460,000 decrease resulted primarily from the timing of our water deliveries during the first quarter of 2016. Comparatively, we delivered 5,954 and 7,054 acre-feet of water during the three months ended March 31, 2016 and 2015, respectively. Additionally, we experienced a decrease in oil royalty revenues of \$357,000 driven by declines in both the price per barrel and production volume. Production for the three months ended March 31, 2016 and 2015 was 74,950 and 134,167 barrels, respectively. The average price per barrel of oil for the three months ended March 31, 2016 and 2015 was \$22 and \$40, respectively. We expect no new oil drilling activity and continued slowing in production through 2016 based on current oil prices. We expect the lower oil prices will also negatively impact our 2016 royalty revenues as compared to 2015 royalty revenues. Offsetting the decrease in revenues were additional sand and rock royalties of \$100,000 resulting from increased production from our lessees. Mineral resources segment expenses decreased \$1,081,000, or 19%, to \$4,693,000 during the first three months of 2016 compared to the same period in 2015. This variance relates to a \$1,022,000 decrease in water cost of sales resulting from the timing of water deliveries previously described.

Farming segment revenues decreased by \$1,850,000, or 60%, to \$1,221,000 during the first three months of 2016 compared to the same period in 2015. The \$1,850,000 decrease is primarily attributed to a \$1,592,000 decrease in almond revenues. Comparatively, we sold 441,000 fewer pounds of our almond carryover crop than we did for the first quarter of 2015. The decline in sales is attributed to a decline in the amount of crop we carried over from the prior year along with a decrease in average sales price. Our 2015 and 2014 carryover crop was 430,000 and 916,000 pounds, respectively. The remainder of the decrease in farming revenues is ancillary in nature. In 2015, we received non-recurring insurance proceeds of \$221,000 related to our almond crop.

Farming segment expenses decreased by \$837,000, or 36%, to \$1,506,000 during the first three months of 2016 compared to the same period in 2015. With the decline in farming revenues during the first quarter of 2016, cost of sales followed a similar trend showing declines of \$636,000, \$73,000, and \$65,000 for almonds, pistachios, and hay, respectively.

Ranch operations revenues were \$838,000 and \$1,083,000 during the three months ended March 31, 2016 and 2015, respectively. The \$245,000 decrease is attributed to a \$136,000 decrease in grazing lease revenues which resulted from a drought clause taking effect within our grazing leases, amidst the California drought. Other factors contributing to the decline are decreases in revenues from game management, High Desert Hunt Club, and our equestrian operations.

Ranch operations expenses were \$1,347,000 and \$1,593,000 during the three months ended March 31, 2016 and 2015, respectively. The \$246,000 decrease is attributed to a \$107,000 decrease in payroll and payroll overhead costs. The decrease is driven by the departure of several full-time employees whose positions may or may not be filled in the future depending on need. Other factors causing expenses to decrease include declines in repairs and maintenance of \$55,000, fuel costs of \$28,000, utilities of \$18,000, and supplies of \$19,000. The aforementioned costs typically fluctuate with service delivery volume within game management and High Desert Hunt Club.

Corporate general and administrative costs decreased \$440,000, or 13%, to \$3,003,000 during the first three months of 2016 compared to the same period in 2015. During the first three months of 2016, professional services decreased \$276,000. Also contributing to the decrease in corporate general and administrative costs is a \$147,000 decline in payroll costs resulting from a reduction in full-time employees. We may in the future, depending on our needs, fill these positions.

Our share of earnings from our joint ventures was \$1,455,000, an increase of \$305,000, or 27%, during the first three months of 2016 when compared to the same period in 2015, primarily due to a \$215,000 increase in our share of earnings from our TA/Petro joint venture. The improvement in operations within the TA/Petro joint venture is driven by increased diesel and gas sales volume of 553,000 gallons and 212,000 gallons, respectively. The improvement in the volumes of fuel sales is continuing to be driven by increased traffic within TRCC as a result of expanded offerings at TRCC East such as Pieology and Starbucks, and the new Shell gas station. The TA/Petro joint venture also saw an increase in the margin on fuel sales of approximately \$0.12 for the year when compared to 2015.

General Outlook

Thus far in 2016 our commercial retail activity has continued to grow as new leases have come on line with Habit Burger and Baja Fresh. For the quarter ended March 31, 2016 we had no leases that expired, nor did we have any material lease renewals. In addition, our TA/Petro joint venture completed construction of a new Shell gas station and convenience store that commenced operations during the first quarter of 2016. Lastly, we have entered into a non-binding Letter of Intent with Majestic Realty Co., a Los Angeles based commercial/industrial developer, to negotiate a joint venture operating agreement to pursue the development, construction, leasing, and management of an approximately 480,000 square foot industrial building on the Company's property at Tejon Ranch Commerce Center-East.

The logistics operators currently located within our development have demonstrated success in serving all of California and the western region of the United States and we are building from their success in our marketing efforts. We will continue to focus our efforts for TRCC-East and TRCC-West, on the significant labor and logistical benefits of our site, the pro-business approach of Kern County, and the success that the current tenants and owners within our development have experienced to capture more of the warehouse distribution market. Our strategy fits within the logistics model that many companies are using, which favors large centralized distribution facilities which have been strategically located to maximize the balance of inbound and outbound efficiencies rather than a number of decentralized smaller distribution centers. The world class logistics operators located within TRCC have demonstrated success through utilization of this model. They are also demonstrating success with e-commerce fulfillment. We believe that our ability to provide fully entitled shovel-ready land parcels to support buildings of 1.0 million feet or larger can provide us with a potential marketing advantage in the future. We are also expanding our marketing efforts to include industrial users in the Santa Clarita Valley of northern Los Angeles County and the northern part of the San Fernando Valley due to the limited availability of new product and high real estate costs in these locations. Tenants in these geographic areas are typically users of relatively smaller facilities.

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 parcels. Through the first quarter of 2016, vacancy rates in the Inland Empire were comparable to 2015, primarily due to demand keeping pace with the development of new buildings for lease. Without the increase in new development the vacancy rate would have declined. The low vacancy rates have also led to an increase in lease rates within the Inland Empire which has translated into land prices nearing the peak levels experienced in 2007/2008. As lease rates increase in the Inland Empire and northern Los Angeles County, we may begin to have a greater pricing advantage due to our low land basis.

We expect that the commercial/industrial segment will continue to incur costs at current levels, net of amounts capitalized, primarily related to marketing costs, commissions, planning costs, and staffing costs as we continue forward with our development plans.

Most of the expenditures incurred within our resort/residential segment will be focused on the achievement of entitlement for Grapevine, Centennial, and tentative tract maps for MV. The tentative tract maps process is expected to be completed in late 2017.

All of our crops are sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices. It is too early in the crop growing season to begin estimating our 2016 crop harvests. The drought continues to negatively impact farming within California with areas of limited water removing orchards and vineyards. With an increase in rain during the winter and an increase in the snowpack within the mountains of California we have seen an increase in the state water project allocation to 60%, which will generally help California farmers during 2016. For the first quarter of 2016, the operating results, for our farming segment, were not impacted by the drought due to our various water contracts and internal water sources.

Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Thus far in 2016, prices for almonds and pistachios have fallen slightly when compared to recent years. Factors contributing to falling prices include rising nut supplies, strengthening of the U.S. dollar relative to the Chinese Yuan and Indian Rupee, and reduced demand from foreign customers, namely China.

Due to the commodity nature of segments of our business, we are unable to accurately predict revenue and we cannot pass on to our customers any cost increases caused by general inflation, except to the extent such inflation is reflected in market conditions and commodity prices. As a result of the current activity within the oil markets, we expect to continue to see lower prices as compared to 2015, which will continue to negatively impact us throughout 2016.

The operations of the Company are seasonal and future results of operations cannot be predicted based on quarterly results. Future real estate sales and leasing activity are dependent on market circumstances and specific opportunities and therefore are difficult to predict from period to period. Historically, the Company's largest percentages of farming revenues are recognized during the third and fourth quarters of the fiscal year.

For further discussion of the risks and uncertainties that could potentially adversely affect us, please refer to Part I, Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, or Annual Report, and to Part I, Item 1A - "Risk Factors" of our Annual Report. We continue to be involved in various legal proceedings related to leased acreage. For a further discussion, please refer to Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements in this report.

Income Taxes

For the three months ended March 31, 2016, the Company incurred a net income tax expense of \$612,000 compared to a net income tax expense of \$862,000 for the three months ended March 31, 2015. These represent effective income tax rates of approximately 34% and 35% for the three months ended March 31, 2016 and, 2015, respectively. The effective tax rate for the first three months of 2016 is based on forecasted annual pre-tax income for 2016. As of March 31, 2016, we had an income tax payable of \$499,000.

The Company classifies interest and penalties incurred on tax payments as income tax expenses.

Cash Flow and Liquidity

We manage our cash and marketable securities along with cash flow to allow us to pursue our strategies of land entitlement, development, farming, 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, investment proceeds, short-term borrowings from our bank credit facilities, and long-term debt tied to revenue producing assets. In the past, we have also issued common stock and used the proceeds for capital investments. 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, and acquire water rights to ensure adequate future water supply. 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 \$34,026,000 at March 31, 2016, a decrease of \$719,000, or 2%, from the corresponding amount at the end of 2015. Cash, cash equivalents and marketable securities decreased during the first three months of 2016 due to property and equipment expenditures and real estate development costs, which included infrastructure development costs, and increases in farming inventory. These decreases were partially offset by water sale proceeds and reimbursement proceeds for public infrastructure costs from the East CFD.

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

(in thousands)	2016	2015
Operating activities	\$(1,031)	\$1,744
Investing activities	\$(1,219)	\$(1,943)
Financing activities	\$1,627	\$(3,767)

Operating Activities

During the first three months of 2016, our operations used \$1,031,000 of cash primarily attributable to payments on current liabilities costs net of adjustments for non-cash items.

During the first three months of 2015, our operations provided \$1,744,000 of cash primarily attributable to net income including adjustments for non-cash items and increases in payables.

Investing Activities

During the first three months of 2016, investing activities used \$1,219,000 as a result of \$5,667,000 in capital expenditures. Capital expenditures include predevelopment activities for our master plan communities which amounted to \$1,128,000 for Mountain Village, \$887,000 for Grapevine, and \$849,000 for Centennial. At TRCC East, we spent \$810,000 for infrastructure projects along with completing the multi-tenant building housing Baja Fresh and Habit Burger. Within our farming segment, we spent \$685,000 replacing old machinery and equipment along with developing a new almond crop. We spent \$726,000 within our mineral resources group for new wells and water turnouts. Within ranch operations we acquired \$396,000 in new machinery and equipment. Lastly, within our corporate division we acquired \$175,000 in software and vehicles. Outside of capital expenditures, we invested \$1,222,000 in marketable securities comprised of corporate and municipal bonds. Our capital outlays were offset by reimbursements for public infrastructure costs through the East CFD of \$4,162,000 and sales and maturities of marketable securities of \$1,383,000.

During the first three months of 2015, investing activities used \$1,943,000 of cash primarily as a result of \$6,117,000 in capital expenditures during the first three months of 2015 consisting of \$2,936,000 of investments in TRCC infrastructure, primarily associated with expansion of road infrastructure, utilities, and buildings on land at TRCC-East, \$1,885,000 related to Grapevine for entitlement activities, \$607,000 related to MV pre-development activities, and \$471,000 related to Centennial for entitlement activities. The remaining capital expenditures related to ordinary capital expenditures such as IT equipment replacements and computer software. These investing activities uses were partially offset by the receipt of \$4,971,000 in reimbursement proceeds for public infrastructure costs through the East CFD and a \$1,100,000 distribution from our Rockefeller unconsolidated joint venture partner.

Our estimated capital investment for the remainder of 2016 will be primarily related to real estate projects. Estimated capital investment includes approximately \$6,200,000 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 demand. We expect to possibly invest \$4,300,000 for land planning and entitlement activities for the Grapevine, \$980,000 for developing tentative tract maps for Mountain Village, and \$6,100,000 for entitlement work for Centennial. 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 and expect to invest up to \$3,200,000 in water assets and infrastructure. We are also planning to invest approximately \$1,500,000 for farming vehicles, almond orchards, and grape vines.

Financing Activities

During the first three months of 2016, financing activities generated \$1,627,000 in cash mainly due to the timing of drawdowns on the Company's line of credit. As of March 31, 2016, there was an outstanding balance of \$2,000,000 on our revolving line of credit.

During the first three months of 2015, financing activities used \$3,767,000 in cash mainly due to the timing of net repayments on the Company's line-of-credit. At March 31, 2015, there was an outstanding balance of \$3,660,000 on our revolving line-of-credit. This use of cash was also tied to the buyback of stock at time of the vesting of stock grants for the payment of payroll taxes.

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 operating cash flows and availability on our line of credit over the next twelve months to fund internal operations.

Capital Structure and Financial Condition

At March 31, 2016, total capitalization at book value was \$405,843,000 consisting of \$73,979,000 of long-term debt and \$331,864,000 of equity, resulting in a long-term debt-to-total-capitalization ratio of approximately 18.2%, which is consistent with the long-term debt-to-total-capitalization ratio at December 31, 2015.

The Company has a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. The Credit Facility consists of a \$70,000,000 term loan, or Term Loan, and a \$30,000,000 revolving line of credit, or RLC. Funds from the Term Loan were used to finance the Company's purchase of DMB TMV LLC's interest in Tejon Mountain Village LLC as disclosed in the Current Report on Form 8-K filed on July 16, 2014. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties. At the Company's option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. At March 31, 2016 the RLC had an outstanding balance of \$2,000,000. As of December 31, 2015, the RLC had no outstanding balance.

The interest rate per annum applicable to the Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Loan requires interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Loan at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables and the power plant lease and lease site, and related accounts and other rights to payment and inventory.

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than \$20,000,000. At March 31, 2016 and December 31, 2015, we were in compliance with all financial covenants.

We also have a promissory note agreement to pay a principal amount of \$4,750,000 with principal and interest due monthly. The interest rate on this promissory note is 4.25% per annum, with principal and interest payments ending on September 1, 2028. The current outstanding balance is \$4,153,000. The proceeds from this promissory note were used to eliminate debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment. The balance of this long-term debt instrument listed above approximates the fair value of the instrument.

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, consisting of common stock, preferred stock, debt securities, warrants or any combination of the foregoing. As noted above, at March 31, 2016, we had \$34,026,000 in cash and securities and had \$28,000,000 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 entering into joint ventures and issuing 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 in the future 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 March 31, 2016, to be paid over the next five years and thereafter:

(In thousands)	Payments Due by Period				
	Total	One Year or Less	Years 2-3	Years 4-5	After 5 Years
CONTRACTUAL OBLIGATIONS:					
Estimated water payments	\$274,581	\$ 8,240	\$ 16,917	\$ 17,527	\$231,897
Long-term debt	74,153	1,659	7,586	8,277	56,631
Interest on long-term debt	20,705	3,028	5,627	4,971	7,079
Revolving line of credit borrowings	2,000	2,000	—	—	—
Cash contract commitments	5,910	3,701	1,138	—	1,071
Defined Benefit Plan	2,852	94	417	508	1,833
SERP	4,711	437	1,000	980	2,294
Tejon Ranch Conservancy	4,600	800	1,600	1,600	600
Financing fees and interest	163	163	—	—	—
Total contractual obligations	\$389,675	\$ 20,122	\$ 34,285	\$ 33,863	\$ 301,405

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 the registrant 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.

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, at which time our current contractual obligation terminates.

As discussed in Note 13 (Retirement Plans) of the Notes to Unaudited Consolidated Financial Statements, we have long-term liabilities for deferred employee compensation, including pension and supplemental retirement plans.

Payments in the above table reflect estimates of future defined benefit plan contributions from the Company to the plan trust, estimates of payments to employees from the plan trust, and estimates of future payments to employees from the Company that are in the SERP program. We estimate that we will contribute approximately \$450,000 to the pension plan during 2016.

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.

Our operating lease obligations are for office equipment, several vehicles, and a temporary trailer providing office space and average approximately \$25,000 per month. At the present time, we do not have any capital lease obligations or purchase obligations outstanding.

Estimated water payments include SWP contracts with Wheeler Ridge Maricopa Water Storage District, Tejon-Castac Water District, Tulare Lake Basin Water Storage District, and Dudley-Ridge Water Storage District. These contracts for the supply of future water run through 2035. In addition, in late 2013 we purchased the assignment of a contract to

purchase water. The assigned water contract is with Nickel Family, LLC and obligates us to purchase 6,693 acre-feet of water annually starting in 2014 and running to 2044. Please refer to Note 5 (Long-Term Water Assets) of the Notes to Unaudited Consolidated Financial Statements for additional information regarding water assets.

Off-Balance Sheet Arrangements

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

(\$ in thousands)	Amount of Commitment Expiration Per Period				
	Total	< 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	\$ —	\$ —

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 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 \$55,000,000 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 \$65,000,000 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 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. The assessment of each individual property sold or leased within each CFD is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at March 31, 2016.

At March 31, 2016, aggregate outstanding debt of unconsolidated joint ventures was \$76,617,000. We provided a guarantee on \$61,910,000 of this debt, relating to our joint ventures with Rockefeller. We do not provide a guarantee on the \$14,973,000 of debt related to our joint venture with TA/Petro.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Financial Market Risks

Our exposure to financial market risks includes changes to interest rates and credit risks related to marketable securities, interest rates related to our outstanding indebtedness and, market and credit risks related to 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 & Poor's. See Note 3 (Marketable Securities) of the Notes to Unaudited Consolidated Financial Statements.

Our current RLC has an outstanding balance of \$2,000,000. The interest rate on the RLC can either float at 1.50% over a selected LIBOR, or can be fixed at 1.50% above LIBOR for a fixed term for a limited period of time and change only at maturity of the fixed rate portion. The floating rate and fixed rate options within our RLC help us manage our interest rate exposure on any outstanding balances.

We are exposed to interest rate risk on our long-term debt. Long-term debt consists of two term loans. The first term loan is for \$70,000,000 and has a rate that is tied to LIBOR plus a margin of 1.70%. The interest rate for the term of

this loan has been fixed through the use of an interest rate swap that fixed the rate at 4.11%. The second term loan has an outstanding balance of \$4,153,000 and has a fixed rate of 4.25%. We believe it is prudent at times to limit the variability of floating-rate interest payments and have from time-to-time entered into interest rate swap arrangements to manage those fluctuations, as we did with the first loan mentioned above.

Market risk related to our farming inventories ultimately depends on the value of almonds, grapes, and pistachios at the time of payment or sale. Market risk related to our farming inventories is discussed below in the section pertaining to commodity price exposure. 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.

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

Interest Rate Sensitivity Financial Market Risks

Principal Amount by Expected Maturity

At March 31, 2016

(In thousands except percentage data)

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Assets:								
Marketable securities	\$6,889	\$9,506	\$13,492	\$2,804	—	—	\$32,691	\$32,719
Weighted average interest rate	0.90%	1.19%	1.57%	1.69%	—	—	1.33%	
Liabilities:								
Revolving line of credit	\$2,000	—	—	—	—	—	\$2,000	\$2,000
Weighted average interest rate	1.94%	—	—	—	—	—	1.94%	
Long-term debt (\$4.75M note)	\$192	\$266	\$277	\$289	\$302	\$2,827	\$4,153	\$4,153
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (\$70.0M note)	\$561	\$3,393	\$3,563	\$3,715	\$3,881	\$54,887	\$70,000	\$70,000
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	

Interest Rate Sensitivity Financial Market Risks

Principal Amount by Expected Maturity

At December 31, 2015

(In thousands except percentage data)

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Assets:								
Marketable securities	\$8,257	\$9,068	\$13,315	\$2,335	—	—	\$32,975	\$32,815
Weighted average interest rate	1.14%	1.54%	1.89%	2.16%	—	—	1.40%	
Liabilities:								
Long-term debt (\$4.75M note)	\$255	\$266	\$277	\$289	\$302	\$2,826	\$4,215	\$4,215
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (\$70.0M note)	\$561	\$3,393	\$3,563	\$3,715	\$3,881	\$54,887	\$70,000	\$70,000
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	

Commodity Price Exposure

As of March 31, 2016, we have exposure to adverse price fluctuations associated with certain inventories and accounts receivable. Farming inventories consist of farming cultural and processing costs related to 2014 and 2015 crop production. The farming costs inventoried are recorded at actual costs incurred. Historically, these costs have been recovered each year when that year's crop harvest has been sold.

With respect to accounts receivable, the amount at risk relates primarily to farm crops. These receivables are recorded as estimates of the prices that ultimately will be received for the crops. The final price is generally not known for several months following the close of our fiscal year. Of the \$3,570,000 of accounts receivable outstanding at March 31, 2016, \$1,181,000 or 22%, is at risk to changing prices. Of the amount at risk to changing prices, \$79,000 is attributable to pistachios and \$1,103,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2015 was \$3,529,000, or 54% of the total accounts receivable of \$6,511,000.

The price estimated for recording accounts receivable for pistachios recorded at March 31, 2016 was \$2.88 per pound, consistent with the price per pound at December 31, 2015. For each \$0.01 change in the price of pistachios, our receivable for pistachios increases or decreases by \$274. Although the final price of pistachios (and therefore the extent of the risk) is not presently known, over the last three years prices have ranged from \$3.82 to \$4.92. With respect to almonds, the price estimated for recording the receivable was \$3.34 per pound, consistent with the price per pound at December 31, 2015. For each \$0.01 change in the price of almonds, our receivable for almonds increases or decreases by \$3,307. The range of final prices over the last three years for almonds has ranged from \$1.71 to \$4.24 per pound.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that all information required in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and was recorded, processed, summarized and reported within the time period required by the rules and regulations of the SEC.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 12. Commitments and Contingencies in the Notes to Unaudited Consolidated Financial Statements in this report.

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Edgar Filing: TEJON RANCH CO - Form 10-Q

Item 6. Exhibits:

3.1	Restated Certificate of Incorporation	FN 1
3.2	By-Laws	FN 1
4.1	Form of First Additional Investment Right	FN 2
4.2	Form of Second Additional Investment Right	FN 3
4.3	Registration and Reimbursement Agreement	FN 10
10.1	Water Service Contract with Wheeler Ridge-Maricopa Water Storage District (without exhibits), amendments originally filed under Item 11 to Registrant's Annual Report on Form 10-K	FN 4
10.7	*Severance Agreement	FN 5
10.8	*Director Compensation Plan	FN 5
10.9	*Amended and Restated Non-Employee Director Stock Incentive Plan	FN 13
10.9(1)	*Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan	FN 5
10.10	*Amended and Restated 1998 Stock Incentive Plan	FN 14
10.10(1)	*Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan	FN 5
10.12	Lease Agreement with Pastoria Energy Facility L.L.C.	FN 6
10.15	Form of Securities Purchase Agreement	FN 7
10.16	Form of Registration Rights Agreement	FN 8
10.17	*2004 Stock Incentive Program	FN 9
10.18	*Form of Restricted Stock Agreement for Directors	FN 9
10.19	*Form of Restricted Stock Unit Agreement	FN 9
10.23	Tejon Mountain Village LLC Operating Agreement	FN 11
10.24	Tejon Ranch Conservation and Land Use Agreement	FN 12
10.25	Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC	FN 15
10.26	*Executive Employment Agreement - Allen E. Lyda	FN 16
10.27	Limited Liability Company Agreement of TRCC/Rock Outlet Center LLC	FN 17
10.28	Warrant Agreement	FN 18

10.29	Amendments to Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 19
10.30	Membership Interest Purchase Agreement - TMV LLC	FN 20
10.31	Amended and Restated Credit Agreement	FN 21
10.32	Term Note	FN 21
10.33	Revolving Line of Credit	FN 21

Edgar Filing: TEJON RANCH CO - Form 10-Q

10.34	Amendments to Lease Agreement with Pastoria Energy Facility L.L.C.	FN 22
10.35	Water Supply Agreement with Pastoria Energy Facility L.L.C.	FN 23
10.36	*Separation Agreement - Gregory J. Tobias	FN 24
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith

*Management contract, compensatory plan or arrangement.

- FN 1 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1987, is incorporated herein by reference.
- FN 2 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.3 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 3 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number I-7183) as Exhibit 4.4 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 4 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1994, is incorporated herein by reference.
- FN 5 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K, for the period ending December 31, 1997, is incorporated herein by reference.
- FN 6 This document filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by reference.
- FN 7 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 8 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.2 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 9 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 15 to our Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by reference.
- FN 10 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on December 20, 2005, is incorporated herein by reference.
- FN 11 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.24 to our Current Report on Form 8-K filed on May 24, 2006, is incorporated herein by reference.
- FN 12 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.28 to our Current Report on Form 8-K filed on June 23, 2008, is incorporated herein by reference.
- FN 13 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.9 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference.
- FN 14 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.10 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference.
- FN 15 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) under Item 6 to our Quarterly Report on Form 10-Q for the period ending June 30, 2009, is incorporated herein by reference.
- FN 16 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) under Item 6 to our Quarterly Report on Form 10-Q for the period ending March 31, 2013, is incorporated herein by reference.
- FN 17 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.27 to our Current Report on Form 8-K filed on June 4, 2013, is incorporated herein by reference.
- FN 18 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.1 to our Current Report on Form 8-K filed on August 8, 2013, is incorporated herein by

reference.

FN
19

This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.29 to our Amended Annual Report on Form 10-K/A for the year ended December 31, 2013, is incorporated herein by reference.

FN
20

This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.30 to our Current Report on Form 8-K filed on July 16, 2014, is incorporated herein by reference.

FN
21

This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibits 10.31-10.33 to our Current Report on Form 8-K filed on October 17, 2014, is incorporated herein by reference.

FN
22

This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.34 to our Annual Report on Form 10-K for the year ended December 31, 2014, is incorporated herein by reference.

36

FN
23 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.35 to our Quarterly Report on Form 10-Q for the period ending June 30, 2015, is incorporated herein by reference.

FN
24 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.36 to our Quarterly Report on Form 10-Q for the period ending September 30, 2015, is incorporated herein by reference.

37

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on May 6, 2016.

TEJON RANCH CO.
(The Company)

/s/ Allen E. Lyda
Allen E. Lyda
Executive Vice President, Chief Financial Officer and Corporate Treasurer

/s/ Robert D. Velasquez
Robert D. Velasquez
Vice President of Finance, Chief Accounting Officer