TEJON RANCH CO
Form 10-Q
November 09, 2015

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

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

For the quarterly period ended September 30, 2015
Or

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

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

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

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

P.O. Box 1000, 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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 x
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 x

The number of the Company's outstanding shares of Common Stock on October 31, 2015 was 20,681,154.

TEJON RANCH CO. AND SUBSIDIARIES
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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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Revenues:				
Real estate - commercial/industrial	$2,548	$2,572	$8,935	$8,067
Mineral resources	1,322	2,393	14,174	14,801
Farming	8,076	8,872	12,470	13,642
Total revenues	11,946	13,837	35,579	36,510
Costs and Expenses:				
Real estate - commercial/industrial	3,273	3,374	9,570	10,021
Real estate - resort/residential	558	565	1,885	1,716
Mineral resources	606	505	7,023	5,932
Farming	8,123	6,089	11,710	9,381
Corporate expenses	2,927	2,932	9,214	8,288
Total expenses	15,487	13,465	39,402	35,338
Operating income (loss)	(3,541)	372	(3,823)	1,172
Other Income:				
Investment income	116	138	413	521
Other income	125	81	180	311
Total other income	241	219	593	832
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	(3,300)	591	(3,230)	2,004
Equity in earnings of unconsolidated joint ventures, net	2,055	1,707	4,861	3,293
(Loss) Income before income tax expense	(1,245)	2,298	1,631	5,297
Income tax expense	(434)	627	464	1,647
Net (loss) income	(811)	1,671	1,167	3,650
Net (loss) attributable to non-controlling interest	(23)	(81)	(68)	(89)
Net (loss) income attributable to common stockholders	$(788)	$1,752	$1,235	$3,739
Net (loss) income per share attributable to common stockholders, basic	$(0.04)	$0.09	$0.06	$0.18
Net (loss) income per share attributable to common stockholders, diluted	$(0.04)	$0.08	$0.06	$0.18

See accompanying notes.

TEJON RANCH CO. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Net (loss) income	$(811)	$1,671	$1,167	$3,650
Other comprehensive income:				
Unrealized gains (losses) on available for sale securities	(21)	(132)	(78)	(121)
Benefit plan adjustments	—	—	—	(474)
Benefit plan reclassification for losses included in net income	—	—	—	407
Unrealized gains (losses) on interest rate swap	(1,991)	—	(1,591)	—
Other comprehensive (loss) before taxes	(2,012)	(132)	(1,669)	(188)
Provision benefit from income taxes related to other comprehensive income (loss) items	770	54	633	240
Other comprehensive (loss) income	(1,242)	(78)	(1,036)	52
Comprehensive (loss) income	(2,053)	1,593	131	3,702
Comprehensive loss attributable to non-controlling interests	(23)	(81)	(68)	(89)
Comprehensive (loss) income attributable to common stockholders	$(2,030)	$1,674	$199	$3,791

See accompanying notes.

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

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$3,512	$5,638
Marketable securities - available-for-sale	33,706	42,140
Accounts receivable	7,131	8,506
Inventories	6,288	4,098
Prepaid expenses and other current assets	5,818	4,456
Deferred tax assets	1,755	1,089
Total current assets	58,210	65,927
Real estate and improvements - held for lease, net	21,784	20,226
Real estate development (includes $79,963 at September 30, 2015 and $77,131 at December 31, 2014, attributable to Centennial Founders, LLC, Note 14)	227,125	219,654
Property and equipment, net	46,607	43,094
Investments in unconsolidated joint ventures	36,418	32,604
Long-term water assets	44,144	45,349
Long-term deferred tax assets	2,419	3,487
Other assets	2,119	1,774
TOTAL ASSETS	$438,826	$432,115
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$2,774	$3,347
Accrued liabilities and other	4,973	2,774
Income taxes payable	—	1,703
Deferred income	1,639	1,164
Revolving line of credit	8,940	6,850
Current maturities of long-term debt	252	244
Total current liabilities	18,578	16,082
Long-term debt, less current portion	74,025	74,215
Long-term deferred gains	3,816	3,683
Other liabilities	14,372	13,802
Total liabilities	110,791	107,782
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 - 20,669,348 at September 30, 2015 and 20,636,478 at December 31, 2014	10,335	10,318
Additional paid-in capital	216,317	212,763
Accumulated other comprehensive loss	(7,935)	(6,899)
Retained earnings	69,674	68,439
Total Tejon Ranch Co. Stockholders' Equity	288,391	284,621
Non-controlling interest	39,644	39,712
Total equity	328,035	324,333

TOTAL LIABILITIES AND EQUITY	$438,826	$432,115

See accompanying notes.

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

	Nine Months Ended September 30	
	2015	2014
Operating Activities		
Net income	$1,167	$3,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,672	3,657
Amortization of premium/discount of marketable securities	424	596
Equity in earnings of unconsolidated joint ventures	(4,861)	(3,293)
Non-cash retirement plan expense	761	1,074
Deferred income taxes	989	—
Stock compensation expense	2,914	2,485
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(3,572)	(1,395)
Current liabilities	47	(2,017)
Net cash provided by operating activities	1,541	4,757
Investing Activities		
Maturities and sales of marketable securities	23,276	12,031
Funds invested in marketable securities	(15,344)	(6,142)
Property and equipment expenditures	(18,968)	(16,953)
Reimbursement proceeds from Communities Facilities District	4,971	—
Investment in unconsolidated joint ventures	(53)	(9,632)
Purchase of interest in TMV LLC	—	(10,000)
Distribution of equity from unconsolidated joint ventures	1,100	—
Investments in long-term water assets	—	(482)
Other	(20)	77
Net cash (used in) provided by investing activities	(5,038)	(31,101)
Financing Activities		
Borrowings of short-term debt	17,540	28,200
Repayments of short-term debt	(15,450)	(8,000)
Repayments of long-term debt	(190)	(182)
Taxes on vested stock grants	(529)	(669)
Net cash (used in) provided by financing activities	1,371	19,349
Decrease in cash and cash equivalents	(2,126)	(6,995)
Cash and cash equivalents at beginning of year	5,638	9,031
Cash and cash equivalents at end of period	$3,512	$2,036
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	$(153)	$309
Taxes paid	$2,153	$—

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 at January 1, 2014	20,563,023	$10,282	$210,848	$ (3,333)	$62,785	$ 280,582	$ 39,605	$ 320,187
Net income	—	—	—	—	5,655	5,655	107	5,762
Other comprehensive loss	—	—	—	(3,555)	—	(3,555)	—	(3,555)
Restricted stock issuance	94,014	47	(47)	—	—	—	—	—
Stock compensation	—	—	2,564	—	—	2,564	—	2,564
Shares withheld for taxes and tax benefit of vested shares	(20,559)	(11)	(603)	(11)	—	(625)	—	(625)
Warrants exercised	—	—	1	—	(1)	—	—	—
Balance, December 31, 2014	20,636,478	10,318	212,763	(6,899)	68,439	284,621	39,712	324,333
Net income (loss)	—	—	—	—	1,235	1,235	(68)	1,167
Other comprehensive income	—	—	—	(1,036)	—	(1,036)	—	(1,036)
Restricted stock issuance	54,783	28	(28)	—	—	—	—	—
Stock compensation	—	—	3,035	—	—	3,035	—	3,035
Shares withheld for taxes and tax benefit of vested shares	(21,913)	(11)	(518)	—	—	(529)	—	(529)
Modified share-based awards	—	—	1,065	—	—	1,065	—	1,065
Balance, September 30, 2015	20,669,348	$10,335	$216,317	$ (7,935)	$69,674	$ 288,391	$ 39,644	$ 328,035

See accompanying notes.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015

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 September 30, 2015 and 2014 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 September 30, 2015 and December 31, 2014 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 four reportable segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; and farming. Information for the Company's reported segments is presented in its consolidated statements of operations. The Company's reporting segments follow the same accounting policies used for the Company's consolidated financial statements. Management evaluates a segment's performance based upon a number of factors including pretax results.

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

Reclassifications

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

Other Income

The Company acquired and consolidated Tejon Mountain Village during the third quarter of 2014. As a result, the Company no longer earns a management fee from the former joint venture. As such, the Company has reclassified all management fees earned during 2014, which were previously recorded as revenues in the resort/residential segment, to other income. The management fees reclassified into other income for the three and nine months ended September 30, 2014 was $15,000 and $198,000 respectively.

Farming

During the fourth quarter of 2014, the Company determined that hay crop sales related to farming activities which were previously recorded as revenues in the resort/residential segment, fit most appropriately with our farming segment. As a result, the Company has reclassified prior period hay crop sales and related cost of sales into the farming revenue and farming expenses, respectively, on the unaudited consolidated statements of operations to conform to the current year presentation. The hay crop sales reclassified for the three months ended September 30, 2014 was $184,000 and the related cost of sales was $374,000.

The hay crop sales reclassified for the nine months ended September 30, 2014 was $588,000 and the related cost of sales was $796,000.

Real Estate, Real Estate Development, and Property & Equipment

In the first quarter of 2015, the Company concluded that it was appropriate to classify its real estate held for development and its income producing real estate as real estate development and real estate and improvements - held for lease, net, respectively, on the Company's consolidated financial statements. Previously, such balances had been classified within property and equipment, net. This change in the classification has no effect on previously reported consolidated statement of operations for any period. This change better reflects the current use of our real estate development assets.

Our commercial/industrial segment generates operating income from operating leases with various types of tenants. As a of result of this consideration, we determined during the first quarter of 2015 that these real estate properties fit most appropriately as real estate and improvements - held for lease, net on the unaudited consolidated financial statements.

As a Company, we are also involved in land entitlement and land development processes. Based on our consideration, we determined during the first quarter of 2015 that these activities fit most appropriately as real estate development on the unaudited consolidated financial statements.

Based on our considerations for bifurcating the real estate and real estate development activities on the unaudited consolidated financial statements as described above, the Company will present property and equipment activities separately on the unaudited consolidated financial statements. Amounts previously reported as property and equipment at December 31, 2014 have been classified as follows:

($ in thousands)	As Originally Reported	As Currently Reported
Real estate and improvements - held for lease, net	$—	$20,226
Real estate developments	$—	$219,654
Property and equipment, net	$282,974	$43,094
	$282,974	$282,974

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, 2014.

2. EQUITY

Earnings Per Share (EPS)

Basic net income (loss) 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 (loss) 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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Weighted average number of shares outstanding:				
Common stock	20,669,348	20,591,529	20,658,750	20,582,082
Common stock equivalents-stock options, grants	79,544	32,006	70,969	33,100
Diluted shares outstanding	20,748,892	20,623,535	20,729,719	20,615,182

Warrants

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 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 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 will be exercisable through August 31, 2016, subject to the Company's right to accelerate the expiration date under certain circumstances when the Warrants are in-the-money. Each holder of Common Stock as of the Record Date received a number of Warrants equal to the number of shares held multiplied by 0.14771, rounded to the nearest whole number. No cash or other consideration was paid in respect of any fractional Warrants that were rounded down. As a result, the Company issued an aggregate of 3,000,000 Warrants. These Warrants were issued pursuant to a Warrant Agreement, dated as of August 7, 2013, between the Company, Computershare, Inc. and Computershare Trust Company, N.A., as warrant agent. The Warrants are currently anti-dilutive and have not been included in the EPS calculation.

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)		September 30, 2015		December 31, 2014	
Marketable Securities:	Fair Value Hierarchy	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Certificates of deposit					
with unrecognized losses for less than 12 months		$2,826	$2,814	$2,522	$2,492
with unrecognized losses for more than 12 months		250	250	837	832
with unrecognized gains		5,003	5,013	5,379	5,395
Total Certificates of deposit	Level 1	8,079	8,077	8,738	8,719
US Treasury and agency notes					
with unrecognized losses for less than 12 months		131	131	1,919	1,910
with unrecognized losses for more than 12 months		—	—	702	700
with unrecognized gains		1,660	1,669	1,182	1,207
Total US Treasury and agency notes	Level 2	1,791	1,800	3,803	3,817
Corporate notes					
with unrecognized losses for less than 12 months		10,719	10,657	3,872	3,841
with unrecognized losses for more than 12 months		2,094	2,081	4,423	4,405
with unrecognized gains		7,348	7,369	16,897	16,963
Total Corporate notes	Level 2	20,161	20,107	25,192	25,209
Municipal notes					
with unrecognized losses for less than 12 months		1,241	1,232	739	733
with unrecognized losses for more than 12 months		405	401	457	456
with unrecognized gains		2,079	2,089	3,183	3,206
Total Municipal notes	Level 2	3,725	3,722	4,379	4,395
		$33,756	$33,706	$42,112	$42,140

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 September 30, 2015, the fair market value of investment securities was $50,000 less than their cost basis. The cost basis includes any other-than-temporary impairments that have been recorded for the securities. The Company believes that any unrealized losses in the portfolio are temporary and accordingly, has not recognized other-than-temporary impairment related to any securities as of September 30, 2015. The Company also believes that

market factors such as changes in interest rates, liquidity discounts, and premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in credit quality of the issuer, have led to the temporary declines in value. In the future, based on changes in the economy, credit markets, financial condition of issuers, or market interest rates, this could change.

As of September 30, 2015, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflected a decrease in the market value of available-for-sale securities of $78,000, which includes an estimated tax benefit of $30,000.

As of September 30, 2015, the Company’s gross unrealized holding income equaled $50,000 and gross unrealized holding losses equaled $100,000.

The following tables summarize the maturities, at par, of marketable securities by year ($ in thousands):

At September 30, 2015	2015	2016	2017	2018	2019	Total
Certificates of deposit	$395	$2,492	$631	$4,510	$—	$8,028
U.S. Treasury and agency notes	—	100	959	579	193	1,831
Corporate notes	305	4,572	6,525	6,270	1,795	19,467
Municipal notes	200	1,025	940	1,455	—	3,620
	$900	$8,189	$9,055	$12,814	$1,988	$32,946

At December 31, 2014	2015	2016	2017	2018	Total
Certificates of deposit	$4,213	$1,501	$831	2,149	$8,694
U.S. Treasury and agency notes	1,176	600	1,209	879	3,864
Corporate notes	9,588	6,704	6,498	1,625	24,415
Municipal notes	2,105	1,235	790	125	4,255
	$17,082	$10,040	$9,328	$4,778	$41,228

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

4. 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 through 2044 and includes a Company option to extend the contract for an additional 35 years. Purchase costs in 2015 were $675 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. During the first nine months of 2015, we sold 7,922 acre feet of water totaling $10,165,000 with a cost of $5,483,000, 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 WRMWSD, 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)	September 30, 2015	December 31, 2014
Banked water and water for future delivery		
AVEK water bank	13,033	13,033
Company water bank	8,700	8,700
AVEK water for future delivery	2,362	2,362
Total Company and AVEK banked water	24,095	24,095
Transferable water*	14,786	15,229
Water Contracts	10,137	10,137
Total purchased water - third parties	49,018	49,461
WRMWSD - Contracts with Company	15,547	15,547
TCWD - Contracts with Company	5,749	5,749
TCWD - Banked water contracted to Company	38,621	38,401
Total purchased and contracted water sources in acre feet	108,935	109,158

*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 22,179 (14,786 x 1.5) acre feet.

($ in thousands)	September 30, 2015	December 31, 2014
Banked water and water for future delivery	$4,779	$4,779
Transferable water	9,117	9,309
Water contracts (net of accumulated amortization of $5,201 and $4,188 at September 30, 2015 and December 2014, respectively)	31,599	32,612
Total long-term water assets	45,495	46,700
less: Current portion	(1,351)	(1,351)
	$44,144	$45,349

The Company also has an agreement to sell 500 acre-feet of water to a local water district during the first quarter of 2016.

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.

5. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

($ in thousands)	September 30, 2015	December 31, 2014
Accrued vacation	$812	$799
Accrued paid personal leave	591	613
Accrued bonus	2,056	1,023
Property tax payable	798	—
Other	716	339
	$4,973	$2,774

6. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

($ in thousands)	September 30, 2015	December 31, 2014
Revolving line of credit	$8,940	$6,850
Notes payable	74,277	74,459
Total short-term and long-term debt	83,217	81,309
Less line-of-credit and current maturities of long-term debt	$(9,192)	$(7,094)
	$74,025	$74,215

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, or TMV. 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 September 30, 2015 and December 31, 2014, the RLC had a $8,940,000 and $6,850,000 outstanding balance, respectively. We fully paid down the RLC as of November 6, 2015. 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.

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 September 30, 2015 and December 31, 2014, 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 $4,277,000. The balance of this long-term debt instrument listed above approximates the fair value of the instrument.

7. OTHER LIABILITIES

Other liabilities consist of the following:

($ in thousands)	September 30, 2015	December 31, 2014
Pension liability (See Note 12)	$2,929	$3,079
Interest rate swap liability (See Note 9)	3,818	2,227
Supplemental executive retirement plan liability (See Note 12)	7,563	7,431
Share-based awards liability (See Note 8)	—	1,065
Other	62	—
	$14,372	$13,802

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

8. 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 following is a summary of the Company's performance share grants with performance conditions for the nine months ended September 30, 2015:

Performance Share Grants with Performance Conditions	
Below threshold performance	—
Threshold performance	99,184
Target performance	184,862
Maximum performance	340,129

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:

	September 30, 2015	December 31, 2014
Stock grants outstanding beginning of the year at target achievement	237,045	265,701
New stock grants/additional shares due to maximum achievement	93,968	165,996
Vested grants	(29,941)	(41,694)
Expired/forfeited grants	—	(152,958)
Stock grants outstanding September 30, 2015 at target achievement	301,072	237,045

The unamortized costs associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of September 30, 2015 were $3,764,000 and 23 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.

Beginning in the second half of 2013, the Compensation Committee of the Board of Directors, or the Board, conducted a compensation study prepared by an outside consultant that was completed during the first quarter of 2014. One of the outcomes of the compensation study was that the Board elected to modify selected outstanding and unvested performance milestone grants, or the existing performance milestone grants, and issue new milestone performance grants. The Company has assessed that it is probable that these new performance milestones will be met. As discussed above, the performance share grant approved by the Board in March 2014 included the modification of existing performance milestone grants totaling 133,890 restricted stock units and the issuance of new performance milestone grants totaling 89,837 restricted stock units. The restricted stock units of the modified existing performance milestone grants have been accounted for as a probable-to-probable modification since the Company has determined that achieving the existing performance milestones was probable. The unamortized total cost relating to these probable-to-probable modified performance milestone grants is being recognized ratably over the new requisite service period. The impact of modifying the existing performance milestone grants is an annual expense of $1,109,000 over the service period. The values for the 2014 performance grants, including the new milestone grants, are fixed at threshold, target and maximum performance, meaning that the amount of shares at vesting will vary depending on the stock price at that time.

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)	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Employee Plan:		
Expensed	$2,321	$1,864
Capitalized	121	67
	2,442	1,931
NDSI Plan - Expensed	593	621
	$3,035	$2,552

9. 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 6 (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 September 30, 2015, 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 September 30, 2015, 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 September 30, 2015 ($ in thousands):

Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Pay Rate	Fair Value at September 30, 2015	Notional Amount at September 30, 2015

October 15, 2014	October 5, 2024	Level 2	4.11%	$(3,818)	$70,000

10. INCOME TAXES

For the nine months ended September 30, 2015, the Company's income tax expense was $464,000 compared to an income tax expense of $1,647,000 for the nine months ended September 30, 2014. These represent effective income tax rates of approximately 28% and 34% for the nine months ended September 30, 2015 and, 2014, respectively. The effective tax rate for the first nine months of 2015 is based on forecasted annual pre-tax income for 2015. As of September 30, 2015, we had income taxes payable of $0.

The Company classifies interest and penalties incurred on tax payments as income tax expense. During the nine months ended September 30, 2015, the Company made $2,117,000 of income tax payments for the 2015 tax year.

11. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts with minimum annual payments in 2015 of approximately $7,900,000 a majority of which was paid during the nine months ended September 30, 2015. 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 through 2044. 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 4 (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 and running through 2044.

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 TMV projects.

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 $39,750,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $80,250,000 of additional bond debt authorized by TRPFFA 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 September 30, 2015, there were no additional improvement funds remaining from the West CFD bonds. During the first quarter of 2015, the East CFD reimbursed the Company approximately $4,971,000 for public infrastructure. After this payment, there are now no funds remaining in the East CFD improvement fund. During 2014, the Company paid

approximately $933,000 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, 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 the Company's Tehachapi Uplands Multiple Species Habitat Conservation Plan, or TUMSHCP, and USFWS's issuance of an Incidental Take Permit, to the Company for the take of federally listed species. The foregoing approvals authorize, among other things, removal of California condor habitat associated with the Company's potential future development of Tejon Mountain Village. 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 will incur any damages from such a lawsuit.

On July 16, 2015, the Center for Biological Diversity filed a Petition for Writ of Mandate, or Petition, against the County of Los Angeles and the Board of Supervisors, among other things, challenging approval of the Antelope Valley Area Plan Update, or AVAP and certification of the final Environmental Impact Report related to the AVAP. Neither the Company nor Centennial Founders, LLC is a named as a Respondent in the Petition and it is not possible to determine what impact, if any, the Petition will have on development of the Centennial project.

Tejon Mountain Village

On November 10, 2009, a suit was filed in the U.S. District Court for the Eastern District of California (Fresno division) by David Laughing Horse Robinson, 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 Tejon Mountain Village, or TMV development that it seeks to develop. The grounds for the federal lawsuit were the subject of a United States Supreme Court decision in 1924 where the United States Supreme Court found against the Indian tribes. The suit named as defendants the Company, two affiliates (Tejon Mountain Village, LLC and Tejon Ranchcorp), the County of Kern, or the County, and Ken Salazar, in his capacity as U.S. Secretary of the Interior. After Robinson’s complaints were thrice dismissed for failure to state a claim, Robinson filed his third amended complaint on March 19, 2012. The defendants filed motions to dismiss all claims in the third amended complaint without further leave to amend on April 30, 2012. On August 7, 2012, the district court issued its Order dismissing all of Robinson's claims without leave to amend and with prejudice, on grounds of lack of jurisdiction and failure to state a claim.

On September 24, 2012, Robinson filed a timely notice of appeal to the U.S. Court of Appeals for the Ninth Circuit. After some delays in the briefing and oral argument occasioned by Robinson’s counsel, oral argument was conducted on November 20, 2014 before Circuit Judges Thomas, Reinhardt and Christen. On June 22, 2015, the unanimous three-judge panel of the Ninth Circuit Court of Appeals issued a 20-page published decision affirming the district court’s judgment in favor of the Company and specifically finding that “[t]he district court properly determined that the Tribe "Kawaiisu Tribe" has no ownership interest in Tejon Ranch and that no reservation was established.”

On August 6, 2015, Robinson filed a Petition for Panel Rehearing asking the Ninth Circuit panel to change its June 22, 2015 ruling or allow reargument of the case. Robinson did not also file a Petition for Rehearing En Banc. No response to the Petition for Rehearing by the panel was required or permitted unless ordered by the court. On September 2, 2015, the court panel issued a one-sentence Order stating that “Appellants’ petition for panel rehearing is DENIED.” Robinson may submit a petition to the U.S. Supreme Court seeking review of the Ninth Circuit’s decision by a writ of certiorari on or before December 2, 2015. Robinson’s chances of prevailing with a petition for writ of certiorari, if he files one, are very small. In the meantime, the Company believes that a negative outcome of this case is very remote and the monetary impact of an adverse result, if any, cannot be estimated at this time.

National Cement

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

environmental conditions on the property currently leased to National:

(1) Groundwater plume of chlorinated hydrocarbon compounds. This order directs the Company's former tenant Lafarge Corporation, or Lafarge, the current tenant National, and the Company to, among other things, clean up groundwater contamination on the leased property. In 2003, Lafarge and National installed a groundwater pump-and-treat system to clean up the groundwater. The Company is advised that Lafarge and National continue to operate the cleanup system and will continue to do so over the near-term.

(2) Cement kiln dust. National and Lafarge have consolidated, closed and capped cement kiln dust piles located on land leased from the Company. An order of the RWQCB directs National, Lafarge and the Company to maintain and monitor the effectiveness of the cap. Maintenance of the cap and groundwater monitoring remain as on-going activities.

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

Antelope Valley Groundwater Cases

On November 29, 2004, a conglomerate of public water suppliers filed a cross-complaint in the Los Angeles Superior Court seeking a judicial determination of the rights to groundwater within the Antelope Valley basin, including the groundwater underlying the Company’s land near the Centennial project. Four phases of a multi-phase trial have been completed. Upon completion of the third phase, the Court ruled that the groundwater basin is currently in overdraft and established a current total sustainable yield. The fourth phase of trial occurred in first half 2013 and resulted in confirmation of each party’s groundwater pumping for 2011 and 2012. The 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. In August, 2015 the Court heard evidence relating to preliminary approval of the Wood Class settlement and took the matter under submission. The Court heard evidence in September and October, 2015, regarding 1) prove-up of the proposed Judgment and Physical Solution, and 2) evidence of all non-settling parties' claims to groundwater. On November 5, 2015, the Court announced its tentative decision to approve the Wood Class settlement and proposed Judgment and Physical Solution. The final judgment remains pending. Because a final Judgment is not yet issued and given the complex nature of the adjudication, at this time it is difficult to ascertain what the outcome of the Court proceedings will be, and what effect, if any, this case may have on the Centennial project or the Company’s remaining lands in the Antelope Valley. Because the water supply plan for the Centennial project includes several sources of water in addition to groundwater underlying the Company’s lands, and because the creation of an efficient market for local water rights is frequently an outcome of adjudication proceedings, the Company remains hopeful that sufficient water to supply the Company's needs will continue to be available for its use regardless of the outcome of this case.

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 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 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 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 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 the Rosedale parties in the CEQA cause of action, and (ii) dismissing the declaratory relief cause of action. No appeal of the Rosedale judgment has been filed.

Central Delta and Rosedale filed motions for award of costs and attorneys fees. The Superior Court denied the Central Delta motion. Central Delta appealed the denial of its attorneys fees motion. Rosedale withdrew its motion for fees and costs as a result of a settlement between Rosedale and the Kern Water Bank Authority.

Crop Insurance

Our 2015 pistachio crop yield was severely impacted by the mild winter. A mild winter decreases the number of hours the pistachio trees are dormant, adversely impacting the pollination of the pistachio tree. We typically expect 5% - 10% of our crops to produce blanks or hollow shells. However, we experienced blanks in 90% of our pistachio crop, which is unprecedented compared to historical trends. The impact to pistachio production as a result of the mild winter is not a phenomenon limited to Tejon Ranch, but has impacted a large majority of the pistachio production in California. We purchase crop insurance to mitigate weather-related catastrophic crop losses. During the third quarter, we submitted an insurance claim that is expected to recover a portion of the loss and we anticipate hearing from the insurance company as to the amount during the fourth quarter.

12. 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 $600,000 to the plan during 2015.

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 September 30, 2015, the investment mix was approximately 57% equity,

35% debt, and 8% money market funds. At December 31, 2014, the investment mix was approximately 59% equity, 30% debt and 11% 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 4.3% in 2015 and 2014. The expected long-term rate of return on plan assets is 7.5% in 2015 and 2014. 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:

	Nine Months Ended September 30	
($ in thousands)	2015	2014
Cost components:		
Service cost-benefits earned during the period	$(199)	$(270)
Interest cost on projected benefit obligation	(350)	(303)
Expected return on plan assets	462	408
Net amortization and deferral	(213)	(800)
Total net periodic pension cost	$(300)	$(965)

During the first quarter of 2014, the Pension Trust purchased annuities for eligible, retired participants of the defined benefit plan. The retirement benefits payments were of a size that met the requirement for settlement accounting within the pension plan. Based on the projected benefit obligation and the fair value of plan assets before and after the payment of benefits we realized a $392,000 increase in minimum pension liability and an increase in expense of $407,000 above our normal periodic pension cost.

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:

	Nine Months Ended September 30	
($ in thousands)	2015	2014
Cost components:		
Service cost-benefits earned during the period	$—	$(240)
Interest cost on projected benefit obligation	(208)	(165)
Net amortization and deferral	(253)	(171)
Total net periodic pension cost	$(461)	$(576)

13. BUSINESS SEGMENTS

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

Commercial lease revenue consists of land and building leases to tenants at our commercial retail and industrial developments, base and percentage rents from our power plant lease, communication tower rents, and payments from easement leases. Land management ancillary services include development fees, wildlife management, landscape and property maintenance, and building management services.

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

	Three Months Ended September 30		Nine Months Ended September 30	
($ in thousands)	2015	2014	2015	2014
Commercial leases	$1,925	$1,617	$5,720	$4,338
Grazing leases	26	351	938	1,064
All other land management ancillary services	597	604	2,277	2,665
Total commercial revenues	2,548	2,572	8,935	8,067
Profit (loss) from commercial activities	(725)	(802)	(635)	(1,954)
Equity in earnings of unconsolidated joint ventures	2,055	1,707	4,861	3,328
Income from commercial/industrial and unconsolidated joint ventures	$1,330	$905	$4,226	$1,374

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 $1,885,000 and $1,716,000 for the nine months ended September 30, 2015 and 2014, respectively. The segment produced losses of $558,000 and $565,000 for the quarters ended September 30, 2015 and 2014, 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 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
($ in thousands)	2015	2014	2015	2014
Oil and gas	$640	$1,778	$2,333	$5,301
Water sales	—	—	10,165	7,703
Rock aggregate	282	294	629	885
Cement	373	284	916	763
Land lease for oil exploration	27	37	131	149
Total revenue	1,322	2,393	14,174	14,801
Income from mineral resources activities	716	1,888	7,151	8,869

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:

	Three Months Ended September 30		Nine Months Ended September 30	
($ in thousands)	2015	2014	2015	2014
Almonds	$3,687	$3,201	$7,066	$5,297
Pistachios	2,136	4,118	2,899	6,237
Wine grapes	1,986	1,293	1,986	1,293
Hay	229	184	434	588
Total crop proceeds	8,038	8,796	12,385	13,415
Other farming revenues	38	76	85	227
Total farming revenues	8,076	8,872	12,470	13,642
Income (loss) from farming activities	$(47)	$2,783	$760	$4,261

14. 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 September 30, 2015 was $36,418,000. The equity in the income of the unconsolidated joint ventures was $4,861,000 for the nine months ended September 30, 2015. 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 September 30, 2015, the Company had an equity investment balance of $21,320,000 in this joint venture. On October 26, 2015, we received a dividend distribution from TA/Petro of $7,200,000.
- Rockefeller Joint Ventures – The Company has three joint ventures with Rockefeller Group Development Corporation or Rockefeller. 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.

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The Company owns a 50% interest in each of the joint ventures. Currently the Five West Parcel LLC joint venture owns and leases a 606,000 square foot building. The lease to Dollar General has now been extended to April 2019, and includes an option to extend for an additional three years. The Five West Parcel joint venture currently has an outstanding bank loan with a balance of $10,863,000. The bank loan has been extended to May 2016 in connection with the original one-year lease extension of Dollar General's lease and is fully secured by the building as well as guarantees from each partner. We are currently working with the lender to extend the loan to April 2019. We do not believe the lender will call on the guarantees provided. 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, formed during the second quarter of 2013, is the TRCC/Rock Outlet Center LLC joint venture, 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 Outelet 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 September 30, 2015, had an outstanding balance of $51,557,000.

At September 30, 2015, the Company’s combined equity investment balance in these three joint ventures was $15,098,000.

- 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 September 30, 2015 the Company had a 74.87% 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 September 30, 2015 and December 31, 2014 and unaudited condensed statements of operations for the nine months ended September 30, 2015 and September 30, 2014 are as follows:

Statement of Operations for the nine months ended September 30, 2015

	UNCONSOLIDATED					CONSOLIDATED
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel	18-19 West LLC	TRCC/Rock Outlet Center	Total	Centennial-VIE

Revenues	$78,483	$2,619	$17	$6,645	$87,764	$435
Net income (loss)	$8,119	$751	$(87)	$(684)	$8,099	$(263)
Partner's share of net income (loss)	$3,248	$375	$(43)	$(342)	$3,238	$(68)
Equity in earnings (losses)	$4,871	$376	$(44)	$(342)	$4,861	$—

Balance Sheet Information as of September 30, 2015

	UNCONSOLIDATED					CONSOLIDATED
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel	18-19 West LLC	TRCC/Rock Outlet Center	Total	Centennial-VIE
Current assets	$24,421	$3,280	$50	$4,925	$32,676	$ 69
Real Estate	49,487	13,877	4,617	65,263	133,244	80,194
Other assets	275	191	—	20,213	20,679	10
Long-term debt	(15,188)	(10,863)	—	(51,557)	(77,608)	—
Other liabilities	(2,795)	(604)	(5)	(1,555)	(4,959)	(820)
Net assets	$56,200	$5,881	$4,662	$37,289	$104,032	$ 79,453

Statement of Operations for the nine months ended September 30, 2014

	UNCONSOLIDATED						CONSOLIDATED
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel	18-19 West	TRCC/Rock Outlet Center	Tejon Mountain Village*	Total	Centennial-VIE
Revenues	$85,694	$2,505	$49	$2,795	$—	$91,043	$ 591
Net income (loss)	$5,087	$108	$27	$419	$(70)	$5,571	$ (230)
Partner’s share of net income (loss)	$2,035	$54	$14	$210	$(35)	$2,278	$ (89)
Equity in earnings (losses)	$3,052	$54	$13	$209	$(35)	$3,293	$ —

*The Company purchased DMB TMV LLC's membership interest in the Tejon Mountain Village joint venture on July 15, 2014.

Balance Sheet Information as of December 31, 2014

	UNCONSOLIDATED					CONSOLIDATED
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel	18-19 West LLC	TRCC/Rock Outlet Center	Total	Centennial-VIE
Current assets	$18,960	$3,834	$ 5	$2,302	$25,101	$ 651
Real Estate	48,011	14,869	4,617	66,112	133,609	77,373
Other assets	181	67	—	19,624	19,872	—
Long-term debt	(15,808)	(11,000)	—	(45,449)	(72,257)	—
Other liabilities	(3,263)	(440)	(2)	(4,616)	(8,321)	(158)
Net assets	$48,081	$7,330	$ 4,620	$37,973	$98,004	$ 77,866

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

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

Our commercial/industrial real estate development segment generates revenues from building, grazing, and land lease activities, land and building sales, and ancillary land management activities. The primary commercial/industrial development is the Tejon Ranch Commerce Center, or TRCC. The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. Within our resort/residential segment, the three active developments are Tejon Mountain Village, or TMV, Centennial, and the Grapevine Development Area, or Grapevine. Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, a lease with National Cement and sales of water. The farming segment produces revenues from the sale of wine grapes, almonds, pistachios, and hay.

For the first nine months of 2015 we had net income attributable to common stockholders of $1,235,000 compared to net income attributable to common stockholders of $3,739,000 for the first nine months of 2014. This decline was primarily attributable to a reduction in mineral resource revenues as a result of lower oil prices and a decrease in farm revenues due to the significant drop in pistachio production. These declines were partially offset by improved commercial operating income and 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 13 (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, 2014. Please refer to that filing for a description of our critical accounting policies.

Results of Operations

Comparison of nine months ended September 30, 2015 to nine months ended September 30, 2014

Total revenues for the first nine months of 2015 were $35,579,000 compared to $36,510,000 for the first nine months of 2014. This decrease of $931,000, or 3%, is attributable to a decrease in farming revenues of $1,172,000, a decrease in mineral resources of $627,000, offset by an increase in commercial/industrial revenues of $868,000 resulting from continued increases in leasing activity.

Commercial/industrial real estate segment revenues were $8,935,000 for the first nine months of 2015, an increase of $868,000, or 11%, compared to the first nine months of 2014. This improvement is primarily attributable to an increase of $275,000 relating to percentage rent from the power plant lease, specifically the expiration in January 2015 of the credits issued in 2014 in conjunction with the power plant lease amendment. The amendment related to percentage rent paid on the collection of greenhouse gas assessment taxes. The percentage rent calculation was modified to exclude the greenhouse gas assessment taxes that are collected by the tenant and passed on to the State of California and in connection therewith the Company issued the tenant a one-time credit of $467,000. In addition, we recognized $239,000 in property management fees from our joint venture properties. During the nine months ended September 30, 2015, three tenants took possession under their respective lease terms resulting in an increase in new rental revenues of $335,000.

Commercial/industrial real estate segment expenses were $9,570,000 during the first nine months of 2015, a decrease of $451,000, or 5%, compared to the same period in 2014. The decline in expenses is primarily due to the absence of Tejon -Castac Water District, or TCWD, fixed water assessments during the nine months ended September 30, 2015, resulting in a decrease of $488,000. TCWD water assessment taxes decreased as a result of an increase in TCWD water sales to parties outside of the district, which provided additional funds to TCWD.

Due to the purchase of the remaining ownership interest in the TMV joint venture in 2014, we no longer earn management fees related to the TMV joint venture. Resort/residential real estate segment expenses increased $169,000, or 10%, during the first nine months of 2015, compared to the same period in 2014 primarily due to a $164,000 increase in employee and payroll related expenses due to increased staffing as a result of internalizing management responsibilities for both TMV and Grapevine developments.

Mineral resources segment revenues decreased $627,000, or 4%, to $14,174,000 during the first nine months of 2015 compared to the same period in 2014. The $627,000 decrease is primarily due to a decrease in oil royalty revenues driven by lower average prices for a barrel of oil. The average price per barrel of oil decreased by 54% to approximately $45 per barrel for the first nine months of 2015 from approximately $98 per barrel in the first nine months of 2014. The price decline also led to a decrease in production as compared to the same period in 2014. The overall impact was a $2,883,000 decrease in oil royalty revenue. The decrease was partially offset by a $2,462,000 increase in water sales revenue from the sale of 7,922 acre feet of water. During the first quarter of 2015, we determined we had excess water supply for our 2015 needs, thus we sold the entire allotment of the 2015 Nickel water we purchased plus carry forward inventory from 2014.

Mineral resources segment expenses increased $1,091,000, or 18%, to $7,023,000 during the first nine months of 2015 compared to the same period in 2014, primarily due to an increase of $967,000 in cost of sales for water.

Farming segment revenues decreased by $1,172,000, or 9%, to $12,470,000 during the first nine months of 2015 compared to the same period in 2014. The $1,172,000 decrease is primarily attributed to a $3,338,000 decrease in pistachio revenues. Our pistachio crop yield was severely impacted by the mild winter. A mild winter decreases the number of hours the pistachio trees are dormant, adversely impacting the pollination of the pistachio tree. We typically expect 5% - 10% of our crops to produce blanks or hollow shells. However, we experienced blanks in 90% of our pistachio crop, which is unprecedented compared to historical trends. The impact to pistachio production as a result of the mild winter is not a phenomenon specific to Tejon Ranch but has impacted a large majority of the pistachio production in California. We purchase crop insurance to mitigate weather-related catastrophic crop losses. During the third quarter, we submitted an insurance claim that is expected to recover a portion of the loss and we anticipate hearing from the insurance company as to the amount during the fourth quarter. Pistachio sales accounted for $2,899,000 of total farming revenues for the nine months ended September 30, 2015. Of the $2,899,000, $1,613,000 relates to a one time bonus payment on the 2014 crop, $1,104,000 relates to the sale of the 2014 carryover crop, and $182,000 relates to sales from the harvested 2015 crop. The decrease in sales was offset by a $693,000 and

$1,769,000 increase in wine grape and almond sales, respectively. Wine grape revenues increased because wine grape crop yields in 2015 increased by 2,782 tons. Almond revenues increased as a result of an increase in the selling price per pound.

Farming segment expenses increased by $2,329,000, or 25%, to $11,710,000 during the first nine months of 2015 compared to the same period in 2014. During the first nine months of 2015, there was a $523,000 increase in staffing costs primarily due to a bonus accrual, a $1,053,000 increase in wine grape cultural costs, and a $734,000 increase in pistachio cultural costs.

Corporate general and administrative costs increased $926,000, or 11%, to $9,214,000 during the first nine months of 2015 compared to the same period in 2014, primarily due to a $1,068,000 increase in employee compensation due to an increase in staffing, a change in payment method of performance-based bonuses and related payroll expenses.

Our share of earnings from our joint ventures was $4,861,000, an increase of $1,568,000, or 48%, during the first nine months of 2015 when compared to the same period in 2014, primarily due to $1,819,000 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 an increase in diesel volumes of 1.5 million gallons and gas volumes of 890,000 gallons. The improvement in the volumes of fuel sales is continuing to be driven by the growing amount of traffic along Interstate - 5 and the expansion of offerings at TRCC such as the Outlets at Tejon. The TA/Petro joint venture also saw an increase in the margin on gas sales of approximately $0.13 per gallon for the year as compared to 2014. Due to the addition of a new restaurant at the end of 2014 and the increase in the volume of activity the TA/Petro joint venture also saw an increase in non-fuel revenues margins during 2015.

Comparison of three months ended September 30, 2015 to three months ended September 30, 2014

Total revenues for the three month period ended September 30, 2015 were $11,946,000 compared to $13,837,000 for the same period in 2014. This decrease of $1,891,000, or 14%, in total revenues is mainly attributable to lower revenues in farming and mineral resources.

Commercial/industrial real estate segment revenues were $2,548,000 for the three month period ended September 30, 2015, a decrease of $24,000, or 1%, compared to the three month period ended September 30, 2014. This decrease is primarily attributable to a $324,000 decrease in grazing revenues due to a drought clause reducing the amount of revenue recognized. The decrease is offset by $299,000 increase from commercial lease related activities.

Commercial/industrial real estate segment expenses were $3,273,000 during the three month period ended September 30, 2015, a decrease of $101,000, or 3%, compared to the same period in 2014, primarily due to a decrease of $151,000 in professional services. In 2015, there were also no TCWD fixed water assessments resulting in a decrease of $103,000 when compared to 2014. The decreases were offset by a $36,000 increase in payroll costs, a $48,000 increase in depreciation resulting from placing three new operating properties into service, and a $63,000 increase in marketing and promotional activities.

Resort/residential real estate expenses were $558,000, a decrease of $7,000, or 1%, during the three months ended September 30, 2015, compared to the same period in 2014. This variance is in-line with our expectations given the current business environment.

Mineral resource segment revenues decreased by $1,071,000, or 45%, to $1,322,000 during the three month period ended September 30, 2015 compared to the same period in 2014. The decrease is primarily attributed to a $1,078,000 decrease in oil royalty revenues driven by lower average prices for a barrel of oil as described above.

Mineral resources segment expenses increased by $101,000, or 20%, to $606,000 during the three month period ended September 30, 2015 compared to the same period in 2014, primarily attributed to an increase in staffing necessary to monitor and support our water related activities.

Farming segment revenues decreased by $796,000, or 9%, to $8,076,000 during the three month period ended September 30, 2015 compared to the same period in 2014. During the three month period ended September 30, 2015, there was a $1,982,000 decrease in pistachio revenues resulting from the 2015 mild winter as previously described. Pistachio sales accounted for $2,136,000 of total farming revenues for the three months ended September 30, 2015. Of the $2,136,000, $1,613,000 relates to a one time bonus payment on the 2014 crop, $341,000 relates to the sale of the 2014 carryover crop, and $182,000 relates to sales from the harvested 2015 crop. The decrease in sales was offset by a $693,000 and $485,000 increase in wine grape and almond sales, respectively. Wine grape revenues increased for the same reasons described above.

Farming segment expenses increased by $2,034,000, or 33%, to $8,123,000 during the three month period ended September 30, 2015 compared to the same period in 2014. This increase was attributed to an increase of $1,070,000 in higher wine grape growing costs, a $731,000 increase in pistachio growing costs, and a $71,000 increase in almond growing costs. The remainder of the increase is attributed to a $214,000 increase in indirect farming costs. The increase was offset by a $53,000 decrease in the cost of hay sales.

Corporate general and administrative costs remained relatively flat at $2,927,000 during the three month period ended September 30, 2015 compared to the same period in 2014. This variance is in-line with our expectations given the

current business environment.

Our share of earnings from our joint ventures was $2,055,000, an increase of $348,000, or 20%, during the three month period ended September 30, 2015 when compared to the same period in 2014 primarily due to a $603,000 increase in our share of earnings from our TA/Petro joint venture as a result of improved operations as described above.

General Outlook

Thus far in 2015 our commercial retail activity has continued to grow as new leases have come on line with Carl's Jr, Starbucks, Pieology, Habit Burger and Baja Fresh. We commenced development of a new multi-tenant building during the third quarter that will house Habit Burger and Baja Fresh. The tenants are expected to be open during the first half of 2016. Later in 2015, we expect a new convenience store and gas station to open at TRCC-East. The convenience store and gas station are being developed by our TA/Petro joint venture.

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. 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 third quarter of 2015, vacancy rates in the Inland Empire were comparable to 2014, 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 the Grapevine Development Area, Centennial, and pre-development activities for TMV.

All of our crops are sensitive to the size of each year’s world crop. Large crops in California and abroad can rapidly depress prices. 2015 crop harvests for almonds, pistachios, and selected wine grapes have been completed as described earlier. Crop harvest for almonds, pistachios, and selected wine grapes With a more normal winter and adequate dormant hours we would expect to see some improvement in 2016 production for these crops.

The Board of Directors approved a business plan for TMV that authorizes management to move forward with the creation of tentative tract maps. Tentative tract maps are expected to take up to two years to complete and must be completed prior to construction beginning.

As noted earlier in the farming discussion our 2015 Pistachio crop was minimal compared to prior years and historical averages. This decline was due to a very mild winter that impacted the level of hours that trees were dormant and the pollination cycle. At this time, we expect improved production in 2016, but are concerned due to the minimal amount of growth in the pistachio trees during 2015. The drought continues to negatively impact farming within California with areas of limited water removing orchards and vineyards. Our farm operations and Company operating results for the first nine months of 2015 were not materially 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 2015, prices for almonds and pistachios are staying at high levels due to the total size of this year's statewide production.

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 see lower prices as compared to 2014, which will continue to negatively impact us throughout 2015.

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 quarter 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, 2014, 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 11 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements in this report.

Income Taxes

For the nine months ended September 30, 2015, the Company incurred a net income tax expense of $464,000 compared to a net income tax expense of $1,647,000 for the nine months ended September 30, 2014. These represent effective income tax rates of approximately 28% and 34% for the nine months ended September 30, 2015 and, 2014, respectively. The effective tax rate for the first nine months of 2015 is based on forecasted annual pre-tax income for 2015. As of September 30, 2015, we had an income tax payable of $0.

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, cash and investments, and 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 investment activities. To enhance shareholder value, we will continue to make investments in our real estate segments to secure land entitlement approvals, build infrastructure for our developments, ensure adequate future water supplies, and provide funds for general land development activities. Within our farming segment, we will make investments as needed to improve efficiency and add capacity to its operations when it is profitable to do so.

Our cash, cash equivalents and marketable securities totaled $37,218,000 at September 30, 2015, a decrease of $10,560,000, or 22%, from the corresponding amount at the end of 2014. Cash, cash equivalents and marketable securities decreased during the first nine months of 2015 due to property and equipment expenditures and real estate development costs, which included infrastructure development costs, payments on our revolving line of credit, and increases in farming inventory. These decreases were partially offset by a distribution from one of our Rockefeller unconsolidated joint ventures, water sale proceeds and reimbursement proceeds for public infrastructure costs from the East CFD.

The following table shows our cash flow activities for the nine months ended September 30:

(in thousands)	2015	2014
Operating activities	$1,541	$4,757
Investing activities	$(5,038)	$(31,101)
Financing activities	$1,371	$19,349

Operating Activities

During the first nine months of 2015, our operations provided $1,541,000 of cash primarily attributable to net income including adjustments for non-cash items, partially offset by increases in farming inventories. During the first nine months of 2014, our operations provided $4,757,000 of cash primarily attributable to net income including adjustments for non-cash items offset by increases in crop receivables and reductions in payables.

Investing Activities

During the first nine months of 2015, investing activities used $5,038,000 of cash primarily as a result of $18,968,000 in capital expenditures consisting of $6,425,000 of investments in TRCC infrastructure, primarily associated with expansion of road infrastructure, utilities, and buildings on land at TRCC-East, $3,306,000 related to the Grapevine Development Area for entitlement activities, $5,263,000 related to TMV pre-development activities, and $2,392,000 related to Centennial Founders LLC for entitlement activities. The remaining capital expenditures related to ordinary capital expenditures such as farming equipment, IT equipment replacements and computer software. These

expenditures were partially offset by net proceeds of $7,932,000 from the sale and maturity of marketable securities, reimbursements of $4,971,000 for public infrastructure costs through the East CFD, and distributions of $1,100,000 from our Rockefeller unconsolidated joint venture partner.

During the first nine months of 2014, investing activities used $31,101,000 of cash primarily as a result of a $9,632,000

investment in our unconsolidated joint ventures of which $8,500,000 was contributed to TRCC/Rock Outlet Center LLC joint venture and $1,112,000 was contributed to TMV prior to the DMB TMV LLC membership interest buyout. Additionally, investing activities used $16,953,000 in capital expenditures during the first nine months of 2014 consisting of $6,029,000 of investments in TRCC infrastructure, primarily associated with expansion of water systems and road infrastructure on land at TRCC-East, $4,464,000 related to the Grapevine Development Area for entitlement activities, $2,924,000 related to investments in water systems as well as crop development and $2,319,000 related to Centennial Founders LLC for entitlement activities. The remaining capital expenditures consisted of $1,217,000 related to ordinary capital expenditures such as farm equipment, property maintenance equipment, and IT equipment replacements. The Company also invested $10,000,000 in the asset purchase of DMB TMV LLC's membership interest in TMV LLC. These expenditures were partially offset by net proceeds of $5,889,000 from the sale and maturity of marketable securities.

Our estimated capital investment for the remainder of 2015 will be primarily related to real estate projects. Estimated capital investment includes approximately $2,000,000 of infrastructure development at TRCC-East and West. 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 up to an additional $1,225,000 for land planning and entitlement activities for the Grapevine Development Area and approximately $500,000 for TMV pre-development activities. We may potentially invest up to $2,900,000 throughout the remainder of 2015 in Centennial Founders LLC for entitlement work. 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 $500,000 in water assets and infrastructure. We are also planning to invest approximately $200,000 in the replacement of operating equipment, such as farm equipment, and updates to our information technology systems.

Financing Activities

During the first nine months of 2015, financing activities generated $1,371,000 in cash mainly due to the timing of draw downs on the Company's line of credit. At September 30, 2015, there was an outstanding balance of $8,940,000 on our revolving line of credit. The financing proceeds was also tied to the buyback of stock at time of the vesting of stock grants for the payment of payroll taxes.

During the first nine months of 2014, financing activities provided $19,349,000 in cash mainly due to the timing of net borrowings on the Company's line-of-credit. This increase in the line-of-credit was partially offset by the payment of payroll taxes on vested stock grants and $8,000,000 in payments on the line-of-credit. At September 30, 2014, there was an outstanding balance of $20,200,000 on our line-of-credit, $10,000,000 of which was associated with the purchase of DMB TMV LLC's interest in TMV LLC.

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

Capital Structure and Financial Condition

At September 30, 2015, total capitalization at book value was $402,312,000 consisting of $74,277,000 of long-term debt and $328,035,000 of equity, resulting in a long-term debt-to-total-capitalization ratio of approximately 18.5%, which is slightly lower than the long-term debt-to-total-capitalization ratio at December 31, 2014.

The Company has a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. 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 TMV 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 September 30, 2015 the RLC had an outstanding balance of $8,940,000. As of November 6, 2015, the RLC had no outstanding balance. At December 31, 2014, the RLC had an outstanding balance of $6,850,000.

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.

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 September 30, 2015 and December 31, 2014, 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 $4,277,000. 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. The shelf registration allows for efficient and timely access to capital markets and when combined with our other potential funding sources just noted, provides us with a variety of capital funding options that can then be used and appropriately matched to the funding need.

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 3,000,000 warrants to purchase shares of Company common stock, par value $0.50 per share, or Warrants, to holders of record of Common Stock as of August 21, 2013, the Record Date. The Warrants were distributed to shareholders on August 28, 2013. Each Warrant entitles the holder to purchase one share of Common Stock at an initial exercise price of $40.00 per share and will be exercisable through August 31, 2016, subject to the Company's right to accelerate the expiration date under certain circumstances when the Warrants are in-the-money. Each holder of Common Stock as of the Record Date received a number of Warrants equal to the number of shares held multiplied by 0.14771, rounded to the nearest whole number. No cash or other consideration was paid in respect of any fractional Warrants that were rounded down. The Company issued the Warrants pursuant to a Warrant Agreement, dated as of August 7, 2013, between the Company, Computershare, Inc. and Computershare Trust Company, N.A., as warrant agent. Proceeds received from the exercise of the Warrants will be used to provide additional working capital for general corporate purposes, including development activities within the Company's industrial and residential projects and to continue its investments into water assets and water facilities.

As noted above, at September 30, 2015, we had $37,218,000 in cash and securities and had $21,060,000 available on credit lines to meet any short-term liquidity needs.

We continue to expect that substantial future investments will be required in order to develop our land assets. In order to meet these long-term capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we will use other capital alternatives such as joint ventures

with financial partners, sales of assets, and the issuance of common stock. We will use a combination of the above funding sources to properly match funding requirements with the assets or development project being funded. There is no assurance 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 September 30, 2015, to be paid over the next five years and thereafter:

	Payments Due by Period				
(In thousands)	Total	One Year or Less	Years 2-3	Years 4-5	After 5 Years
CONTRACTUAL OBLIGATIONS:					
Estimated water payments	$274,574	$8,040	$16,517	$17,127	$232,890
Long-term debt	74,277	62	4,475	7,844	61,896
Interest on long-term debt	22,233	3,011	5,788	5,146	8,288
Revolving line of credit borrowings	8,940	8,940	—	—	—
Cash contract commitments	8,484	6,275	1,138	—	1,071
Defined Benefit Plan	3,477	175	485	696	2,121
SERP	4,105	438	882	884	1,901
Tejon Ranch Conservancy	5,200	800	1,600	1,600	1,200
Financing fees and interest	190	190	—	—	—
Total contractual obligations	$401,480	$27,931	$30,885	$33,297	$309,367

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.

As discussed in Note 12 (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 $600,000 to the pension plan over the next twelve months.

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. Also, included in the cash contract commitments are estimated fees earned during the second quarter of 2014 by a consultant, related to the entitlement of the Grapevine Development Area. 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.

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 through 2044. Please refer to Note 4 (Long-Term Water Assets) of the Notes to Unaudited Consolidated Financial Statements for additional information regarding water assets.

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Off-Balance Sheet Arrangements

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

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

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 $39,750,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $80,250,000 of additional bond debt authorized by TRPFFA.

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

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 September 30, 2015.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Financial Market Risks

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

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields and prudently managing risk. To achieve this objective and limit interest rate exposure, we limit our investments to securities with a maturity of less than 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 $8,940,000. 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 $4,277,000 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. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and periodic credit evaluations of our customers' financial conditions, we believe our credit risk is minimal. Market risk related to our farming inventories is discussed below in the section pertaining to commodity price exposure.

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

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At September 30, 2015
(In thousands except percentage data)

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value at 09/30/2015
Assets:								
Marketable securities	$900	$8,327	$9,307	$13,150	$2,072	$—	$33,756	$33,706
Weighted average interest rate	0.53 %	0.92 %	1.33 %	1.73 %	1.80 %	— %	1.39 %	
Liabilities:								
Revolving line of credit	$8,940	$—	$—	$—	$—	$—	$8,940	$8,940
Weighted average interest rate (Revolving line of credit)	1.69 %	— %	— %	— %	— %	— %	1.69 %	
Long-term debt ($4.75M note)	$62	$255	$266	$277	$289	$3,128	$4,277	$4,277
Weighted average interest rate ($4.75M note)	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	$58,768	$70,000	$70,000
Weighted average interest rate ($70.0M note)	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, 2014
(In thousands except percentage data)

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value at 12/31/2014
Assets:								
Marketable securities	$17,198	$10,334	$9,688	$4,892	$—	$—	$42,112	$ 42,140
Weighted average interest rate	1.50 %	1.29 %	1.28 %	1.52 %	— %	— %	1.40 %	
Liabilities:								
Revolving line of credit	$6,850	$—	$—	$—	$—	$—	$6,850	$ 6,850
Weighted average interest rate (Revolving line of credit)	1.67 %	— %	— %	— %	— %	— %	— %	
Long-term debt ($4.75M note)	$244	$255	$266	$277	$289	$3,128	$4,459	$ 4,459
	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	

Weighted average interest rate ($4.75M note)								
Long-term debt ($70.0M note)	$—	$561	$3,393	$3,563	$3,715	$58,768	$70,000	$ 70,000
Weighted average interest rate ($70.0M note)	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	

Commodity Price Exposure

As of September 30, 2015, 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 $7,131,000 of accounts receivable outstanding at September 30, 2015, $1,637,000 or 27%, is at risk to changing prices. Of the amount at risk to changing prices, $183,000 is attributable to pistachios and $1,454,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2014 was $5,193,000, or 61% of the total accounts receivable of $8,506,000.

The price estimated for recording accounts receivable for pistachios recorded at September 30, 2015 was $2.88 per pound, as compared to $2.76 per pound at December 31, 2014. For each $0.01 change in the price of pistachios, our receivable for pistachios increases or decreases by $635. 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 $4.39 per pound, as compared to $3.89 per pound at December 31, 2014. For each $0.01 change in the price of almonds, our receivable for almonds increases or decreases by $600. 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 11. 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

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

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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
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	
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.

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.

SIGNATURES

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

TEJON RANCH CO.
(The Company)

November 9, 2015 DATE	BY	/s/ Allen E. Lyda Allen E. Lyda Executive Vice President, Chief Financial Officer
November 9, 2015 DATE	BY	/s/ Robert D. Velasquez Robert D. Velasquez Vice President of Finance, Chief Accounting Officer

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