

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

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2020

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: 1-07183



**TEJON RANCH CO.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**77-0196136**

(I.R.S. Employer Identification No.)

**P.O. Box 1000, Tejon Ranch, California 93243**

(Address of principal executive offices) (Zip Code)

**(661) 248-3000**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Trading symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, \$0.50 par value</b>	<b>TRC</b>	<b>New York Stock Exchange</b>

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of the Company's outstanding shares of Common Stock on October 31, 2020 was 26,236,852.

**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 OPERATIONS**  
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Real estate - commercial/industrial	\$ 2,710	\$ 2,620	\$ 7,144	\$ 12,041
Mineral resources	1,322	1,559	9,276	8,351
Farming	8,537	4,602	9,698	6,303
Ranch operations	944	876	2,483	2,570
<b>Total revenues</b>	<b>13,513</b>	<b>9,657</b>	<b>28,601</b>	<b>29,265</b>
<b>Costs and Expenses:</b>				
Real estate - commercial/industrial	2,026	1,968	5,704	8,353
Real estate - resort/residential	273	582	1,225	1,872
Mineral resources	648	576	5,240	5,006
Farming	8,108	5,979	10,909	8,402
Ranch operations	1,164	1,260	3,748	4,003
Corporate expenses	2,121	1,760	7,148	6,524
<b>Total expenses</b>	<b>14,340</b>	<b>12,125</b>	<b>33,974</b>	<b>34,160</b>
Operating loss	(827)	(2,468)	(5,373)	(4,895)
<b>Other Income:</b>				
Investment income	455	294	834	972
(Loss) gain on sale of real estate	(2)	—	1,331	—
Other income, net	68	19	64	67
<b>Total other income</b>	<b>521</b>	<b>313</b>	<b>2,229</b>	<b>1,039</b>
Loss from operations before equity in earnings of unconsolidated joint ventures	(306)	(2,155)	(3,144)	(3,856)
Equity in earnings of unconsolidated joint ventures, net	1,093	2,199	3,629	5,046
Income before income tax expense	787	44	485	1,190
Income tax expense	403	7	1,111	320
Net income (loss)	384	37	(626)	870
Net loss attributable to non-controlling interest	(14)	(10)	(9)	(3)
Net income (loss) attributable to common stockholders	\$ 398	\$ 47	\$ (617)	\$ 873
Net income (loss) per share attributable to common stockholders, basic	\$ 0.02	\$ 0.00	\$ (0.02)	\$ 0.03
Net income (loss) per share attributable to common stockholders, diluted	\$ 0.02	\$ 0.00	\$ (0.02)	\$ 0.03

See accompanying notes.

**TEJON RANCH CO. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 384	\$ 37	\$ (626)	\$ 870
Other comprehensive gain (loss):				
Unrealized (loss) gain on available-for-sale securities	(80)	59	(22)	443
Unrealized gain (loss) on interest rate swap	360	(1,195)	(3,965)	(3,888)
Other comprehensive gain (loss) before taxes	280	(1,136)	(3,987)	(3,445)
(Expense) benefit for income taxes related to other comprehensive income items	(78)	239	1,088	723
Other comprehensive gain (loss)	202	(897)	(2,899)	(2,722)
Comprehensive income (loss)	586	(860)	(3,525)	(1,852)
Comprehensive loss attributable to non-controlling interests	(14)	(10)	(9)	(3)
Comprehensive income (loss) attributable to common stockholders	\$ 600	\$ (850)	\$ (3,516)	\$ (1,849)

See accompanying notes.

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

	September 30, 2020 (unaudited)	December 31, 2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 36,155	\$ 27,106
Marketable securities - available-for-sale	14,199	39,084
Accounts receivable	9,731	9,950
Inventories	4,563	2,792
Prepaid expenses and other current assets	2,329	3,252
Total current assets	66,977	82,184
Real estate and improvements - held for lease, net	17,751	18,674
Real estate development (includes \$107,528 at September 30, 2020 and \$104,491 at December 31, 2019, attributable to Centennial Founders, LLC, Note 15)	309,917	297,581
Property and equipment, net	45,812	45,072
Investments in unconsolidated joint ventures	37,163	38,240
Net investment in water assets	56,104	54,155
Deferred tax assets	1,272	713
Other assets	2,068	2,803
<b>TOTAL ASSETS</b>	<b>\$ 537,064</b>	<b>\$ 539,422</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$ 3,530	\$ 6,145
Accrued liabilities and other	4,395	3,463
Deferred income	2,168	1,346
Current maturities of long-term debt	4,251	4,182
Total current liabilities	14,344	15,136
Long-term debt, less current portion	53,672	57,476
Long-term deferred gains	5,550	5,731
Other liabilities	18,491	15,455
Total liabilities	92,057	93,798
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, \$0.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 26,229,307 at September 30, 2020 and 26,096,797 at December 31, 2019	13,114	13,048
Additional paid-in capital	341,587	338,745
Accumulated other comprehensive loss	(9,670)	(6,771)
Retained earnings	84,610	85,227
Total Tejon Ranch Co. Stockholders' Equity	429,641	430,249
Non-controlling interest	15,366	15,375
Total equity	445,007	445,624
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 537,064</b>	<b>\$ 539,422</b>

See accompanying notes.

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

	Nine Months Ended September 30,	
	2020	2019
<b>Operating Activities</b>		
Net (loss) income	\$ (626)	\$ 870
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,635	3,562
Amortization of premium/discount of marketable securities	21	(80)
Equity in earnings of unconsolidated joint ventures, net	(3,629)	(5,046)
Non-cash retirement plan expense	59	230
Non-cash profits recognized from land contribution	—	(1,667)
Non-cash write-off of leasing assets	110	—
Gain on sale of property plant and equipment	(1,318)	—
Stock compensation expense	3,566	1,930
Excess tax benefit from stock-based compensation	529	52
Distribution of earnings from unconsolidated joint ventures	6,269	—
Changes in operating assets and liabilities:		
Receivables, inventories, prepaids and other assets, net	235	3,656
Current liabilities	(1,263)	(2,952)
Net cash provided by operating activities	7,588	555
<b>Investing Activities</b>		
Maturities and sales of marketable securities	30,452	37,274
Funds invested in marketable securities	(5,610)	(20,425)
Real estate and equipment expenditures	(15,407)	(19,195)
Proceeds from sale of real estate/assets	2,000	—
Investment in unconsolidated joint ventures	(2,090)	(3,100)
Distribution of equity from unconsolidated joint ventures	100	487
Investments in long-term water assets	(2,633)	(3,553)
Net cash provided by (used in) investing activities	6,812	(8,512)
<b>Financing Activities</b>		
Borrowings of line-of-credit	—	5,000
Repayments of long-term debt	(3,767)	(2,994)
Taxes on vested stock grants	(1,584)	(844)
Net cash (used in) provided by financing activities	(5,351)	1,162
Increase (decrease) in cash and cash equivalents	9,049	(6,795)
Cash and cash equivalents at beginning of period	27,106	15,908
<b>Cash and cash equivalents at end of period</b>	<b>\$ 36,155</b>	<b>\$ 9,113</b>

**Non-cash investing activities**

Accrued capital expenditures included in current liabilities	\$ 1,484	\$ 191
Accrued long-term water assets included in current liabilities	\$ 254	\$ —
Contribution to unconsolidated joint venture	\$ —	\$ 5,854 <sup>1</sup>
Long term deferred profit on land contribution	\$ —	\$ 1,532 <sup>1</sup>

<sup>1</sup> In April 2019, the Company contributed land with a fair value of \$5.9 million to TRC-MRC 3, LLC an unconsolidated joint venture formed to pursue the development, construction, leasing, and management of a 579,040 square foot industrial building on the Company's property at TRCC-East. The total cost of the land, inclusive of transaction costs was \$2.9 million. The Company recognized \$1.5 million in profit and deferred \$1.5 million of profit after applying the five-step revenue recognition model in accordance with Accounting Standards Codification (ASC) Topic 606 — Revenue From Contracts With Customers and ASC Topic 323, Investments — Equity Method and Joint Ventures. Historically, cash outflows related to land development expenditures were accounted for within investing activities. For consistency, the Company will continue to classify cash outflows and cash inflows related to land development as investing activities.

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 (Loss) Income	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Balance, June 30, 2020</b>	26,221,862	\$ 13,110	\$ 340,147	\$ (9,872)	\$ 84,212	\$ 427,597	\$ 15,380	\$ 442,977
Net income (loss)	—	—	—	—	398	398	(14)	384
Other comprehensive income	—	—	—	202	—	202	—	202
Restricted stock issuance	7,445	4	(4)	—	—	—	—	—
Stock compensation	—	—	1,444	—	—	1,444	—	1,444
Shares withheld for taxes and tax benefit of vested shares	—	—	—	—	—	—	—	—
<b>Balance, September 30, 2020</b>	<u>26,229,307</u>	<u>\$ 13,114</u>	<u>\$ 341,587</u>	<u>\$ (9,670)</u>	<u>\$ 84,610</u>	<u>\$ 429,641</u>	<u>\$ 15,366</u>	<u>\$ 445,007</u>
<b>Balance, June 30, 2019</b>	26,033,402	\$ 13,017	\$ 337,870	\$ (6,682)	\$ 75,473	\$ 419,678	\$ 15,383	\$ 435,061
Net income (loss)	—	—	—	—	47	47	(10)	37
Other comprehensive loss	—	—	—	(897)	—	(897)	—	(897)
Restricted stock issuance	8,128	4	(4)	—	—	—	—	—
Stock compensation	—	—	225	—	—	225	—	225
Shares withheld for taxes and tax benefit of vested shares	—	—	—	—	—	—	—	—
<b>Balance, September 30, 2019</b>	<u>26,041,530</u>	<u>\$ 13,021</u>	<u>\$ 338,091</u>	<u>\$ (7,579)</u>	<u>\$ 75,520</u>	<u>\$ 419,053</u>	<u>\$ 15,373</u>	<u>\$ 434,426</u>



	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Balance, December 31, 2019</b>	26,096,797	\$ 13,048	\$ 338,745	\$ (6,771)	\$ 85,227	\$ 430,249	\$ 15,375	\$ 445,624
Net loss	—	—	—	—	(617)	(617)	(9)	(626)
Other comprehensive loss	—	—	—	(2,899)	—	(2,899)	—	(2,899)
Restricted stock issuance	247,720	124	(124)	—	—	—	—	—
Stock compensation	—	—	4,492	—	—	4,492	—	4,492
Shares withheld for taxes and tax benefit of vested shares	(115,210)	(58)	(1,526)	—	—	(1,584)	—	(1,584)
<b>Balance, September 30, 2020</b>	<u>26,229,307</u>	<u>\$ 13,114</u>	<u>\$ 341,587</u>	<u>\$ (9,670)</u>	<u>\$ 84,610</u>	<u>\$ 429,641</u>	<u>\$ 15,366</u>	<u>\$ 445,007</u>
<b>Balance, December 31, 2018</b>	25,972,080	\$ 12,986	\$ 336,520	\$ (4,857)	\$ 74,647	\$ 419,296	\$ 15,376	\$ 434,672
Net income	—	—	—	—	873	873	(3)	870
Other comprehensive loss	—	—	—	(2,722)	—	(2,722)	—	(2,722)
Restricted stock issuance	114,599	57	(57)	—	—	—	—	—
Stock compensation	—	—	2,450	—	—	2,450	—	2,450
Shares withheld for taxes and tax benefit of vested shares	(45,149)	(22)	(822)	—	—	(844)	—	(844)
<b>Balance, September 30, 2019</b>	<u>26,041,530</u>	<u>\$ 13,021</u>	<u>\$ 338,091</u>	<u>\$ (7,579)</u>	<u>\$ 75,520</u>	<u>\$ 419,053</u>	<u>\$ 15,373</u>	<u>\$ 434,426</u>

See accompanying notes.

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

**1. BASIS OF PRESENTATION**

The summarized information of Tejon Ranch Co. and its subsidiaries (the Company or Tejon), provided pursuant to Part I, Item 1 of Form 10-Q, is unaudited and reflects all adjustments which are, in the opinion of the Company's management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature. The Company has evaluated subsequent events through the date of issuance of its consolidated financial statements.

The periods ending September 30, 2020 and December 31, 2019 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, 2020 and December 31, 2019 balance sheets and statements of changes in equity and noncontrolling interests are presented on a consolidated basis, including the consolidation of Centennial Founders, LLC.

The Company has identified five reportable segments: commercial/industrial real estate development, resort/residential real estate development, mineral resources, farming, and ranch operations. Information for the Company's reportable segments are presented in its Consolidated Statements of Operations. The Company's reportable segments follow the same accounting policies used for the Company's consolidated financial statements. The Company uses segment profit or loss and equity in earnings of unconsolidated joint ventures as the primary measures of profitability to evaluate operating performance and to allocate capital resources.

The results of the period reported herein are not indicative of the results to be expected for the full year due to the seasonal nature of the Company's agricultural activities, water activities, timing of real estate sales and leasing activities. The coronavirus, COVID-19, has also brought additional uncertainty previously unseen. Historically, the Company's largest percentages of farming revenues are recognized during the third and fourth quarters of the fiscal year. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

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, 2019.

**Recent Accounting Pronouncements**

*Lease Concessions Related to COVID-19 Pandemic*

In April 2020, the Financial Accounting Standards Board, or FASB, issued a Staff Question-and-Answer, or Q&A, intending to reduce the operational challenges and complexity of accounting for leases at a time when many businesses have been ordered to close or have seen their revenue drop due to the effect of the COVID-19 pandemic. The FASB determined that it would be appropriate for entities to make a policy election regarding how to account for lease concessions resulting directly from COVID-19. Rather than analyzing each lease contract individually, entities can elect to account for lease concessions "as though the enforceable rights and obligations for those concessions existed, regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract." Accordingly, entities that choose to apply the relief provided by the FASB can either (1) apply the modification framework for these concessions in accordance with ASC Topic 840 or ASC Topic 842 as applicable or (2) account for the concessions as if they were made under the enforceable rights included in the original agreement and are thus outside of the modification framework. In making this election, an entity would not need to perform a lease-by-lease analysis to evaluate the enforceable rights and may instead simply treat the change as if the enforceable rights were included or excluded in the original agreement. The election not to apply lease modification accounting is only available when total cash flows resulting from the modified contract are "substantially the same or less" than the cash flows in the original contract.

The Company has elected to account for lease concessions outside of the modification framework based on the FASB Q&A, and is continuing to assess the impact of the Q&A in light of our ongoing negotiations with tenants. The COVID-19 pandemic has resulted in tenant requests for rent relief, with a majority of the requests occurring in the second quarter. As of September 30, 2020, the Company reached agreements with all of our commercial tenants on their respective rent deferral requests. For the nine months ended September 30, 2020, the Company retained 87% of rent billings and agreed to defer 13% of rent billings, or \$163,000. Based on the terms of the agreements reached with our tenants, all of deferred rent will be fully repaid by the end of 2021. The Company will account for the rent receivables as if no changes to the lease contract were made, and the rent receivable for the deferral period will stay on the Company's Consolidated Balance Sheet until the rent is collected over the passage of time.

### *Reference Rate Reform*

In March 2020, the FASB issued Accounting Standards Update, or ASU No. 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting", for reference rate reform related activities that impact debt, leases, derivatives and other contracts. The pronouncement provides optional expedients for a limited period of time to ease the potential burden of accounting for reference rate reform. Specifically, the ASU permits modification of contracts within ASC Topic 470, Debt, to be accounted for by prospectively adjusting the effective interest rate when a contract is modified because of reference rate reform. It also provides exceptions to the guidance in ASC Topic 815 related to changes to critical terms of a hedging relationship: the change in reference rate will not result in de-designation of a hedging relationship if certain criteria are met. This guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company expects to utilize this optional guidance but do not expect it to have a material effect on our consolidated financial statements.

### **Newly Adopted Accounting Pronouncements**

#### *Allowance for Credit Losses*

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326)," changing the impairment model for most financial instruments by requiring companies to recognize an allowance for expected losses, rather than incurred losses as required currently by the other-than-temporary impairment model. The ASU will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, available-for-sale and held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures.

In November 2019, the FASB issued ASU No. 2019-10, changing effective dates for the new standards to give implementation relief to certain types of entities. The Company was required to adopt the new standards no later than January 1, 2023 according to ASU 2019-10, with early adoption allowed.

The Company adopted the new standards on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements. The Company's accounts receivable balance is primarily composed of crop receivables. Based on the short-term nature of these contracts, historical experience with current customers, periodic credit evaluations of the customers' financial conditions, the current economic environment and rent deferrals negotiated with tenants the Company believes its credit risk is minimal. With regards to marketable securities, the Company limits its investment to securities with investment grade ratings from Moody's or Standard and Poor's. As the Company does not have a current intent to sell securities and it is more likely than not that the Company will not be required to sell securities before recovery of their amortized cost basis, no allowance for credit losses was recorded.

#### *Fair Value of Financial Instruments*

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement." This ASU removes certain disclosure requirements related to the fair value hierarchy, such as the disclosure of amounts and reasons for transfers between Level 1 and Level 2, and adds new disclosure requirements, such as the disclosure of the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurement. The Company adopted the new standard on January 1, 2020, and the adoption did not have a material impact on its consolidated financial statements, as the Company does not have financial instruments classified as Level 3.

#### *Retirement Benefits*

In August 2018, the FASB issued ASU No. 2018-14, "Changes to the Disclosure Requirements for Defined Benefit Plans." This ASU removes certain disclosure requirements, including the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year and the amount and timing of plan assets expected to be returned to the employer. This ASU also requires additional disclosures for the weighted average interest crediting rates for cash balance plans and explanations for significant gains and losses related to changes in the benefit plan obligation. This ASU is effective for fiscal years ending after December 15, 2020. The Company adopted the new standard on January 1, 2020, and the adoption did not have a material impact on its consolidated financial statements and related disclosures.

Please also refer to Critical Accounting Policies in Part I, Item 2 of this report for a discussion of changes to critical accounting policies.

## 2. EQUITY

### Earnings Per Share (EPS)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted average number of shares outstanding:				
Common stock	26,229,226	26,041,353	26,193,058	26,022,022
Common stock equivalents	57,484	195,957	157,579	194,699
Diluted shares outstanding	26,286,710	26,237,310	26,350,637	26,216,721

## 3. MARKETABLE SECURITIES

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

(\$ in thousands)

	Fair Value Hierarchy	September 30, 2020		December 31, 2019	
		Cost	Fair Value	Cost	Fair Value
Marketable Securities:					
Certificates of deposit					
with unrealized losses for less than 12 months		\$ —	\$ —	\$ 251	\$ 250
with unrealized gains		1,799	1,806	1,799	1,806
Total Certificates of deposit	Level 1	1,799	1,806	2,050	2,056
U.S. Treasury and agency notes					
with unrealized losses for less than 12 months		—	—	6,485	6,479
with unrealized gains		5,347	5,360	14,413	14,434
Total U.S. Treasury and agency notes	Level 2	5,347	5,360	20,898	20,913
Corporate notes					
with unrealized losses for less than 12 months		1,113	1,112	1,004	1,002
with unrealized gains		3,912	3,920	13,082	13,106
Total Corporate notes	Level 2	5,025	5,032	14,086	14,108
Municipal notes					
with unrealized gains		1,999	2,001	1,999	2,007
Total Municipal notes	Level 2	1,999	2,001	1,999	2,007
		\$ 14,170	\$ 14,199	\$ 39,033	\$ 39,084

The Company adopted ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326)" on January 1, 2020 prospectively. Under ASC Topic 326-30, the Company is now required to use an allowance approach when recognizing credit loss for available-for-sale debt securities, measured as the difference between the security's amortized cost basis and the amount expected to be collected over the security's lifetime. Under this approach, at each reporting date, the Company records impairment related to credit losses through earnings offset with an allowance for credit losses, or ACL. At September 30, 2020 the Company has not recorded any credit losses.

At September 30, 2020, the fair market value of marketable securities was \$29,000 above their cost basis. The Company's gross unrealized holding gains equaled \$30,000 and gross unrealized holding losses equaled \$1,000. As of September 30, 2020, the adjustment to accumulated other comprehensive loss reflected an improvement in market value of \$22,000, including estimated taxes of \$6,000.

The Company elected to exclude applicable accrued interest from both the fair value and the amortized cost basis of the available-for-sale debt securities, and separately present the accrued interest receivable balance per ASC Topic 326-30-50-3A. The accrued interest receivables balance totaled \$107,000 as of September 30, 2020, and was included within the Other Assets line item of the Consolidated Balance Sheets. The Company elected not to measure an allowance for credit losses on accrued interest receivable as an allowance on possible uncollectible accrued interest is not warranted.

#### U.S. Treasury and agency notes

The unrealized losses on the Company's investments in U.S. Treasury and agency notes at December 31, 2019 were caused by relative changes in interest rates since the time of purchase. The contractual cash flows for these securities are guaranteed by U.S. government agencies. The unrealized losses on these debt security holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. As of December 31, 2019, the Company did not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities before recovery of their cost basis. Therefore, these investments did not require an ACL as of December 31, 2019.

#### Corporate notes

The contractual terms of those investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the investments. The unrealized losses on corporate notes are a function of changes in investment spreads and interest rate movements and not changes in credit quality. The Company expects to recover the entire amortized cost basis of these securities. As of September 30, 2020, the Company did not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities before recovery of their cost basis. Therefore, these investments did not require an ACL as of September 30, 2020.

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

(\$ in thousands)	September 30, 2020		
	2020	2021	Total
Certificates of deposit	\$ 1,799	\$ —	\$ 1,799
U.S. Treasury and agency notes	4,544	802	5,346
Corporate notes	3,050	1,950	5,000
Municipal notes	2,000	—	2,000
	<u>\$ 11,393</u>	<u>\$ 2,752</u>	<u>\$ 14,145</u>

(\$ in thousands)	December 31, 2019		
	2020	2021	Total
Certificates of deposit	\$ 2,049	\$ —	\$ 2,049
U.S. Treasury and agency notes	20,393	502	20,895
Corporate notes	13,685	400	14,085
Municipal notes	2,000	—	2,000
	<u>\$ 38,127</u>	<u>\$ 902</u>	<u>\$ 39,029</u>

The Company's investments in corporate notes are with companies that have an investment grade rating from Standard & Poor's as of September 30, 2020.

#### 4. REAL ESTATE

(\$ in thousands)	September 30, 2020	December 31, 2019
Real estate development		
Mountain Village	\$ 145,599	\$ 142,567
Centennial	107,528	104,491
Grapevine	36,471	34,813
Tejon Ranch Commerce Center	20,319	15,710
Real estate development	<u>309,917</u>	<u>297,581</u>
Real estate and improvements - held for lease		
Tejon Ranch Commerce Center	20,595	21,435
Less accumulated depreciation	(2,844)	(2,761)
Real estate and improvements - held for lease, net	<u>\$ 17,751</u>	<u>\$ 18,674</u>

#### 5. LONG-TERM WATER ASSETS

Long-term water assets consist of water and water contracts held for future use or sale. The water is held at cost, which includes the price paid for the water and the cost to pump and deliver the water from the California aqueduct into the water bank. Water is currently held in a water bank on Company land in southern Kern County and by the Tejon-Castac Water District (TCWD) in the Kern Water Banks.

The Company has secured State Water Project, or SWP, entitlement under long-term SWP water contracts within the Tulare Lake Basin Water Storage District, or Tulare Lake Basin, and the Dudley-Ridge Water District, or Dudley-Ridge, totaling 3,444 acre-feet of SWP entitlement annually, subject to SWP allocations. These contracts extend through 2035 and have been transferred to the Antelope Valley East Kern Water Agency, or AVEK, for use in the Antelope Valley. In 2013, the Company acquired a contract to purchase water that obligates the Company to purchase 6,693 acre-feet of water each year from Nickel Family, LLC, or Nickel, a California limited liability company that is located in Kern County.

The initial term of the water purchase agreement with Nickel runs to 2044 and includes a Company option to extend the contract for an additional 35 years. The purchase cost of water in 2020 is \$793 per acre-foot. The purchase cost is subject to annual cost increases based on the greater of the consumer price index or 3%.

Water purchases will ultimately be used in the development of the Company's land for commercial/industrial real estate development, resort/residential real estate 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, as just described.

Water revenues and cost of sales were as follows (\$ in thousands):

	September 30, 2020	September 30, 2019
Acre-Feet Sold	4,625	4,445
Revenues	\$ 5,471	\$ 3,980
Cost of sales	3,264	3,187
Profit	<u>\$ 2,207</u>	<u>\$ 793</u>

The costs assigned to water assets held for future use were as follows (\$ in thousands):

	September 30, 2020	December 31, 2019
Banked water and water for future delivery	\$ 28,091	\$ 25,265
Water available for banking, sales, or internal use	3,211	3,054
Total water held for future use at cost	<u>\$ 31,302</u>	<u>\$ 28,319</u>

### Intangible Water Assets

The Company's carrying amounts of its purchased water contracts were as follows (\$ in thousands):

	September 30, 2020		December 31, 2019	
	Costs	Accumulated Depreciation	Costs	Accumulated Depreciation
Dudley-Ridge water rights	\$ 11,581	\$ (4,704)	\$ 11,581	\$ (4,342)
Nickel water rights	18,740	(4,444)	18,740	(3,962)
Tulare Lake Basin water rights	6,479	(2,850)	6,479	(2,660)
	<u>\$ 36,800</u>	<u>\$ (11,998)</u>	<u>\$ 36,800</u>	<u>\$ (10,964)</u>
Net cost of purchased water contracts	24,802		25,836	
Total cost water held for future use	31,302		28,319	
Net investments in water assets	<u>\$ 56,104</u>		<u>\$ 54,155</u>	

Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, and TCWD are also in place, but were entered into with each district at the inception of the respective contracts, were not purchased later from third parties, and do not have a related financial value on the books of the Company. Therefore, there is no amortization expense related to these contracts. Total water resources, including both recurring and one-time usage, are:

(in acre-feet, unaudited)	September 30, 2020	December 31, 2019
Water held for future use		
TCWD - Banked water owned by the Company	61,054	60,555
Company water bank	50,349	50,349
Water available for banking, sales, or internal use	<u>6,272</u>	<u>3,252</u>
Total water held for future use	117,675	114,156
Purchased water contracts		
Water Contracts (Dudley-Ridge, Nickel and Tulare)	10,137	10,137
WRMWSD - Contracts with the Company	15,547	15,547
TCWD - Contracts with the Company	<u>5,749</u>	<u>5,749</u>
Total purchased water contracts	31,433	31,433
Total water held for future use and purchased water contracts	<u>149,108</u>	<u>145,589</u>

The Company entered into a Water Supply Agreement with Pastoria Energy Facility, L.L.C., or PEF, in 2015. PEF is a current lessee of the Company under a power plant lease. Pursuant to the Water Supply Agreement, PEF may purchase from the Company up to 3,500 acre-feet of water per year until July 31, 2030, with an option to extend the term. PEF is under no obligation to purchase water from the Company in any year, but is required to pay the Company an annual option payment equal to 30% of the maximum annual payment. The price of the water under the Water Supply Agreement for 2020 is \$1,154 per acre-foot, subject to 3% annual increases over the life of the contract. The Water Supply Agreement contains other customary terms and conditions, including representations and warranties that, are typical for agreements of this type. The Company's commitments to sell water can be met through current water assets.

## 6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

(\$ in thousands)	September 30, 2020	December 31, 2019
Accrued vacation	\$ 815	\$ 799
Accrued paid personal leave	402	419
Accrued bonus	1,557	1,700
Property tax payable <sup>1</sup>	1,113	—
Other	508	545
	<u>\$ 4,395</u>	<u>\$ 3,463</u>

<sup>1</sup>California property taxes are accrued during the first and third quarters and are paid every April and December.

## 7. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

(\$ in thousands)	September 30, 2020	December 31, 2019
Notes payable	\$ 58,129	\$ 61,897
Less: current maturities of long-term debt	(4,251)	(4,182)
Less: deferred loan costs	(206)	(239)
Long-term debt, less current portion	<u>\$ 53,672</u>	<u>\$ 57,476</u>

In August 2019, the Company amended its existing term note (the Term Note and, as amended, the Amended Term Note) with Wells Fargo and extended its maturity to June 5, 2029. The Amended Term Note had an outstanding balance of \$55,879,000 as of September 30, 2020, and \$58,768,000 as of December 31, 2019. The interest rate per annum applicable to the Amended Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the Amended Term Note has been fixed at 4.16% through the use of an interest rate swap agreement. The Amended Term Note requires monthly amortization payments, with the outstanding principal amount due June 5, 2029. The Amended Term Note is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables; the PEF power plant lease and lease site; and related accounts and other rights to payment and inventory.

In August 2019, the Company also increased the capacity of its revolving line of credit (RLC) with Wells Fargo to \$35,000,000 from \$30,000,000 and extended its maturity to October 5, 2024. The RLC had no outstanding balance as of September 30, 2020 and December 31, 2019. 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 this RLC, the Company can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary.

Any future borrowings under the RLC are expected to 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, which are typical in this type of borrowing arrangement.

The Amended Term Note and RLC, collectively, the Amended Credit Facility, require compliance with three financial covenants: (i) total liabilities divided by tangible net worth of not greater than 0.75 to 1.0 at each quarter end; (ii) a debt service coverage ratio of not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (iii) liquid assets equal to or greater than \$20,000,000, including availability on RLC. At September 30, 2020 and December 31, 2019, the Company was in compliance with these financial covenants.

The Amended Credit Facility also contains customary negative covenants that limit the ability of the Company to, among other things, make capital expenditures, incur indebtedness and issue guaranties, consummate certain assets sales, acquisitions or mergers, make investments, pay dividends or repurchase stock, or incur liens on any assets.



The Amended Credit Facility also contains customary events of default, including: failure to make required payments; failure to comply with the terms of the Amended Credit Facility; bankruptcy and insolvency; and a change in control without consent of the bank (which consent will not be unreasonably withheld). The Amended Credit Facility contains other customary terms and conditions, including representations and warranties, which are typical for credit facilities of this type.

In 2013, Tejon entered into a promissory note agreement, secured by real estate, with CMFG Life Insurance Company 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 monthly principal and interest payments of \$36,000 ending on September 1, 2028. In March 2020, the Company made an additional payment of \$687,000 that was applied to the principal of the note. Subsequent principal and interest payments were reduced to \$28,000 per month. The additional principal payment was tied to the release of collateral, which in April 2020 was contributed to Petro Travel Plaza, LLC. The current balance on the note was \$2,250,000 on September 30, 2020. The balance of this long-term debt instrument included in "Notes payable" above approximates the fair value of the instrument.

## 8. OTHER LIABILITIES

Other liabilities consist of the following:

(\$ in thousands)	September 30, 2020	December 31, 2019
Pension liability (Note 13)	\$ 1,447	\$ 1,790
Interest rate swap liability (Note 10)	6,682	2,716
Supplemental executive retirement plan liability (Note 13)	7,851	8,011
Excess joint venture distributions and other	2,511	2,938
Total	<u>\$ 18,491</u>	<u>\$ 15,455</u>

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

## 9. STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS

The Company's stock incentive plans provide for the making of awards to employees based upon a service condition or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with service condition vesting; performance share grants that only vest upon the achievement of specified performance conditions, such as corporate cash flow goals or share price, or Performance Condition Grants; and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance measures, or Performance Milestone Grants. Performance Condition Grants with market-based conditions are based on the achievement of a target share price. The share price used to calculate vesting for market-based awards is determined using a *Monte Carlo* simulation. Failure to achieve the target share price will result in the forfeiture of shares. Forfeiture of share awards with service conditions or performance-based restrictions will result in a reversal of previously recognized share-based compensation expense. Forfeiture of share awards with market-based restrictions do not result in a reversal of previously recognized share-based compensation expense.

The following is a summary of the Company's Performance Condition Grants as of the nine months ended September 30, 2020:

	Performance Condition Grants
Threshold performance	67,713
Target performance	621,515
Maximum performance	1,063,367

The following is a summary of the Company's stock grant activity, both time and performance share grants, assuming target achievement for outstanding performance grants for the nine months ended September 30, 2020:

	September 30, 2020
Stock Grants Outstanding Beginning of Period at Target Achievement	409,373
New Stock Grants/Additional Shares due to Achievement in Excess of Target	777,970
Vested Grants	(224,441)
Expired/Forfeited Grants	—
Stock Grants Outstanding End of Period at Target Achievement	<u>962,902</u>

The following is a summary of the assumptions used to determine the price for the Company's market-based Performance Condition Grants for the nine months ended September 30, 2020:

(\$ in thousands except for share prices)

Grant date	December 12, 2019	March 11, 2020
Vesting end	December 31, 2022	December 31, 2022
Share price at target achievement	\$18.80	\$16.36
Expected volatility	17.28%	18.21%
Risk-free interest rate	1.69%	0.58%
Simulated Monte Carlo share price	\$11.95	\$5.87
Shares granted	<u>6,327</u>	<u>81,716</u>
Total fair value of award	\$76	\$480

The unamortized cost associated with unvested stock grants and the weighted average period over which it is expected to be recognized as of September 30, 2020 were \$9,464,000 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. The fair value of performance grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company's stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance grants that contain a range of shares from zero to a maximum, the Company determined, based on historic and projected results, the probability of (1) achieving the performance objective and (2) the level of achievement. Based on this information, the Company determines the fair value of the award and measures the expense over the service period related to these grants. Because the ultimate vesting of all performance grants is tied to the achievement of a performance condition, the Company estimates whether the performance condition will be met and over what period of time. Ultimately, the Company will adjust stock compensation costs according to the actual outcome of the performance condition.

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-end stock price.

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

(\$ in thousands) Employee Plan:	Nine Months Ended September 30,	
	2020	2019
Expensed	\$ 3,239	\$ 1,523
Capitalized	926	520
	4,165	2,043
NDSI Plan - Expensed	327	407
Total Stock Compensation Costs	\$ 4,492	\$ 2,450

## 10. INTEREST RATE SWAP

In October 2014, the Company entered into an interest rate swap agreement to reduce its exposure to fluctuations in the floating interest rate tied to LIBOR under the Term Note, as discussed in Note 7 (Line of Credit and Long-Term Debt). On June 21, 2019, the Company amended the interest rate swap agreement to continue to hedge a portion of its exposure to interest rate risk from the Term Note, and, subsequently, the Amended Term Note. The original hedging relationship was de-designated, and the amended interest rate swap was re-designated simultaneously. The amended interest rate swap qualified as an effective cash flow hedge at the initial assessment based upon a regression analysis and is recorded at fair value.

During the quarter ended September 30, 2020, the interest rate swap agreement was deemed highly effective. Changes in fair value, including accrued interest and adjustments for non-performance risk, that qualify as cash flow hedges are classified in AOCI. Amounts classified in AOCI are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings.

As of September 30, 2020, the fair value of the interest rate swap agreement was less than its cost basis and as such is recorded within Other Liabilities on the Consolidated Balance Sheets. The Company had the following outstanding interest rate swap agreement designated as an interest rate cash flow hedge as of September 30, 2020 and December 31, 2019 (\$ in thousands):

September 30, 2020					
Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Pay Rate	Fair Value	Notional Amount
July 5, 2019	June 5, 2029	Level 2	4.16%	\$(6,682)	\$55,879

  

December 31, 2019					
Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Pay Rate	Fair Value	Notional Amount
July 5, 2019	June 5, 2029	Level 2	4.16%	\$(2,716)	\$58,768

## 11. INCOME TAXES

The Company's provision for income taxes during the interim reporting periods has historically been calculated by applying an estimate of the annual effective tax rate for the full year to "ordinary" income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. The Company utilized a discrete effective tax rate method, as allowed by ASC 740-270 "Income Taxes—Interim Reporting," to calculate taxes for the three and nine months ended September 30, 2020. The Company determined that because there is a high degree of uncertainty in estimating annual pretax earnings, the historical method would not provide a reliable estimate for tax expense for the three- and nine-months ended September 30, 2020.

For the nine months ended September 30, 2020, the Company's income tax expense was \$1,111,000 compared to \$320,000 for the nine months ended September 30, 2019. Effective tax rates were 229% and 27% for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, the Company had income tax receivables of \$274,000. The Company classifies interest and penalties incurred on tax payments as income tax expense.

For the nine months ended September 30, 2020, the Company recognized income tax expense primarily as a result of permanent differences related to Section 162(m) limitations and discrete tax expense associated with stock compensation. The Section 162(m) compensation deduction limitations occurred as a result of changes in tax law arising from the 2017 Tax Cuts Jobs Act, which did not impact the Company until this year. The discrete item was triggered when stock grants were issued to participants at a price less than the original grant price, causing a deferred tax shortfall. The shortfall recognized during the quarter represents the reversal of excess deferred tax assets recognized in prior periods. The recognition of the shortfall is not anticipated to have an impact on the Company's current income tax payable.

## 12. COMMITMENTS AND CONTINGENCIES

### *Water Contracts*

The Company's land is subject to water contracts with minimum annual payments, for which \$10,943,000 is expected to be paid in total for 2020. As of September 30, 2020, the Company has paid \$10,144,000 for its water contracts. These estimated water contract payments consist of SWP contracts with WRMWSD, TCWD, Tulare Lake Basin, Dudley-Ridge, and the Nickel water contract. The SWP contracts run through 2035 and the Nickel water contract runs through 2044, with an option to extend an additional 35 years. Contractual obligations for future water payments were \$261,952,000 as of September 30, 2020.

### *Conservancy Payments*

The Company is obligated to make payments of approximately \$800,000 per year through 2021 to the Tejon Ranch Conservancy, as prescribed in the Conservation Agreement entered into with five major environmental organizations in 2008. 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 paid will be capitalized in real estate development for the Centennial, Grapevine and Mountain Village, or MV, projects.

#### *Contracts*

The Company exited a consulting contract during the second quarter of 2014 related to the Grapevine Development, or Grapevine project, and is obligated to pay an earned incentive fee at the time of its successful receipt of litigated project entitlements and at a value measurement date five-years after litigated entitlements have been achieved for Grapevine. The final amount of the incentive fee cannot be determined until such milestone is met. The Company believes as of September 30, 2020 that net savings from exiting the contract over this future time period will more than offset the incentive payment costs.

#### *Community Facilities Districts*

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. For the development of the Tejon Ranch Commerce Center, or TRCC, TRPFFA has created two Community Facilities Districts, or CFDs: the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company's land to secure payment of special taxes related to \$28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to \$55,000,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately \$65,000,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of the bonds, there is a standby letter of credit for \$4,393,000 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 \$68,000.

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 costs related to the TRCC-West development. At September 30, 2020, there were no additional improvement funds remaining from the West CFD bonds. There are no additional improvement funds remaining within the East CFD bonds for reimbursement of public infrastructure costs during future years. During fiscal 2020, the Company expects to pay approximately \$2,521,000 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 others. 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 was not required to recognize an obligation at September 30, 2020.

#### *Tehachapi Uplands Multiple Species Habitat Conservation Plan Litigation*

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, or CBD, the Wishtoyo Foundation and Dee Dominguez (collectively, the TUMSHCP Plaintiffs) intended to initiate a lawsuit against the U.S. Fish and Wildlife Service, or USFWS, 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, or ITP, for the take of federally listed species. The TUMSHCP approval and ITP issuance by the USFWS occurred in 2013. These approvals authorize, among other things, the removal of California condor habitat associated with the Company's potential future development of MV.

On April 25, 2019, the TUMSHCP Plaintiffs filed suit against the USFWS in the U.S. District Court for the Central District of California in Los Angeles (Case No. 2:19-CV-3322) (the TUMSHCP Suit). The Company was not initially named as a party in the TUMSHCP Suit and brought a motion to intervene, which the court granted. The TUMSHCP Suit seeks to invalidate the TUMSHCP as it pertains to the protection of the California condor (an endangered species), as well as the ITP.

The primary allegations in the TUMSHCP Suit are that California condors or their habitat are "Traditional Cultural Properties" within the meaning of the National Historic Preservation Act (NHPA), that the USFWS failed to take into account the impact of the TUMSHCP and ITP on these "Traditional Cultural Properties" and failed to adequately consult with affected Native American tribes or their representatives with respect to these "Traditional Cultural Properties."

Management considers the allegations in the TUMSHCP Suit to be beyond the scope of the law and regulations referenced in the TUMSHCP Suit, and believes that the issues raised by the TUMSHCP Plaintiffs were adequately addressed by USFWS during the consultation process with Native American tribes. The Company is supporting USFWS's efforts to vigorously defend this matter. On October 30, 2019, the TUMSCHCP Plaintiffs filed an amended complaint after the court previously granted the Company's motion to dismiss the TUMSCHCP Suit on the basis that the TUMSCHCP Plaintiffs lacked standing. The Company brought a second motion to dismiss on the same basis, which the court denied on December 18, 2019. In its December 18, 2019 ruling, the court ordered that the parties proceed to bring motions for summary judgment on the question of whether the USFWS correctly determined that the California condor is not a "Traditional Cultural Property" under the NHPA.

As of the date of this report, the USFWS has filed the record of its decision in order to adjudicate that question and the parties have agreed that the record is complete. On September 4, 2020, the TUMSCHCP Plaintiffs filed a motion for summary judgment. The USFWS and the Company are filing responsive briefs and counter motions for summary judgment in response to adjudicate the question presented by the court. At this time there is no hearing set for these motions for summary judgment.

The TUMSHCP Plaintiffs had previously raised essentially the same arguments regarding the Native American consultation process and the California condor in an earlier state court litigation. In that litigation, the California Court of Appeal rejected the TUMSHCP Plaintiffs' arguments as lacking merit in a decision issued on April 25, 2012. See *Center for Biological Diversity, et al. v. Kern County*, 2012 WL 1417682 (Case No. F061908).

As of September 30, 2020, the Company believes the TUMSHCP Suit does not impede its ability to start or complete the development of MV.

#### *National Cement*

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

The Company's former tenant Lafarge Corporation, or Lafarge, and current tenant National, continue to remediate these environmental conditions consistent with the RWQCB orders.

The Company is not aware of any failure by Lafarge or National to comply with directives of the RWQCB. Under current and prior leases, National and Lafarge are obligated to indemnify the Company for costs and liabilities arising out of their use of the leased premises. The remediation of environmental conditions is included within the scope of the National or Lafarge indemnity obligations. If the Company were required to remediate the environmental conditions at its own cost, it is unlikely that the amount of any such expenditure by the Company would be material and there is no reasonable likelihood of continuing risk from this matter.

#### *Antelope Valley Groundwater Cases*

On November 29, 2004, a conglomerate of public water suppliers filed a cross-complaint in the Los Angeles Superior Court against landowners and others with interest in the groundwater basin within the Antelope Valley (including the Company) 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 was in overdraft and established a current total sustainable yield. The fourth phase of trial occurred in the first half of 2013 and resulted in confirmation of each party's groundwater pumping for 2011 and 2012. The fifth phase of the trial commenced in February 2014 and concerned 1) whether the United States has a federal reserved water right to basin groundwater, and 2) the rights to return flows from imported water. The court heard evidence on the federal reserved right but continued the trial on the return flow issues while most of the parties to the adjudication discussed a settlement, including rights to return flows. In February 2015, more than 140 parties representing more than 99% of the current water use within the adjudication boundary agreed to a settlement. On March 4, 2015, the settling parties, including Tejon, submitted a Stipulation for Entry of Judgment and Physical Solution to the court for approval. On December 23, 2015, the court entered judgment approving the Stipulation for Entry of Judgment and Physical Solution, or the Judgment. The Company's water supply plan for the Centennial project anticipated reliance on, among other sources, a certain quantity of groundwater underlying the Company's lands in the Antelope Valley. The Company's allocation in the Judgment is consistent with that amount. Prior to the Judgment becoming final, on February 19 and 22, 2016, several parties, including the Willis Class and Phelan Pinon Hills Community Services District, filed notices of appeal from the Judgment. The Appeal has been transferred from the Fourth Appellate District of California to the Fifth Appellate District.

Appellate briefing on the Phelan Pinion Hills Community Services District appeal is complete and argument is scheduled for November 2020. Appellate briefing on the Willis Class and Tapia appeals will likely be complete in the fourth quarter of 2020, and oral argument will likely occur in the first quarter of 2021. Following oral argument, the court will likely take the matters under submission and issue one or more opinions within 90 days thereafter. Notwithstanding the appeals, the parties, with assistance from the court, have established the Watermaster Board, hired the Watermaster Engineer and Watermaster Legal Counsel, and begun administering the physical solution consistent with the Judgment.

#### *Summary and Status of Kern Water Bank Lawsuits*

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including CBD, collectively, the Central Delta Petitioners, filed a complaint in the Sacramento County Superior Court, or the Central Delta Action, against the California Department of Water Resources, or DWR, Kern County Water Agency, or KCWA, 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 Central Delta Petitioners sought to invalidate the DWR’s approval of the Monterey Amendments and also the 2010 environmental impact report, or 2010 EIR, regarding the Monterey Amendments prepared pursuant to the California Environmental Quality Act, or CEQA, pertaining to the Kern Water Bank, or KWB. Pursuant to the Monterey Amendments, DWR transferred approximately 20,000 acres in Kern County owned by DWR, or KWB property, to the KCWA.

A separate but parallel lawsuit, or Central Delta II, was also filed by the Central Delta Petitioners in Kern County Superior Court on July 2, 2010, against KCWA, also naming the Company and TCWD as real parties in interest. Central Delta II challenged the validity of the transfer of the KWB property from the KCWA to the Kern Water Bank Authority, or KWBA. The petitioners in this case alleged that (i) the transfer of the KWB property by KCWA to the KWBA was an unconstitutional gift of public funds, and (ii) the consideration for the transfer of the KWB property to the KWBA was unconscionable and illusory. This case has been stayed pending the outcome of the Central Delta Action.

In addition, 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 (collectively, the Rosedale Petitioners), asserting that the 2010 EIR did not adequately evaluate potential impacts arising from operations of the KWB, or Rosedale Action, but this lawsuit did not name the Company: it only named TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit was later moved to the Sacramento County Superior Court.

In the Central Delta Action and Rosedale Action, the trial courts concluded that the 2010 EIR for the Monterey Amendments was insufficient with regard to the EIR’s evaluation of the potential impacts of the operation of the KWB, particularly on groundwater and water quality, and ruled that DWR was required to prepare a remedial EIR (which is further described below). In the Central Delta Action, the trial court also concluded that the challenges to DWR’s 1995 approval of the Monterey Amendments were barred by statutes of limitations and laches. The Central Delta Petitioners appealed the Sacramento County Superior Court Judgment, and certain real parties filed a cross-appeal. No party appealed the Kern County Superior Court Judgment in the Rosedale Action.

On November 24, 2014, the Sacramento County Superior Court in the Central Delta Action issued a writ of mandate, or 2014 Writ, that required DWR to prepare a revised EIR (described herein as the 2016 EIR because it was certified in 2016) regarding the Monterey Amendments evaluating the potential operational impacts of the KWB. The 2014 Writ, as revised by the court, required DWR to certify the 2016 EIR and file the response to the 2014 Writ by September 28, 2016. On September 20, 2016, the Director of DWR (a) certified the 2016 EIR prepared by DWR as in compliance with CEQA, (b) adopted findings, a statement of overriding considerations, and a mitigation, monitoring and reporting program as required by CEQA, (c) made a new finding pertaining to carrying out the Monterey Amendments through continued use and operation of the KWB by the KWBA, and (d) caused a notice of determination to be filed with the Office of Planning and Resources of the State of California on September 22, 2016. On September 28, 2016, DWR filed with the Sacramento County Superior Court its return to the 2014 Writ in the Central Delta Action.

On October 21, 2016, the Central Delta Petitioners and a new party, the Center for Food Safety (CFS) (collectively, the CFS Petitioners), filed a new lawsuit in Sacramento County Superior Court, (the CFS Action), against DWR and naming a number of real parties in interest, including KWBA and TCWD (but not including the Company). The CFS Action challenges DWR's (i) certification of the 2016 EIR, (ii) compliance with the 2014 Writ and CEQA, and (iii) finding concerning the continued use and operation of the KWB by KWBA. On October 2, 2017, the Sacramento County Superior Court issued a ruling that the court shall deny the CFS petition and shall discharge the 2014 Writ. The CFS Petitioners appealed the Sacramento County Superior Court judgment denying the CFS petition. The Third Appellate District of the Court of Appeal granted DWR's motion to consolidate the CFS Action appeal for hearing with the pending appeals in the Central Delta Action. Briefing on all of the appeals and cross-appeals is now complete. At this time, the Company anticipates having a ruling from the Court of Appeal on these consolidated appeals of the CFS Action and the Central Delta Action sometime in 2020, but there is a possibility that the court's hearing and disposition could be delayed by the closure of the courts in response to the COVID-19 pandemic. To the extent there may be an adverse outcome of the claims still pending as described above, the monetary value cannot be estimated at this time.

#### *Grapevine*

On December 6, 2016, the Kern County Board of Supervisors unanimously granted entitlement approval for the Grapevine project. On January 5, 2017, the CBD and CFS, filed an action in Kern County Superior Court pursuant to CEQA against Kern County and the Kern County Board of Supervisors, or collectively, the County, concerning the County's granting of the 2016 approvals for the Grapevine project, including certification of the final EIR (the 2017 Action). The Company was named as a real party in interest in the 2017 Action. The 2017 Action alleged that the County failed to properly follow the procedures and requirements of CEQA, including failure to identify, analyze and mitigate impacts to air quality, greenhouse gas emissions, biological resources, traffic, water supply and hydrology, growth inducing impacts, failure to adequately consider project alternatives and to provide support for the County's findings and statement of overriding considerations in adopting the EIR and failure to adequately describe the environmental setting and project description. Petitioners sought to invalidate the County's approval of the project and the environmental approvals and require the Company and the County to revise the environmental documentation.

On July 27, 2018, the court held a hearing on the petitioners' claims in the 2017 Action. At that hearing, the court rejected all of petitioners' claims raised in the litigation, except petitioners' claims that (i) the project description was inadequate and (ii) such inadequacy resulted in aspects of certain environmental impacts being improperly analyzed. As to the claims described in "(i)" and "(ii)" in the foregoing sentence, the court determined that the EIR was inadequate. In that regard, the court determined the Grapevine project description contained in the EIR allowed development to occur in the time and manner determined by the real parties in interest and, as a consequence, such development flexibility could result in the project's internal capture rate, or ICR, of the percent of vehicle trips remaining within the project actually being lower than the projected ICR levels used in the EIR and that lower ICR levels warranted supplemental traffic, air quality, greenhouse gas emissions, noise, public health and growth inducing impact analyses.

On December 11, 2018, the court in the 2017 Action ruled that portions of the EIR required corrections and supplemental environmental analysis and ordered that the County rescind the Grapevine project approvals until such supplemental environmental analysis was completed. The court issued a final judgment consistent with its ruling on February 15, 2019 and, on March 12, 2019, the County rescinded the Grapevine project approvals.

Following the County's rescission of the Grapevine project approvals, the Company filed new applications to re-entitle the Grapevine project (the re-entitlement). The re-entitlement application involved processing project approvals that were substantively similar to the Grapevine project that was unanimously approved by the Kern County Board of Supervisors in December 2016. As part of the re-entitlement, supplemental environmental analysis was prepared to address the court's ruling in the 2017 Action. Following a public comment and review period, the Kern County Planning Commission held a hearing on November 14, 2019 and unanimously recommended to the Kern County Board of Supervisors that it approve the re-entitlement of the Grapevine project. On December 10, 2019, the Kern County Board of Supervisors held a hearing and after considering the supplemental environmental analysis and material presented at the hearing unanimously voted to approve the re-entitlement of the Grapevine project. On January 9, 2020, the County filed a Supplemental and Final Return to Preemptory Writ of Mandate to inform the court of the re-entitlement in a manner that the County and the Company believes is compliant with the court's February 15, 2019 final judgment in the 2017 Action. Concurrently, the County and the Company filed a Motion for Order Discharging Writ of Mandate, which requests that the court determine that the re-entitlement complies with the court's February 15, 2019 final judgment in the 2017 Action (the Motion for Order to Discharge 2017 Writ of Mandate). A hearing was held on February 14, 2020 for this motion and is further summarized below.



On January 10, 2020, CBD filed a new and separate action in Kern County Superior Court pursuant to CEQA against the County, concerning the County's approval of the December 2019 re-entitlement, including certification of the final EIR (the 2020 Action). The Company is named as real party in interest in the 2020 Action. The 2020 Action alleges that the County failed to properly follow the procedures and requirements of CEQA with respect to the re-entitlement of the Grapevine project, including failure to identify, analyze and mitigate impacts to air quality, greenhouse gas emissions, biological resources, public health, and traffic, and failed to provide support for the County's findings and statement of overriding considerations in adopting the EIR. CBD seeks to invalidate the County's approval of the re-entitlement, the environmental approvals for the re-entitlement and require the Company and the County to revise the environmental documentation. The Company intends to vigorously defend the re-entitlement of the Grapevine project against claims made in the 2020 Action. On January 22, 2020, the Company and County filed a demurrer and motion to strike the claims in the 2020 Action on the basis that the claims brought by CBD must be resolved by the court in the 2017 action, pursuant to the final judgment issued in the 2017 Action. The Company and County's motion described in the previous sentence also included an alternative request that the court consolidate CBD's claims in the 2020 Action with its disposition of any remaining matters relating to the 2017 Action. A hearing on these motions filed in the 2020 Action and on the Motion for Order Discharging Writ of Mandate (described above and relating to the 2017 Action) was held on February 14, 2020. At the hearing, the court granted the Company and County's request to consolidate the 2020 Action with its adjudication of the Company and County's compliance with the writ of mandate issued by the Court in the 2017 Action. The court denied, without prejudice, the Company's and County's motion to discharge the writ in the 2017 Action and their demurrer and motion to strike the claims in the 2020 Action, but the court further ruled that the Company and County could re-assert these arguments at a later date once additional evidence was before the court.

As of the date of this filing, the County has certified and lodged the administrative record for the 2020 Action. The court has set January 22, 2021 as the hearing date for the 2020 Action and the Motion for Order to Discharge 2017 Writ of Mandate. On June 8, 2020 the County and Company filed their responsive pleadings in the 2020 Action. At this time, briefing for the January 22, 2021 hearing is ongoing.

#### *Centennial*

On April 30, 2019, the Los Angeles County Board of Supervisors granted final entitlement approval for the Centennial project. On May 15, 2019, Climate Resolve filed an action in Los Angeles Superior Court (the Climate Resolve Action) pursuant to CEQA and the California Planning and Zoning Law against the County of Los Angeles and the Los Angeles County Board of Supervisors (collectively, LA County) concerning LA County's granting of approvals for the Centennial project, including certification of the final environmental impact report and related findings (Centennial EIR); approval of associated general plan amendments; adoption of associated zoning; adoption of the Centennial Specific Plan; approval of a subdivision map for financing purposes; and adoption of a development agreement, among other approvals (collectively, the Centennial Approvals). Separately, on May 28, 2019, CBD and the California Native Plant Society (CNPS) filed an action in Los Angeles County Superior Court (the CBD/CNPS Action) against LA County; like the Climate Resolve Action, the CBD/CNPS Action also challenges the Centennial Approvals. The Company, its wholly owned subsidiary Tejon Ranchcorp, and Centennial Founders, LLC are named as real parties-in-interest in both the Climate Resolve Action and the CBD/CNPS Action.

The Climate Resolve Action and the CBD/CNPS Action collectively allege that LA County failed to properly follow the procedures and requirements of CEQA and the California Planning and Zoning Law. The Climate Resolve Action and the CBD/CNPS Action have been deemed "related" and have been consolidated for adjudication before the judge presiding over the Climate Resolve Action. The Climate Resolve Action and CBD/CNPS Action seek to invalidate the Centennial Approvals and require LA County to revise the environmental documentation related to the Centennial project. The court held a consolidated hearing for the CBD/CNPS Action and Climate Resolve Action on September 30, 2020, but did not issue any ruling or judgment, and ordered that further hearing be held on November 13, 2020.

#### *Proceedings Incidental to Business*

From time to time, the Company is involved in other proceedings incidental to its business, including actions relating to employee claims, real estate disputes, contractor disputes and grievance hearings before labor regulatory agencies.

The outcome of these other proceedings is not predictable. However, based on current circumstances, the Company does not believe that the ultimate resolution of these other proceedings will have a material adverse effect on the Company's financial position, results of operations or cash flows, either individually or in the aggregate.

### **13. RETIREMENT PLANS**

The Company sponsors a defined benefit retirement plan, or Benefit Plan, that covers eligible employees hired prior to February 1, 2007. 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). In April 2017, the Company froze the Benefit Plan as it relates to future benefit accruals for participants. The Company contributed \$165,000 to the Benefit Plan in 2020.

Benefit Plan assets consist of equity, debt and short-term money market investment funds. The Benefit Plan's current investment policy changed during the third quarter of 2018. The policy's strategy seeks to minimize the volatility of the funding ratio. This objective will result in a prescribed asset mix between "return seeking" assets (e.g., stocks) and a bond portfolio (e.g., long duration bonds) according to a pre-determined customized investment strategy based on the Benefit Plan's funded status as the primary input. This path will be used as a reference point as to the mix of assets, which by design will de-emphasize the return seeking portion as the funded status improves. At September 30, 2020, the investment mix was approximately 65% equity, 34% debt, and 1% money market funds. At December 31, 2019, the investment mix was approximately 66% equity, 33% debt, and 1% money market funds. Equity investments comprise of value, growth, large cap, small cap and international stock funds. Debt investments consist of U.S. Treasury securities and investment grade corporate debt. A weighted average discount rate of 3.2% was used in determining the net periodic pension cost for 2020, along with the pension benefit obligation for December 31, 2019. The assumed expected long-term rate of return on plan assets is 7.3% for both fiscal 2020 and December 31, 2019. The long-term rate of return on Benefit Plan assets is based on the historical returns within the plan and expectations for future returns.

Total pension and retirement earnings for the Benefit Plan was as follows:

(\$ in thousands)	Nine Months Ended September 30,	
	2020	2019
Earnings (cost) components:		
Interest cost	\$ (255)	\$ (291)
Expected return on plan assets	483	393
Net amortization and deferral	(51)	(57)
Total net periodic pension earnings	<u>\$ 177</u>	<u>\$ 45</u>

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. In April 2017, the Company froze the SERP as it relates to the accrual of additional benefits.

The pension and retirement expense for the SERP was as follows:

(\$ in thousands)	Nine Months Ended September 30,	
	2020	2019
Cost components:		
Interest cost	\$ (171)	\$ (228)
Net amortization and other	(66)	(48)
Total net periodic pension expense	<u>\$ (237)</u>	<u>\$ (276)</u>

#### 14. REPORTING SEGMENTS AND RELATED INFORMATION

The Company currently operates in five reporting segments: commercial/industrial real estate development, resort/residential real estate development, mineral resources, farming, and ranch operations. For further details of the revenue components within each reporting segment, see Results of Operations by Segment in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

##### *Real estate - Commercial/Industrial*

Commercial/Industrial real estate development segment revenues consist of land sale revenues, land and building leases to tenants at the Company's commercial retail developments, base and percentage rents from the PEF power plant lease, communication tower leases, and easement leases. The following table summarizes revenues, expenses and operating income from this segment for the periods ended:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Commercial/industrial revenues	\$ 2,710	\$ 2,620	\$ 7,144	\$ 12,041
Equity in earnings of unconsolidated joint ventures	1,093	2,199	3,629	5,046
Commercial/industrial revenues and equity in earnings of unconsolidated joint ventures	3,803	4,819	10,773	17,087
Commercial/industrial expenses	2,026	1,968	5,704	8,353
Operating results from commercial/industrial and unconsolidated joint ventures	\$ 1,777	\$ 2,851	\$ 5,069	\$ 8,734

##### *Real Estate - Resort/Residential*

The Resort/Residential real estate development segment is actively involved in pursuing land entitlement and development processes both internally and through joint ventures. The segment incurs costs and expenses related to land management activities on land held for future development, but currently generates no revenue. The segment generated losses of \$273,000 and \$582,000 for the three months ended September 30, 2020 and 2019, and \$1,225,000 and \$1,872,000 for the nine months ended September 30, 2020 and 2019, respectively.

##### *Mineral Resources*

The Mineral Resources segment receives oil and mineral royalties from the exploration and development companies that extract or mine the natural resources from the Company's land and receives revenue from water sales. The following table summarizes revenues, expenses and operating results from this segment for the periods ended:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Mineral resources revenues	\$ 1,322	\$ 1,559	\$ 9,276	\$ 8,351
Mineral resources expenses	648	576	5,240	5,006
Operating results from mineral resources	\$ 674	\$ 983	\$ 4,036	\$ 3,345

### Farming

The Farming segment revenues include the sale of almonds, pistachios, wine grapes, and hay. The following table summarizes revenues, expenses and operating results from this segment for the periods ended:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Farming revenues	\$ 8,537	\$ 4,602	\$ 9,698	\$ 6,303
Farming expenses	8,108	5,979	10,909	8,402
Operating results from farming	<u>\$ 429</u>	<u>\$ (1,377)</u>	<u>\$ (1,211)</u>	<u>\$ (2,099)</u>

### Ranch Operations

The Ranch Operations segment consists of game management revenues and ancillary land uses such as grazing leases. The following table summarizes revenues, expenses and operating results from this segment for the periods ended:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Ranch operations revenues	\$ 944	\$ 876	\$ 2,483	\$ 2,570
Ranch operations expenses	1,164	1,260	3,748	4,003
Operating results from ranch operations	<u>\$ (220)</u>	<u>\$ (384)</u>	<u>\$ (1,265)</u>	<u>\$ (1,433)</u>

## 15. INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES

The Company maintains investments in joint ventures. The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation. The Company's investment in its unconsolidated joint ventures as of September 30, 2020 was \$37,163,000. Equity in earnings from unconsolidated joint ventures was \$3,629,000 for the nine months ended September 30, 2020. The unconsolidated joint ventures have not been consolidated as of September 30, 2020, because the Company does not control the investments. The Company's current joint ventures are as follows:

- Petro Travel Plaza Holdings LLC – Petro Travel Plaza Holdings LLC, Petro, is an unconsolidated joint venture with TravelCenters of America that develops and manages travel plazas, gas stations, convenience stores, and fast food restaurants throughout TRCC. The Company has 50% of the voting rights but participates in 60% of all profits and losses. The Company does not control the investment due to having only 50% of the voting rights. The Company's partner is the managing partner and performs all of the day-to-day operations and has significant decision-making authority over key business components such as fuel inventory and pricing at the facilities. The Company's investment in this joint venture was \$22,004,000 as of September 30, 2020.
  - On April 17, 2020, the Company sold the land and a building formerly leased to a tenant operating a fast food restaurant, to Petro. The Company received cash proceeds of \$2,000,000 from Petro, and realized a gain of \$1,331,000 under ASC 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets."
- Majestic Realty Co. – Majestic Realty Co. (Majestic) is a privately-held developer and owner of master planned business parks throughout the United States. The Company has formed three 50/50 joint ventures with Majestic to acquire, develop, manage, and operate industrial real estate at TRCC. The partners have equal voting rights and equally share in the profit and loss of the joint ventures. The Company and Majestic guarantee the performance of all outstanding debt.

- In November 2018, TRC-MRC 3, LLC was formed to pursue the development, construction, leasing, and management of a 579,040 square foot industrial building located within TRCC-East. TRC-MRC 3, LLC qualified as a VIE from inception, but the Company is not the primary beneficiary; therefore, it does not consolidate TRC-MRC 3, LLC in its financial statements. The construction of the building was completed in the fourth quarter of 2019, and the Company has leased 100% of the rentable space to two tenants. In March 2019, the joint venture entered into a promissory note with a financial institution to finance the construction of the building. The note matures on May 1, 2030 and had an outstanding principal balance of \$35,785,000 as of September 30, 2020. On April 1, 2019, the Company contributed land with a fair value of \$5,854,000 to TRC-MRC 3, LLC in accordance with the limited liability agreement. The Company's investment in this joint venture was \$6,464,000 as of September 30, 2020.
- In August 2016, the Company partnered with Majestic to form TRC-MRC 2, LLC to acquire, lease, and maintain a fully occupied warehouse at TRCC-West. The partnership acquired the 651,909 square foot building for \$24,773,000, which was largely financed through a promissory note guaranteed by both partners. The promissory note was refinanced on June 1, 2018 with a \$25,240,000 promissory note. The note matures on July 1, 2028 and has an outstanding principal balance of \$24,018,000 as of September 30, 2020. Since its inception, the Company has received excess distributions resulting in a deficit balance of \$2,038,000. In accordance with the applicable accounting guidance, the Company reclassified excess distributions to Other Liabilities within the Consolidated Balance Sheets. The Company will continue to record equity in earnings as a debit to the investment account and if it were to become positive, the Company would reclassify the liability to an asset. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), the Company will immediately recognize the liability as income.
- In September 2016, TRC-MRC 1, LLC was formed to develop and operate an approximately 480,480 square foot industrial building at TRCC-East that is 100% leased. Since its inception, the Company has received excess distributions resulting in a deficit balance of \$468,000. In accordance with the applicable accounting guidance, the Company reclassified excess distributions to Other Liabilities within the Consolidated Balance Sheets. The Company will continue to record equity in earnings as a debit to the investment account and if it were to become positive, the Company will reclassify the liability to an asset. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), the Company will immediately recognize the liability as income. The joint venture refinanced its construction loan in December 2018 with a mortgage loan. The original balance of the mortgage loan was \$25,030,000, of which \$24,126,000 was outstanding as of September 30, 2020.
- Rockefeller Joint Ventures – The Company has three joint ventures with Rockefeller Group Development Corporation, or Rockefeller. At September 30, 2020, the Company's combined equity investment balance in these three joint ventures was \$8,695,000.
  - Two joint ventures are for the development of buildings on approximately 91 acres of land and are part of an agreement for the potential development of up to 500 acres of land in TRCC. The Company owns a 50% interest in each of the joint ventures.
    - The Five West Parcel LLC joint venture owned and leased a 606,000 square foot building, the joint venture's primary asset, to Dollar General until the building was sold to a third party in November 2019 for a purchase price of \$29,088,000, realizing a gain of \$17,537,000. The outstanding term loan of the joint venture was paid off upon the sale. This joint venture is in the process of being wound down and will be dissolved by the end of fiscal 2020.
    - 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 that is being held for future development. The Company's 18-19 West LLC joint venture is contracted with the third-party who purchased the Five West building and land (noted above) to purchase lots 18 and 19 at a price of \$13.8 million through the option period ending May 21, 2021. If the option is extended to November 21, 2021, the price increases to \$15.2 million. The land option expires in the fourth quarter of 2021. Both of these joint ventures are being accounted for under the equity method due to both members having significant participating rights in the management of the ventures.

- The third joint venture is the TRCC/Rock Outlet Center LLC joint venture that was formed during the second quarter of 2013 to develop, own, and manage a net leasable 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% 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 the joint venture by voting interest alone. The Company is the named managing member. The managing member's responsibilities relate to the routine day-to-day activities of TRCC/Rock Outlet Center LLC. However, all operating decisions during the development period and ongoing operations, including the setting and monitoring of the budget, leasing, marketing, financing and selection of the contractor for any construction, are jointly made by both members of the joint venture. Therefore, the Company concluded that both members have significant participating rights that are sufficient to overcome the presumption of the Company controlling the joint venture through it being named the managing member. Therefore, the investment in TRCC/Rock Outlet Center LLC is being accounted for under the equity method. The TRCC/Rock Outlet Center LLC joint venture has a term note with a financial institution that matures on September 5, 2021. As of September 30, 2020, the outstanding balance of the term note was \$35,286,000. The Company and Rockefeller guarantee the performance of the debt.
- Centennial Founders, LLC – Centennial Founders, LLC, CFL, is a joint venture that was initially formed with TRI Pointe Homes, Lewis Investment Company, and CalAtlantic to pursue the entitlement and development of land that the Company owns in Los Angeles County. Based on the Second Amended and Restated Limited Company Agreement of CFL and the change in control and funding that resulted from the amended agreement, CFL qualified as a VIE beginning in 2009, and the Company was determined to be the primary beneficiary. As a result, CFL is consolidated into the Company's financial statements. The Company's remaining partner, TRI Pointe Homes, retained a noncontrolling interest in the joint venture. At September 30, 2020, the Company owned 92.74% of CFL.

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

Unaudited condensed statement of operations for the three months ended September 30, 2020 and condensed balance sheet information of the Company's unconsolidated joint ventures as of September 30, 2020 and December 31, 2019 are as follows:

	Three Months Ended September 30,					
	2020		2019		2019	
	2020	2019	2020	2019	2020	2019
	<b>Joint Venture</b>				<b>TRC</b>	
(\$ in thousands)	<b>Revenues</b>		<b>Earnings (Loss)</b>		<b>Equity in Earnings (Loss)</b>	
Petro Travel Plaza Holdings, LLC	\$ 23,087	\$ 31,215	\$ 2,311	\$ 3,741	\$ 1,387	\$ 2,244
Five West Parcel, LLC	—	780	(5)	321	(3)	160
18-19 West, LLC	1	5	(37)	(26)	(18)	(13)
TRCC/Rock Outlet Center, LLC <sup>1</sup>	1,042	1,667	(1,667)	(730)	(834)	(364)
TRC-MRC 1, LLC	759	781	12	30	6	14
TRC-MRC 2, LLC	1,033	1,008	344	317	172	158
TRC-MRC 3, LLC	1,675	—	766	—	383	—
Total	\$ 27,597	\$ 35,456	\$ 1,724	\$ 3,653	\$ 1,093	\$ 2,199
Centennial Founders, LLC	\$ 53	\$ 97	\$ (188)	\$ (128)	Consolidated	

(1) Revenues for TRCC/Rock Outlet Center are presented net of non-cash tenant allowance amortization of \$0.4 million and \$0.4 million as of September 30, 2020 and September 30, 2019, respectively.

**Nine Months Ended September 30,**

	2020		2019		2020		2019	
	Joint Venture				TRC			
(\$ in thousands)	Revenues		Earnings (Loss)		Equity in Earnings (Loss)			
Petro Travel Plaza Holdings, LLC	\$ 63,001	\$ 88,015	\$ 7,280	\$ 9,534	\$ 4,368	\$ 5,720		
Five West Parcel, LLC	—	2,200	13	732	6	366		
18-19 West, LLC	5	12	(101)	(80)	(50)	(40)		
TRCC/Rock Outlet Center, LLC <sup>1</sup>	3,834	4,878	(3,507)	(2,849)	(1,754)	(1,424)		
TRC-MRC 1, LLC	2,332	2,283	81	51	41	25		
TRC-MRC 2, LLC	3,056	2,988	1,014	799	507	399		
TRC-MRC 3, LLC	3,031	—	1,022	—	511	—		
Total	\$ 75,259	\$ 100,376	\$ 5,802	\$ 8,187	\$ 3,629	\$ 5,046		
Centennial Founders, LLC	\$ 285	\$ 333	\$ (121)	\$ (36)	Consolidated			

(1) Revenues for TRCC/Rock Outlet Center are presented net of non-cash tenant allowance amortization of \$1.0 million and \$1.3 million as of September 30, 2020 and September 30, 2019, respectively.

	September 30, 2020				December 31, 2019			
	Joint Venture		TRC		Joint Venture		TRC	
(\$ in thousands)	Assets	Debt	Equity	Equity	Assets	Debt	Equity	Equity
Petro Travel Plaza Holdings, LLC	\$ 75,646	\$ (15,034)	\$ 57,341	\$ 22,004	\$ 77,835	\$ (15,287)	\$ 60,061	\$ 23,636
Five West Parcel, LLC	43	—	43	—	694	—	648	140
18-19 West, LLC	4,637	—	4,379	1,619	4,849	—	4,600	1,730
TRCC/Rock Outlet Center, LLC	66,827	(35,286)	30,281	7,076	69,459	(38,909)	29,688	6,781
TRC-MRC 1, LLC	28,507	(24,126)	3,611	—	28,673	(24,542)	3,623	—
TRC-MRC 2, LLC	20,504	(24,018)	(8,257)	—	20,026	(24,455)	(7,094)	—
TRC-MRC 3, LLC	43,236	(35,785)	7,074	6,464	37,292	(28,061)	6,052	5,953
Total	\$ 239,400	\$ (134,249)	\$ 94,472	\$ 37,163	\$ 238,828	\$ (131,254)	\$ 97,578	\$ 38,240
Centennial Founders, LLC	\$ 98,130	\$ —	\$ 97,547	***	\$ 96,415	\$ —	\$ 96,143	***

\*\*\* Centennial Founders, LLC is consolidated within the Company's financial statements.

## 16. RELATED PARTY TRANSACTIONS

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

The Company has water contracts with WRMWSO for SWP water deliveries to our agricultural and municipal/industrial operations in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts, the Company is entitled to annual water for 5,496 acres of land, or 15,547 acre-feet of water, subject to SWP allocations. The Company's Executive Vice President and Chief Operating Officer is one of nine directors at WRMWSO. As of September 30, 2020, the Company paid \$4,377,000 for these water contracts and related costs.

## **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 Tejon Ranch Co. and its subsidiaries (the Company, Tejon, we, us, and our), as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, and of current assets and contracts to meet our water and other commitments, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness, ongoing negotiations, the uncertainties regarding the expected impact of COVID-19 on the Company, its customers and suppliers, and global economic conditions, and other future events and conditions. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "will," "should," "would," "likely," and similar expressions such as "in the process." 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 performance 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, the impacts of COVID-19 and the actions taken by governments, businesses, and individuals in response to it, weather, market and economic forces, availability of financing for land development activities, and competition and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons, including those described above and in the section entitled "Risk Factors" in this report, our most recent Annual Report on Form 10-K, and our Quarterly Report for the period ending March 31, 2020 and June 30, 2020.*

### **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.

#### **Business Objectives and Strategies**

Our primary business objective is to maximize long-term shareholder value through the monetization of our land-based assets. A key element of our strategy is to entitle and then develop large-scale mixed use master planned residential and commercial/industrial real estate development projects to serve the growing populations of Southern and Central California. Our mixed use master planned residential developments have been approved to collectively include up to 34,783 housing units, and more than 35 million square feet of commercial space. We have obtained entitlements on Mountain Village at Tejon Ranch (MV) and are pursuing final tract maps. Over the next few years, we will be defending our entitlements against litigation for our Grapevine at Tejon Ranch, or Grapevine, and Centennial at Tejon Ranch, or Centennial, projects.

We are currently engaged in construction, commercial sales and leasing at our fully operational commercial/industrial center Tejon Ranch Commerce Center, or TRCC. All of these efforts are supported by diverse revenue streams generated from other operations, including commercial/industrial real estate, farming, mineral resources, ranch operations, and our various joint ventures.

#### **Our Business**

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

Activities within the commercial/industrial real estate development segment include: planning and permitting of land for development; construction of infrastructure; construction of pre-leased buildings; construction of buildings to be leased or sold; and the sale of land to third parties for their own development. The commercial/industrial real estate development segment also includes activities related to communications leases and landscape maintenance fees.



At the heart of the commercial/industrial real estate development segment is TRCC, a 20 million square foot commercial/industrial development on Interstate 5 just north of the Los Angeles basin. Nearly six million square feet of industrial, commercial and retail space has already been developed, including distribution centers for IKEA, Caterpillar, Famous Footwear, L'Oreal, and Dollar General. TRCC sits on both sides of Interstate 5, giving distributors immediate access to the west coast's principal north-south goods movement corridor.

We are also involved in multiple joint ventures with several partners that help us expand our commercial/industrial business activities within TRCC:

- Our joint venture with TravelCenters of America, or TA/Petro, owns and operates two travel and truck stop facilities, and also operates five separate gas stations with convenience stores and fast food restaurants within TRCC-West and TRCC-East.
- Three joint ventures with Rockefeller Development Group, or Rockefeller:
  - Five West Parcel LLC owned a 606,000 square foot building in TRCC-West that was fully leased. In 2019, Five West Parcel sold the building and land to a third party. The joint venture is currently in the process of being dissolved;
  - 18-19 West LLC owns 63.5 acres of land for future development within TRCC-West. In 2019, our 18-19 West LLC joint venture entered into a land purchase option with the same third-party who purchased the Five West building and land, to purchase lots 18 and 19 at a price of \$13.8 million through the option period ending May 21, 2021. If the option is extended to November 21, 2021, the price increases to \$15.2 million. The land option expires in the fourth quarter of 2021; and
  - TRCC/Rock Outlet Center LLC operates the Outlets at Tejon, a net leasable 326,000 square foot shopping experience in TRCC-East;
- Three joint ventures with Majestic Realty Co., or Majestic, to develop, manage, and operate industrial buildings within TRCC:
  - TRC-MRC 1, LLC was formed to develop and operate a 480,480 square foot industrial building in TRCC-East, which was completed during 2017 and is fully leased;
  - TRC-MRC 2, LLC owns a 651,909 square foot building in TRCC-West that is fully leased; and
  - TRC-MRC 3, LLC was formed to pursue the development, construction, leasing and management of a 579,040 square foot industrial building in TRCC-East. The construction of the building was completed in the fourth quarter of 2019 and is fully leased.

The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through a joint venture. Our active developments within this segment are MV, Centennial, and Grapevine.

- MV encompasses a total of 26,417 acres, of which 5,082 acres will be used for a mixed-use development that will include housing, retail, and commercial components. MV is entitled for 3,450 homes, 160,000 square feet of commercial development, 750 hotel keys, and more than 21,335 acres of open space. The tentative tract map for the first four phases of residential development has been approved, as well as the commercial site plan for the first phase of commercial development;
- The Centennial development is a mixed-use master planned community development encompassing 12,323 acres of our land within Los Angeles County. Upon completion of Centennial, it is estimated that the community will include approximately 19,333 homes and 10.1 million square feet of commercial development. Centennial had entitlements approved in December 2018, and received legislative approvals in April 2019 from the Los Angeles County Board of Supervisors.
- Grapevine is an 8,010-acre potential development area located on the San Joaquin Valley floor area of our lands, adjacent to TRCC. Upon completion of Grapevine, the community will include 12,000 homes, 5.1 million square feet for commercial development, and more than 3,367 acres of open space and parks. On December 10, 2019, the Kern County Board of Supervisors adopted the supplemental re-circulated environmental impact report (EIR) prepared in response to a court ruling and re-approved the development of Grapevine unanimously.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2019, for a more detailed description of our active developments within the resort/residential real estate development segment.

Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, a lease with National Cement Company of California Inc., and water sales.

The farming segment produces revenues from the sale of wine grapes, almonds, and pistachios.

Lastly, the ranch operations segment consists of game management revenues and ancillary land uses such as grazing leases and filming.

### **The COVID-19 Pandemic**

The U.S. and global economies continue to be affected by the COVID-19 pandemic. There are no reliable estimates of how long the pandemic will last or how many more people will be affected by it, or its full impact on our business and operations. We operate in the State of California and our operations were initially subject to the "shelter-in-place" order issued by the California Governor in March 2020 (the Stay at Home Order) in addition to orders set by Los Angeles and Kern County governments. The State of California subsequently took a more cautious approach in reopening and even reversed or delayed reopening initiatives in accordance with the California Department of Health's Guidance on Closure of Sectors in Response to COVID-19 on July 1, 2020. On August 31, 2020 California launched a new reopening system to better track when counties will be able to reopen businesses. Our first priority with regard to the COVID-19 pandemic is to provide for the health and safety of our employees, customers, suppliers and others with whom we partner in our business activities. Employees are required to wear masks when working in our offices, while also maintaining proper safe social distancing. Subject to the use of appropriate risk mitigation and safety practices, we are fully continuing our business operations in this unprecedented business environment.

We continue to see signs of a rebound from the impact of the global pandemic and resulting governmental shut downs. In September, the Outlets at Tejon experienced the highest overall sales of any September since our grand opening. Our gas stations at the Tejon Ranch Commerce Center reported fuel volume sales at near pre-COVID-19 levels during August and September. Under California's Blueprint for a Safer Economy, we were just recently allowed to open our full service restaurants, albeit at 25% capacity, and our retail, gas stations, convenience stores and logistic centers remain open. See the Results of Operations by segment for further discussion on COVID-19 impact on our various reporting segments.

In the third quarter of 2020, our mineral resource segment continued to see declines in oil royalties when compared to previous years as the price per barrel has not fully recovered from the global supply of oil exceeding demand during the first part of the year, which was significantly reduced after pandemic-related guidelines impacted and restricted travel. In our commercial/industrial real estate development segment, we have worked with all our commercial tenants, at their request, and agreed to rent payment deferrals into 2021 in order to ease some of the financial burden our tenants have experienced due to the limited foot traffic in their stores, as pandemic-related restrictions limited commercial operations during the second quarter of 2020. For further discussion on lease deferrals see Real Estate Commercial/Industrial segment discussion below. Lastly, pricing for almonds and pistachios in our farming segment has seen a continued downward trend that may persist for the remainder of the year, largely due to anticipated production levels. Additionally, our pistachio crop did not receive adequate chilling hours during the 2020 winter, severely hampering spring bloom and yields.

The broader and long-term implications of COVID-19 and actions taken by governments, businesses, and individuals in response to the pandemic on our results of operations and overall financial performance still remain uncertain. As we manage through the pandemic, we will continue to evaluate our operations for expense reductions and cash savings. So far, measures that we have taken include renegotiating contracts and pricing with a significant portion of our vendors, and right sizing our labor needs.

### **Summary of Third Quarter and Fiscal 2020 Performance**

For the third quarter of 2020, we had net income attributable to common stockholders of \$398,000 compared to net income of \$47,000 during the previous year. Over the comparative quarters, farming net operating income experienced an \$1,806,000 improvement driven by the recognition of insurance proceeds, for lost pistachio yields discussed above, improving pistachio revenues by \$3,367,000. Offsetting this improvement was a \$2,129,000 increase in farming expenses due to the timing of 2020 almond cost of sales and increased water and irrigation costs. Offsetting this improvement was a \$1,106,000 decrease in our share of joint venture operating results due to declines in operating profits for Petro Travel Plaza largely due to COVID-19 closures. Lastly, the Company recorded additional tax expense of \$396,000 due to permanent differences related to Section 162(m). The Section 162(m) limitations occurred as a result of changes in tax law arising from the 2017 Tax Cuts Jobs Act, which did not impact the Company until this year.

For the first nine months of 2020, we had a net loss attributable to common stockholders of \$617,000 compared to net income of \$873,000 during the first nine months of 2019. The factors driving our quarterly operating results were also the primary drivers influencing our results for the first nine months of 2020. In addition to those factors, the Company saw a \$2,248,000 decrease in commercial/industrial net operating income as a result of not having a land sale like it did in 2019. Offsetting this decrease was a \$1,331,000 gain on the sale of real estate to Petro Travel Plaza.

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 reporting segment of the business and is followed by a discussion of our financial position. It is useful to read the reporting segment information in conjunction with Note 14 (Reporting Segments and Related Information) of the Notes to Unaudited Consolidated Financial Statements.

## Critical Accounting Policies

The preparation of our interim financial statements in accordance with generally accepted accounting principles in the United States, or GAAP, requires us to make estimates and judgments that affect the reported amounts for 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 ongoing basis, we evaluate our estimates, including those related to revenue recognition, impairment of long-lived assets, capitalization of costs, allocation of costs related to land sales and leases, stock compensation, our future ability to utilize deferred tax assets, and 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.

During the nine months ended September 30, 2020, our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2019. Please refer to that filing for a description of our critical accounting policies. Please also refer to Note 1 (Basis of Presentation) in the Notes to Unaudited Consolidated Financial Statements in this report for newly adopted accounting principles.

## Results of Operations by Segment

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

### Real Estate – Commercial/Industrial:

(\$ in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Commercial/industrial revenues				
Pastoria Energy Facility	\$ 1,468	\$ 1,088	\$ 380	35 %
TRCC Leasing	466	427	39	9 %
TRCC management fees and reimbursements	153	318	(165)	(52)%
Commercial leases	147	167	(20)	(12)%
Communication leases	229	223	6	3 %
Landscaping and other	247	397	(150)	(38)%
Land sale	—	—	—	— %
Total commercial/industrial revenues	\$ 2,710	\$ 2,620	\$ 90	3 %
Total commercial/industrial expenses	\$ 2,026	\$ 1,968	\$ 58	3 %
Operating income from commercial/industrial	\$ 684	\$ 652	\$ 32	5 %

- Commercial/industrial real estate development segment revenues were \$2,710,000 for the three months ended September 30, 2020, an increase of \$90,000, or 3%, from \$2,620,000 for the three months ended September 30, 2019. The increase is attributed to additional spark spread revenues from the Pastoria Energy Facility, which resulted from abnormally high summer energy demand, as the service region experienced record-breaking heat waves during the summer months. The Company does not expect this trend to continue into the fall and winter months. Offsetting the improvements in spark spread revenues were lower management fees, as construction of the TRC-MRC 3 joint venture was completed in 2019 and no construction management fees were earned in 2020 compared to the prior period.
- Commercial/industrial real estate development segment expenses were \$2,026,000 for the three months ended September 30, 2020, an increase of \$58,000, or 3%, from \$1,968,000 for the three months ended September 30, 2019. The increase is primarily caused by an increase in chemicals used in the landscaping department of \$27,000 and an increase in maintenance fees of \$25,000.

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Commercial revenues				
Pastoria Energy Facility	\$ 3,464	\$ 3,487	\$ (23)	(1)%
TRCC Leasing	1,290	1,295	(5)	— %
TRCC management fees and reimbursements	529	912	(383)	(42)%
Commercial leases	431	486	(55)	(11)%
Communication leases	699	695	4	1 %
Landscaping and other	731	853	(122)	(14)%
Land sale	—	4,313	(4,313)	(100)%
Total commercial revenues	\$ 7,144	\$ 12,041	\$ (4,897)	(41)%
Total commercial expenses	\$ 5,704	\$ 8,353	\$ (2,649)	(32)%
Operating income from commercial/industrial	\$ 1,440	\$ 3,688	\$ (2,248)	(61)%

- Commercial/industrial real estate development segment revenues were \$7,144,000 for the first nine months of 2020, a decrease of \$4,897,000, or 41%, from \$12,041,000 for the first nine months of 2019. The absence of land sales in 2020, as well as the decreased construction management fees, discussed within the quarterly results, drove a majority of this decrease.
- Commercial/industrial real estate development segment expenses were \$5,704,000 during the first nine months of 2020, a decrease of \$2,649,000, or 32%, from \$8,353,000 during the first nine months of 2019. The decrease is attributed the absence of land sales in 2020, as compared to the 2019 land sale transaction associated with our TRC-MRC 3 joint venture, which primarily drove the increase in the prior year.

The logistics operators currently located within TRCC 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 marketing strategy 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 demonstrated success of the current tenants and owners within our development. 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. With access to markets of over 40 million people for next-day delivery service, they are also demonstrating success with e-commerce fulfillment.

Our Foreign Trade Zone (FTZ) designation allows businesses to secure the many benefits and cost reductions associated with streamlined movement of goods in and out of the zone. This FTZ designation is further supplemented by the Economic Development Incentive Policy, or EDIP, adopted by the Kern County Board of Supervisors. EDIP is aimed to expand and enhance the County's competitiveness by taking affirmative steps to attract new businesses and to encourage the growth and resilience of existing businesses. EDIP provides incentives such as assistance in obtaining tax incentives, building supporting infrastructure, and workforce development.

We believe that the FTZ and EDIP, along with our ability to provide fully-entitled, shovel-ready land parcels to support buildings of any size, including buildings 1.0 million square feet or larger, can provide us with a potential marketing advantage in the future. Our marketing efforts include the Inland Empire region of Southern California, the Santa Clarita Valley of northern Los Angeles County, the northern part of the San Fernando Valley due to the limited availability of new product and high real estate costs in these locations, and the San Joaquin Valley of California. The Company is constantly analyzing the market and evaluating expansion of industrial buildings for lease as we have done with the buildings developed by TRC-MRC1 and TRC-MRC 3 either on our own or in partnerships.

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. As development in the Inland Empire continues to move east and farther away from the ports, our potential disadvantage of our distance from the ports is being mitigated. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcels.

During the quarter ended September 30, 2020, vacancy rates in the Inland Empire decreased by 0.6% to 2.7% from the prior quarter, remaining at six-year lows. Construction completions totaled 3.5 million square feet in the quarter ended September 30, 2020, which is lower than the 5.2 million square feet typically added each quarter for the past five years. The low vacancy rates have led to an increase in lease rates of 1.4% within the Inland Empire. As lease rates increase in the Inland Empire, we may begin to have greater pricing advantages due to our lower land basis.

During the quarter ended September 30, 2020, vacancy rates in the northern Los Angeles industrial market, which includes the San Fernando Valley and Santa Clarita Valley, decreased by 0.3% to 2.4%, remaining at six-year record low. Rents remain at an all-time high and have well surpassed the previous peak seen in 2007. Average asking rents increased 1.2% over the prior quarter.

We expect the commercial/industrial real estate development segment to continue to experience costs, net of amounts capitalized, primarily related to professional service fees, marketing costs, commissions, planning costs, and staffing costs as we continue to pursue development opportunities. These costs are expected to remain consistent with current levels of expense with any variability in the future tied to specific absorption transactions in any given year.

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

As described earlier, in March and July 2020, in response to the COVID-19 pandemic, California took actions that continue to limit non-essential businesses and services. Most of our operations in this segment have been deemed an "essential" business. In September, the Outlets at Tejon experienced the highest overall sales of any September since our grand opening. Our gas stations at the Tejon Ranch Commerce Center reported fuel volume sales at near pre-COVID-19 levels during August and September. We will, however, continue to monitor the traffic count and assess the collectability of outstanding receivables from our tenants through the COVID-19 pandemic.

Tenants began requesting various forms of rent relief beginning in March 2020 throughout the second and third quarters. Although the requests range in scope, the most common request is for a full or partial rent deferment for three months.

During the nine months ended September 30, 2020, the Company has agreed to defer rent for certain tenants at TRCC, with the requirement that a significant amount of the deferred rent will be fully repaid in 2021. The following table sets forth information regarding the minimum rents billed and deferred for the nine months ended September 30, 2020.

(\$ in thousands, except for impacted tenants)	Impacted Tenants	Rent Billing <sup>1</sup>	Deferred Rent due to COVID-19	Deferred Rent to be Collected in 2020	Deferred Rent to be Collected in 2021
TRCC Leasing	5	\$ 939	\$ 104	\$ 18	\$ 86
Other Commercial Leases	3	365	59	13	46
	8	\$ 1,304	\$ 163	\$ 31	\$ 132

Percentage of Rent Deferred 13 %

<sup>1</sup>Amounts shown represent rent billing for tenants that had or are undergoing lease renegotiations for the nine months ended September 30, 2020.

Our financial results will be impacted by our ability to collect contractual rents due under our long-term net leases and any additional rent deferrals or contractual modifications.

#### **Real Estate – Resort/Residential:**

We are in the preliminary stages of property development for this segment; hence, no revenues or profits are attributed to this segment.

Resort/residential real estate development segment expenses were \$273,000 for the three months ended September 30, 2020, a decrease of \$309,000, or 53%, from \$582,000 for the three months ended September 30, 2019. When compared to the prior year period, the Company experienced a \$302,000 decrease in professional service costs. The segment's development projects are currently engaged in litigation and final map processes resulting in fewer ongoing projects.

Resort/residential real estate development segment expenses were \$1,225,000 for the first nine months of 2020, a decrease of \$647,000, or 35%, from \$1,872,000 for the first nine months of 2019. The Company had a \$845,000 decrease in professional service costs for the same reasons discussed above for the segment's quarterly operating results. Increases in payroll, stock compensation and overhead costs, net of capitalization, of \$185,000 offset some of the savings in professional services. The increase in payroll is primarily attributed to non-recurring severance payments and the issuance of new market-based performance shares.

As of September 30, 2020 COVID-19 has not had a material impact on this segment. The Company will aggressively defend its entitlements against litigation for both Grapevine and Centennial. However, extended court closures under local and state ordinances may delay previously scheduled hearings.

Most of the expenditures and capital investment to be incurred within our resort/residential real estate segment will continue to focus on the following:

- For Centennial, the approved Centennial specific plan includes 19,333 residential units and more than 10.1 million square feet of commercial space. The Company is working with the County of Los Angeles to address litigation filed in the Los Angeles Superior Court. See Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements for further discussion.
- For Grapevine, on December 11, 2018, the Kern County Superior Court ruled we had to amend our EIR by preparing supplemental environmental documentation to further analyze the Grapevine project's internal capture rate (ICR), which is the percent of vehicle trips remaining within the project. On December 10, 2019, the Kern County Board of Supervisors adopted the supplemental re-circulated EIR prepared in response to the court ruling and reapproved the development of Grapevine unanimously. The Company is working with Kern County to address litigation filed action in the Kern County Superior Court. See Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements for further discussion.
- For MV, we have a fully entitled project and received approvals of Tentative Tract Map 1 for our first four phases of development and of our commercial site plan for the first phase of commercial development. The timing of the MV development in the coming years will depend on the strength of both the economy and the real estate market, including both primary and second home markets. In moving the project forward, we will focus on the preparation of engineering leading to the final map for the first phases of MV, consumer and market research studies and fine tuning of development business plans, as well as defining the possible capital funding sources for this development.
- Over the next several years, we expect to explore funding opportunities for the future development of our projects. Such funding opportunities could come from a variety of sources, such as joint ventures with financial partners, debt financing, or the Company's issuance of additional common stock.

## Mineral Resources:

(\$ in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Mineral resources revenues				
Oil and gas	\$ 111	\$ 521	\$ (410)	(79)%
Cement	703	579	124	21 %
Rock aggregate	472	412	60	15 %
Exploration leases	25	26	(1)	(4)%
Water Sales	—	—	—	— %
Reimbursables and other	11	21	(10)	(48)%
Total mineral resources revenues	\$ 1,322	\$ 1,559	\$ (237)	(15)%
Total mineral resources expenses	\$ 648	\$ 576	\$ 72	13 %
Operating income from mineral resources	\$ 674	\$ 983	\$ (309)	(31)%

- Mineral resources segment revenues were \$1,322,000 for the three months ended September 30, 2020, a decrease of \$237,000, or 15%, from \$1,559,000 for the three months ended September 30, 2019. The decrease is attributed to a \$410,000 decline in oil and gas royalties driven by depressed oil prices as a result of reduced demand and oversupply when compared to the prior period. The decrease was offset by a \$184,000 increase in cement, sand, and rock royalties resulting from an uptick in demand from the Company's tenant, National Cement as a result of road infrastructure projects.
- Mineral resources segment expenses were \$648,000 for the three months ended September 30, 2020, an increase of \$72,000 or 13%, from \$576,000 for the three months ended September 30, 2019. Property tax increases, from an increase in assessed mineral values, were the main driver of this change.

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Mineral resources revenues				
Oil and gas	\$ 543	\$ 1,513	\$ (970)	(64)%
Cement	1,697	1,395	302	22 %
Rock aggregate	1,042	917	125	14 %
Exploration leases	75	77	(2)	(3)%
Water Sales	5,471	3,980	1,491	37 %
Reimbursables and other	448	469	(21)	(4)%
Total mineral resources revenues	\$ 9,276	\$ 8,351	\$ 925	11 %
Total mineral resources expenses	\$ 5,240	\$ 5,006	\$ 234	5 %
Operating income from mineral resources	\$ 4,036	\$ 3,345	\$ 691	21 %

- Mineral resources segment revenues were \$9,276,000 for the first nine months of 2020, an increase of \$925,000, or 11%, from \$8,351,000 for the first nine months of 2019. In 2019, the Company had an unfavorable water sales adjustment of \$1,050,000 that was tied to an increase in SWP allocation levels, impacting prior sales pricing. In 2020 however, SWP allocation levels were much lower, which in turn improved pricing, resulting in additional water sales revenues. Also in 2019, the Company experienced improved cement and rock aggregate revenues for the same factors discussed above within the segment's quarterly operating results. Improvements in water sales and cement and rock royalties were offset by a \$970,000 decrease in oil and gas royalties driven by the same factors mentioned within the discussion above of the segment's quarterly operating results.
- Mineral resources segment expenses were \$5,240,000 for the first nine months of 2020, an increase of \$234,000, or 5%, when compared to the same period in 2019. The increase is primarily attributed to the property tax increase discussed within the segment's quarterly operating results above.

As anticipated changes arise in the future related to groundwater management within California, such as limited pumping in the over drafted groundwater basins outside of our lands, we believe that water banking operations, ground water recharge programs, and access to water contracts like those we have purchased in the past will become even more important and valuable in servicing our projects. Although the current SWP water allocation is at 20%, uncertainty remains regarding the possibility of having additional water sales this year given the level of water currently being recovered from Kern County water banks as a result of prior year water banking activities.

Social distancing and California's Stay at Home Order have reduced the demand for oil and gasoline, leading to an oil surplus. Thus far, the price per barrel of oil has decreased over 39% from its December 31, 2019 levels. At these levels, the Company does not expect an increase in oil royalties for the next twelve months. The Company believes that pricing will slowly and gradually improve once consumers feel safe and the global economy reopens, fully. However, it is very difficult to predict when this will occur, particularly given recent spikes in COVID-19 cases across the United States, and the slowing of reopening initiatives in many states, including California.

On July 15, 2020, our largest oil royalty tenant, California Resources Corporation, or CRC, filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code that will allow them to improve their liquidity and debt positions. CRC received approval under the voluntary petition on October 13, 2020 and is out of bankruptcy and is once again being traded on public markets.. CRC has also received permission from the courts to allow them to pay lease and oil royalty obligations without interruption. At current prices, CRC has reduced production with no near-term intent to begin new drilling programs until oil prices reach higher levels. CRC has approved permits and drill sites on our land and has delayed the start of drilling as it evaluates the market. A positive aspect of our lease with CRC is that the approved drill sites are in an area of the ranch where the development and production costs are moderate due to the depths being drilled. CRC is current on all payments due to us through September 30, 2020.

### Farming:

(\$ in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Farming revenues				
Almonds	\$ 1,252	\$ 598	\$ 654	109 %
Pistachios	5,521	2,154	3,367	156 %
Wine grapes	1,638	1,622	16	1 %
Hay	53	96	(43)	(45)%
Other	73	132	(59)	(45)%
Total farming revenues	\$ 8,537	\$ 4,602	\$ 3,935	86 %
Total farming expenses	\$ 8,108	\$ 5,979	\$ 2,129	36 %
Operating income (loss) from farming	\$ 429	\$ (1,377)	\$ 1,806	(131)%

- Farming segment revenues were \$8,537,000 for the three months ended September 30, 2020, an increase of \$3,935,000, or 86%, from \$4,602,000 during the same period in 2019. The changes are primarily attributed to:
  - The sale of 456,000 pounds of pistachios in the three months ended September 30, 2020 compared to 831,000 pounds during the prior year period. The difference in sales volume reduced pistachio revenues by \$1,260,000. As a hedge against below average production for its almond and pistachio crops, the Company purchases crop production insurance annually. This insurance will pay for reduced production if crop production in the year falls below the insured levels. Although 2020 is not a down bearing year for pistachios, the crop did not receive adequate chilling hours as a result of the warm 2020 winter. Crops with inadequate chilling hours will have depressed yields and blooms. As a result of this, the Company filed a claim with its insurance provider in order to recuperate a portion of the reduced production revenues as a result of lost production. The insurance claim in the amount of \$3,789,000 was finalized during the third quarter and is included in the farming revenues above.
  - Almond revenues increased \$654,000 when compared to the prior year period. In 2019, delays in almond processing severely reduced the amount of almonds that could be sold in the third quarter.
- Farming segment expenses were \$8,108,000 for the three months ended September 30, 2020, an increase of \$2,129,000, or 36%, from \$5,979,000 during the same period in 2019. The Company attributes the increase to recording an additional



\$983,000 in almond cost of sales in 2020 compared to the timing of almond sales in 2019 discussed within the farming revenue discussion above. The Company also experienced an \$895,000 increase in fixed water charges with Wheeler Ridge as a result of the dry 2020 winter rain season. Lastly, the remainder of the increase can be attributed to incurring higher irrigation costs, namely utilities, and corporate allocated insurance costs.

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Farming revenues				
Almonds	\$ 2,113	\$ 1,293	\$ 820	63 %
Pistachios	5,555	2,799	2,756	98 %
Wine grapes	1,638	1,632	6	— %
Hay	285	332	(47)	(14)%
Other	107	247	(140)	(57)%
Total farming revenues	\$ 9,698	\$ 6,303	\$ 3,395	54 %
Total farming expenses	\$ 10,909	\$ 8,402	\$ 2,507	30 %
Operating loss from farming	\$ (1,211)	\$ (2,099)	\$ 888	(42)%

- Farming segment revenues were \$9,698,000 for the first nine months of 2020, an increase of \$3,395,000, or 54%, from \$6,303,000 during the same period in 2019. Increases in year-to-date revenues occurred for the same reasons described in the segment's quarterly operating results discussion above.
- Farming segment expenses were \$10,909,000 for the first nine months of 2020, an increase of \$2,507,000, or 30%, from \$8,402,000 when compared to the same period in 2019. Increases in year-to-date expenses occurred for the same reasons described in the segment's quarterly operating results discussion above.

Nut and grape crop markets are particularly sensitive to the size of each year's world crop and the demand for those crops. Large crops in California and abroad can rapidly depress prices. Crop prices, especially almonds, are also adversely affected by a strong U.S. dollar, which makes U.S. exports more expensive and decreases demand for the products we produce. China is the second largest purchaser of California almonds and its currency exchange rate has remained steady thus far in 2020. The low value of the U.S. dollar in prior years has helped to maintain strong almond prices in overseas markets. In 2020, the U.S. dollar continue to weaken after the worst of the COVID-19 pandemic hit in the second quarter. Lastly, increased tariffs from China and India, which are major customers of almonds and pistachios, can make American products less competitive and push customers to switch to another producing country.

The Company's agribusiness operations are deemed essential and have been allowed to operate under California's COVID-19 Orders. The Company continues to provide its employees with face masks and safety training to promote a safe working environment. As of the third quarter, COVID-19 has not had a measurable impact on the Company's farming operations.

For 2020, the almond industry is expecting record production due to a great bloom cycle. The industry continues to see strong demand for its product but the expected increase in production has begun to negatively impact prices. The Company's 2020 almond yields saw a small increase over 2019 levels as a result of putting into service two additional almond crop units. The mix of demand has been changed in the near term as a result of COVID-19 as more product is moving through wholesale markets and less through high end users such as restaurants. This temporary trend has also negatively impacted pricing. Thus far, the average price per pound for the 2020 crop is \$2.15 per pound compared to \$2.80 per pound for the 2019 crop.

Although 2020 is an on production year for pistachios, unfavorable warm winter conditions adversely impacted our pistachio's blooms and yields. Overall 2020 pistachio yields decreased 45% when compared to 2019 which was a down bearing year. In terms of pricing, our 2020 crop is selling for \$2.04 per pound compared to \$1.98 in 2019. The impact of lower chill hours has impacted pistachio growers in the southern end of the San Joaquin Valley in similar areas as to where we farm and lower production has been seen in these areas. Overall for California, production is up due to 2020 being an on production year and chill hours being greater in growing areas to the north of our lands.

For wine grapes there was not a discernible difference in terms of yields and pricing when compared to prior year.

Lastly, the impact of new state ground water management laws on new plantings and continuing crop production remains unknown. Water delivery and water availability continues to be a long-term concern within California. Any limitation of delivery of SWP water and the absence of available alternatives during drought periods could potentially cause permanent

damage to orchards and vineyards throughout California. While this could impact us, we believe we have sufficient water resources available to meet our requirements for the remainder of 2020.

### Ranch Operations:

(\$ in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Ranch Operations revenues				
Game management and other <sup>1</sup>	\$ 547	\$ 471	\$ 76	16 %
Grazing	397	405	(8)	(2)%
<b>Total Ranch Operations revenues</b>	<b>\$ 944</b>	<b>\$ 876</b>	<b>\$ 68</b>	<b>8 %</b>
Total Ranch Operations expenses	\$ 1,164	\$ 1,260	\$ (96)	(8)%
<b>Operating loss from Ranch Operations</b>	<b>\$ (220)</b>	<b>\$ (384)</b>	<b>\$ 164</b>	<b>(43)%</b>

<sup>1</sup> Game management and other revenues consist of revenues from hunting, filming, high desert hunt club (a premier upland bird hunting club), and other ancillary activities.

- Ranch operations revenues were \$944,000 for the three months ended September 30, 2020, an increase of \$68,000, or 8%, from \$876,000 for the same period in 2019. The increase is primarily attributed to a \$65,000 improvement in film location fees generated from a backlog of demand due to closures during the second quarter due to COVID-19.
- Ranch operations expenses were \$1,164,000 for the three months ended September 30, 2020, a decrease of \$96,000, or 8%, from \$1,260,000 for the same period in 2019. This decline is largely attributed to declines in payroll and headcount.

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Ranch Operations revenues				
Game Management and other <sup>1</sup>	\$ 1,252	\$ 1,353	\$ (101)	(7)%
Grazing	1,231	1,217	14	1 %
<b>Total Ranch Operations revenues</b>	<b>\$ 2,483</b>	<b>\$ 2,570</b>	<b>\$ (87)</b>	<b>(3)%</b>
Total Ranch Operations expenses	\$ 3,748	\$ 4,003	\$ (255)	(6)%
<b>Operating loss from Ranch Operations</b>	<b>\$ (1,265)</b>	<b>\$ (1,433)</b>	<b>\$ 168</b>	<b>(12)%</b>

<sup>1</sup> Game management and other revenues consist of revenues from hunting, filming, high desert hunt club (a premier upland bird hunting club), and other ancillary activities.

- Ranch operations revenues were \$2,483,000 for the first nine months of 2020, a decrease of \$87,000, or 3%, from \$2,570,000 for the same period in 2019. This decline is primarily attributed to having reduced film location fees of \$53,000 resulting from closures during the second quarter due to COVID-19.
- Ranch operations expenses were \$3,748,000 for the first nine months of 2020, a decrease of \$255,000, or 6%, from \$4,003,000 for the same period in 2019. This decline is attributed to lower payroll as a result of having fewer employees and also closures within the hunting department during the second quarter due to COVID-19.

### Corporate and Other:

Corporate general and administrative costs were \$2,121,000 for the three months ended September 30, 2020, an increase of \$361,000, or 21%, from \$1,760,000 for the same period in 2019. The increase is attributed to stock compensation, net of capitalization, of \$738,000 as a result of implementing a new performance stock compensation plan. This increase was offset by a decline in salaries of \$254,000, travel and entertainment of \$21,000, depreciation and amortization of \$29,000, and shareholder related expense of \$26,000

Corporate general and administrative costs were \$7,148,000 for the first nine months of 2020, an increase of \$624,000, or 10%, from \$6,524,000 for the same period in 2019. The Company experienced a \$1,483,000 increase in stock compensation expense as a result of the new performance stock compensation plan. This increase was offset by an increase in general and administrative allocations of \$248,000, a decrease in salaries of \$238,000, a decrease in professional services of \$130,000, a decrease in depreciation and amortization of \$119,000 and a decrease in travel and entertainment of \$40,000.

On April 17, 2020, the Company sold the building and land that was previously operated by a fast food tenant to its joint venture, Petro Travel Plaza, LLC. The Company received a cash distribution of \$2,000,000 from the joint venture, and realized a Gain on Sale of Real Estate of \$1,331,000.

#### Joint Ventures:

(\$ in thousands)	Three Months Ended September 30,		Change	
	2020	2019	\$	%
Equity in earnings (loss)				
Petro Travel Plaza Holdings, LLC	\$ 1,387	\$ 2,244	\$ (857)	(38)%
Five West Parcel, LLC	(3)	160	(163)	(102)%
18-19 West, LLC	(18)	(13)	(5)	38 %
TRCC/Rock Outlet Center, LLC	(834)	(364)	(470)	129 %
TRC-MRC 1, LLC	6	14	(8)	(57)%
TRC-MRC 2, LLC	172	158	14	9 %
TRC-MRC 3, LLC	383	—	383	100 %
Total equity in earnings	\$ 1,093	\$ 2,199	\$ (1,106)	(50)%

- Equity in earnings were \$1,093,000 for the three months ended September 30, 2020, a decrease of \$1,106,000 or 50%, from \$2,199,000 during the same period in 2019. The changes are primarily attributed to the following:
  - An \$857,000 decrease for our Petro Travel Plaza Holdings joint venture. For the quarter, the joint venture experienced significant declines in fuel volumes and in fuel margins resulting from reduced sales pricing. Additionally, quick and full service restaurant margins decreased as a result of closures due to COVID-19.
  - A \$381,000 decrease for our TRCC/Rock Outlet Center joint venture as a result of tenant bankruptcies and lease terminations which resulted in accelerated amortization of tenant allowances, many driven by COVID-19.
  - A \$163,000 decrease for our Five West Travel Plaza joint venture as a result of selling the building and land during the fourth quarter of 2019.
  - A \$383,000 improvement in TRC-MRC 3 as a result of the timing of contractual rental revenues when compared to the prior year period. During 2019, the leased up operating property had not begun to recognize contractual rent revenues.

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Equity in earnings (loss)				
Petro Travel Plaza Holdings, LLC	\$ 4,368	\$ 5,720	\$ (1,352)	(24)%
Five West Parcel, LLC	6	366	(360)	(98)%
18-19 West, LLC	(50)	(40)	(10)	25 %
TRCC/Rock Outlet Center, LLC	(1,754)	(1,424)	(330)	23 %
TRC-MRC 1, LLC	41	25	16	64 %
TRC-MRC 2, LLC	507	399	108	27 %
TRC-MRC 3, LLC	511	—	511	100 %
Total equity in earnings	\$ 3,629	\$ 5,046	\$ (1,417)	(28)%

- Equity in earnings were \$3,629,000 for the nine months ended September 30, 2020, a decrease of \$1,417,000, or 28%, from \$5,046,000 during the same period in 2019. The decline is attributed to the same factors discussed within the segment's quarterly operating results discussed above.

In conjunction with providing relief to certain tenants, the TRCC/Rock Outlet Center has agreed to defer rent for certain tenants due to the closure of the outlet center from March 20, 2020 through May 27, 2020. The following table sets forth information regarding the minimum rents billed and deferred to-date at the TRCC/Rock Outlet Center property level for the nine months ended September 30, 2020. TRCC/Rock Outlet Center is continuing to work with tenants to document temporary rent payment relief through rent deferrals. We continue to assess the probability of collecting outstanding receivables related to the 9 tenants that are currently in on-going negotiations. Management will continue to monitor each negotiation diligently, and when determined collectability is not probable, will reserve accordingly.

(\$ in thousands, except number of tenants)	Tenants <sup>2</sup>	Rent Billing <sup>1</sup>	Rent Relief due to COVID-19	Deferred Rent to be Collected in 2020	Deferred Rent to be Collected in 2021
Rent Deferral Agreements	7	\$ 698	\$ 186	\$ 23	\$ 163
Rent Abatement Agreements	13	\$ 758	\$ 316	N/A <sup>3</sup>	N/A <sup>3</sup>
On-Going Deferral Negotiations	9	\$ 946	\$ —	\$ —	\$ —

Percentage of Rent Deferred or Abated 21 %

<sup>1</sup>Amounts shown represent rent billing for tenants that had or are undergoing lease renegotiations for the nine months ended September 30, 2020.

<sup>2</sup> Excludes percentage rent tenants.

<sup>3</sup> Not applicable for rent abatement.

Please refer to "Non-GAAP Financial Measures" for further financial discussion of the results of our joint ventures.

### General Outlook

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

The COVID-19 pandemic and resulting global economic disruptions have impacted our operations and are expected to continue to impact our operations for the foreseeable future. For a detailed discussion of the pandemic and its expected effects, refer to the section above titled "The COVID-19 Pandemic" and "Results of Operations by Segment."

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, 2019, or Annual Report, and to Part I, Item 1A - "Risk Factors" of our Annual

Report. We continue to be involved in various legal proceedings related to leased acreage. For a further discussion, please refer to Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements in this report.

### Income Taxes

For the nine months ended September 30, 2020, the Company had net income tax expense of \$1,111,000 compared to \$320,000 for the nine months ended September 30, 2019. The effective tax rates approximated 229% and 27% for the nine months ended September 30, 2020 and 2019, respectively. As of September 30, 2020, income tax receivables were \$274,000. The Company classifies interest and penalties incurred on tax payments as income tax expenses. The Company recognized income tax expense primarily as a result of permanent differences related to Section 162(m) limitations and discrete tax expense associated with stock compensation. The Section 162(m) compensation deduction limitations occurred as a result of changes in tax law arising from the 2017 Tax Cuts Jobs Act, which did not impact the Company until this year. The discrete item was triggered when stock grants were issued to participants at a price less than the original grant price, causing a deferred tax shortfall. The shortfall recognized during the quarter represents the reversal of excess deferred tax assets recognized in prior periods. The recognition of the shortfall is not anticipated to have an impact on the Company's current income tax payable.

### Cash Flow and Liquidity

Our financial position allows us to pursue our strategies of land entitlement, development, and conservation. Accordingly, we have established well-defined priorities for our available cash, including investing in core operating segments to achieve profitable future growth. We have historically funded our operations with cash flows from operating activities, investment proceeds, and short-term borrowings from our bank credit facilities. In the past, we have also issued common stock and used the proceeds for capital investment activities.

To enhance shareholder value over the long-term, 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 \$50,354,000 at September 30, 2020, a decrease of \$15,836,000 from \$66,190,000 as of December 31, 2019.

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

<i>(in thousands)</i>	2020		2019	
Operating activities	\$	7,588	\$	555
Investing activities	\$	6,812	\$	(8,512)
Financing activities	\$	(5,351)	\$	1,162

#### *Operating Activities*

During the first nine months of 2020, the Company's operations provided \$7,588,000. The primary drivers was distributions of \$6,269,000 from our unconsolidated joint ventures. Additionally, we collected on a portion of our outstanding receivables related to farming.

During the first nine months of 2019, the Company's operations provided \$555,000. The primary drivers were \$3,656,000 in receivables collections offset by payments on current liabilities of \$2,952,000.

#### *Investing Activities*

During the first nine months of 2020, investing activities provided \$6,812,000. The Company made capital expenditures, inclusive of capitalized interest and payroll (exclusive of stock compensation), of \$15,407,000, which includes predevelopment activities for our master planned communities; \$3,117,000 consisting of planning and permitting primarily related to the preparation of final maps for Phase 1 of MV; expenditures relating to litigation of \$1,560,000 for Grapevine, and costs related to litigation defense for Centennial of \$2,424,000. At TRCC, we spent \$4,441,000 on water treatment infrastructure improvements and general planning. Within our farming segment, we spent \$3,741,000 developing new almond orchards, which includes cultural costs for 2020 for orchards not currently in production, and replacing machinery and equipment. Also within investing activities, we had investment security maturities of \$30,452,000, of which \$5,610,000 was reinvested. The Company also sold building and land in April 2020 that was previously operated by a fast food tenant to its joint venture, Petro Travel Plaza, LLC for \$2,000,000. Lastly, the Company used \$2,633,000 to acquire long-term water assets.

During the first nine months of 2019 investing activities used \$8,512,000. The Company made capital expenditures, inclusive of capitalized interest and payroll (exclusive of stock compensation), of \$19,195,000 which includes predevelopment activities for our master planned communities, consisting of general planning and permitting of \$3,096,000 for MV; expenditures relating

to re-entitlement and litigation of \$2,969,000 for Grapevine, and costs related to obtaining final approval of the specific plan for Centennial of \$3,437,000. At TRCC, we spent \$7,106,000 on water treatment infrastructure improvements, general planning, and the construction of a new commercial multi-tenant building. Within our farming segment, we spent \$2,301,000 developing new almond orchards and replacing machinery and equipment. Also within investing activities, we had investment security maturities of \$37,274,000 of which we reinvested \$20,425,000. The Company also contributed \$3,100,000 to two joint ventures. Lastly, the Company used \$3,553,000 to acquire long-term water assets.

As we move forward, we will continue to use cash from operations, proceeds from the maturity of securities, and anticipated distributions from joint ventures to fund real estate project investments, including the investments summarized below.

Our estimated capital investment, inclusive of capitalized interest and payroll, for the remainder of 2020 is primarily related to our real estate projects. These estimated investments include approximately \$1,899,000 of infrastructure development at TRCC-East to support continued commercial retail and industrial development and to expand water facilities to support future anticipated absorption. We also plan to invest approximately \$331,000 to continue the development of new almond orchards and replacing farm equipment. The farm investments are part of a long-term farm management program to redevelop declining orchards and vineyards to maintain and improve future farm revenues. Lastly, we expect to invest up to \$2,951,000 for land planning, litigation, mapping, federal and state agency permitting activities, and development activities at MV, Centennial, and Grapevine during the remainder of 2020.

We capitalize interest cost as a cost of the project only during the period for which activities necessary to prepare an asset for its intended use are ongoing, provided that expenditures for the asset have been made and interest cost has been incurred. Capitalized interest for the nine months ended September 30, 2020 and 2019, was \$2,059,000 and \$2,116,000, respectively and is classified within real estate development. We also capitalized payroll costs related to development, pre-construction, and construction projects which aggregated \$2,742,000 and \$2,877,000 for the nine months ended September 30, 2020 and 2019, respectively. Expenditures for repairs and maintenance are expensed as incurred.

#### *Financing Activities*

During the first nine months of 2020, financing activities used \$5,351,000, which was attributable to long-term debt service of \$3,767,000 and tax payments on vested share grants of \$1,584,000.

During the first nine months of 2019, financing activities provided \$1,162,000 as a result of drawing \$5,000,000 on the Company's RLC. This was offset by long-term debt service of \$2,994,000 and tax payments on vested share grants of \$844,000.

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 and mineral 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. The ongoing pandemic, COVID-19, continues to have a negative impact on traffic, consumer spend and demand for fuel, which have a direct impact on our operations, we also continue to experience lower oil royalties, which can negatively impact our cash flows. In response to this, we will continue to evaluate our operations for expense reductions and cash savings. Based on our experience, and assuming the impacts of the COVID-19 do not materially worsen, we believe we will have adequate cash flows, cash balances, and availability on our line of credit (discussed below) over the next twelve months to fund internal operations. COVID-19 has not impacted our ability to access traditional funding sources. As we move forward with the completion of the litigation, permitting and engineering design for our master planned communities and prepare to move into the development stage, we will need to secure additional funding through the issuance of equity and secure other forms of financing such as joint ventures and possibly debt financing.

We continuously evaluate our short-term and long-term capital investment needs. Based on the timing of capital investments, we may supplement our current cash, marketable securities, and operational funding sources through the sale of common stock and the incurrence of additional debt.

#### **Capital Structure and Financial Condition**

At September 30, 2020, total capitalization at book value was \$503,136,000, consisting of \$58,129,000 of debt and \$445,007,000 of equity, resulting in a debt-to-total-capitalization ratio of approximately 11.6%.

On October 13, 2014, the Company 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 added a \$70,000,000 term loan, or Term Loan, to the then existing \$30,000,000 revolving line of credit, or RLC. In August 2019, the Company amended the Term Note (Amended Term Note) and extended its maturity to June 2029 and amended the RLC to expand the capacity from \$30,000,000 to \$35,000,000 and extend the maturity to October 5, 2024.

The Amended Term Note had a \$55,879,000 balance as of September 30, 2020. The interest rate per annum applicable to the Amended Term Loan is LIBOR (as defined in the Amended Term Note) plus a margin of 170 basis points. The interest rate for the term of the Amended Term Note has been fixed through the use of an interest rate swap at a rate of 4.16%. The Amended Term Note requires monthly amortization payments pursuant to a schedule set forth in the Amended Term Note, with the final outstanding principal amount due June 5, 2029. The Amended Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables; the PEF power plant lease and lease site; and related accounts and other rights to payment and inventory.

The RLC had no outstanding balance as of September 30, 2020 and December 31, 2019. 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 this RLC (which matures in October 2024), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary.

Any future borrowings under the RLC are expected to 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, which are typical in this type of borrowing arrangement.

The Amended 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, 2020 and December 31, 2019, we were in compliance with the financial covenants.

The Amended Credit Facility also contains customary negative covenants that limit the ability of TRC to, among other things, make capital expenditures, incur indebtedness and issue guaranties, consummate certain assets sales, acquisitions or mergers, make investments, pay dividends or repurchase stock, or incur liens on any assets.

The Amended Credit Facility contains customary events of default, including: failure to make required payments; failure to comply with terms of the Amended Credit Facility; bankruptcy and insolvency; and a change in control without consent of bank (which consent will not be unreasonably withheld). The Amended Credit Facility contains other customary terms and conditions, including representations and warranties, which are typical for credit facilities of this type.

We also have a \$4,750,000 promissory note agreement whose principal and interest due monthly began 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 balance as of September 30, 2020 was \$2,250,000.

Our current and future capital resource requirements will be provided primarily from current cash and marketable securities, cash flow from ongoing operations, distributions from joint ventures, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, additional use of debt or drawdowns against our line of credit, proceeds from the reimbursement of public infrastructure costs through CFD bond debt (described below under "Off-Balance Sheet Arrangements"), and the issuance of additional common stock.

In May 2019, we filed an updated shelf registration statement on Form S-3, which went effective in May 2019. Under the shelf registration statement, we may offer and sell in the future one or more offerings 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 needs of the Company.

Although we have a strong liquidity position at September 30, 2020 with \$50,354,000 in cash and securities and \$35,000,000 available on our RLC to meet any short-term liquidity needs, we have taken steps to maximize positive cash flow, in case a lack of liquidity in the economy resulting from the responses to the COVID-19 pandemic limits our access to third party funding. We are doing this by responsibly limiting cash expenditures to the extent practical. See Note 3 (Marketable Securities) and Note 7 (Line of Credit and Long-Term Debt) of the Notes to Unaudited Consolidated Financial Statements for more information.

We continue to expect that substantial investments will be required in order to develop our land assets. In order to meet these capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we will use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. We will use a combination of the above funding sources to properly match funding requirements with the assets or development project being funded. There is no assurance that we can obtain financing or that we can obtain financing at favorable terms. We believe we have adequate capital resources to fund our cash needs and our capital investment requirements in the near-term 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, 2020, to be paid over the next five years and thereafter:

(In thousands)	Payments Due by Period				
	Total	One Year or Less	Years 2-3	Years 4-5	Thereafter
Contractual Obligations:					
Estimated water payments	\$ 261,952	\$ 10,994	\$ 20,909	\$ 21,636	\$ 208,413
Long-term debt	58,129	4,251	9,065	9,909	34,904
Interest on long-term debt	13,503	2,325	4,100	3,308	3,770
Cash contract commitments	7,435	3,611	1,458	518	1,848
Defined Benefit Plan	3,829	69	587	720	2,453
SERP	4,826	132	1,041	990	2,663
Tejon Ranch Conservancy	1,000	200	800	—	—
Financing fees	163	163	—	—	—
Total contractual obligations	<u>\$ 350,837</u>	<u>\$ 21,745</u>	<u>\$ 37,960</u>	<u>\$ 37,081</u>	<u>\$ 254,051</u>

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.

Estimated water payments include the Nickel Family, LLC water contract, which obligates us to purchase 6,693 acre-feet of water annually through 2044 and SWP contracts with Wheeler Ridge Maricopa Water Storage District, TCWD, Tulare Lake Basin Water Storage District, and Dudley-Ridge Water Storage District. These contracts for the supply of future water run through 2035. Please refer to Note 5 (Long-Term Water Assets) of the Notes to Consolidated Financial Statements for additional information regarding water assets.

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 operating lease obligations. Our operating lease obligations are for office equipment. At the present time, we do not have any capital lease obligations or purchase obligations outstanding.

As discussed in Note 13 (Retirement Plans) of the Notes to Unaudited Consolidated Financial Statements, we have long-term liabilities for deferred employee compensation, including pension and supplemental retirement plans. Payments in the above table reflect estimates of future defined benefit plan contributions from the Company to the plan trust, estimates of payments to employees from the plan trust, and estimates of future payments to employees from the Company that are in the SERP program. We contributed \$165,000 to our defined benefit plan in 2020.

Our financial obligations to the Tejon Ranch Conservancy are prescribed in the Conservation Agreement, as discussed in Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements. Our advances to the Tejon Ranch Conservancy are dependent on the occurrence of certain events and their timing, and are therefore subject to change in amount and period. The amounts included above are the minimum amounts we anticipate contributing through the year 2021, at which time our current contractual obligation terminates.



## Off-Balance Sheet Arrangements

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

(\$ in thousands)	Amount of Commitment Expiration Per Period				
	Total	< 1 year	2 -3 Years	4 -5 Years	After 5 Years
Other Commercial Commitments:					
Standby letter of credit	\$ 4,393	\$ 4,393	\$ —	\$ —	\$ —
Total other commercial commitments	\$ 4,393	\$ 4,393	\$ —	\$ —	\$ —

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company's Kern County developments. TRPFFA created two CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company's land to secure payment of special taxes related to \$28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to \$55,000,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately \$65,000,000 of additional bond debt authorized by TRPFFA.

In connection with the sale of bonds there is a standby letter of credit for \$4,393,000 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 as of September 30, 2020, that the letter of credit will likely 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 \$68,000. 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 as of September 30, 2020.

At September 30, 2020, aggregate outstanding debt of unconsolidated joint ventures was \$134,249,000. We provided a guarantee on \$119,215,000 of this debt, relating to our joint ventures with Rockefeller and Majestic. Because of positive cash flow generation within the Rockefeller and Majestic joint ventures, we, as of September 30, 2020, do not currently expect the guarantee to be called upon. We do not provide a guarantee on the \$15,034,000 of debt related to our joint venture with TA/Petro.

## Non-GAAP Financial Measures

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 384	\$ 37	\$ (626)	\$ 870
Net loss attributable to non-controlling interest	(14)	(10)	(9)	(3)
Net income (loss) attributable to common stockholders	398	47	(617)	873
Interest, net				
Consolidated	(455)	(294)	(834)	(972)
Our share of interest expense from unconsolidated joint ventures	653	708	1,971	2,176
Total interest, net	198	414	1,137	1,204
Income taxes	403	7	1,111	320
Depreciation and amortization:				
Consolidated	1,455	1,426	3,635	3,562
Our share of depreciation and amortization from unconsolidated joint ventures	1,167	1,013	3,222	3,147
Total depreciation and amortization	2,622	2,439	6,857	6,709
EBITDA	3,621	2,907	8,488	9,106
Stock compensation expense	1,167	338	3,566	1,930
Adjusted EBITDA	\$ 4,788	\$ 3,245	\$ 12,054	\$ 11,036

Net operating income (NOI) is a non-GAAP financial measure calculated as operating income, the most directly comparable financial measure calculated and presented in accordance with GAAP, excluding general and administrative expenses, interest expense, depreciation and amortization, and gain or loss on sales of real estate. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it primarily reflects those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Commercial/Industrial operating income	\$ 684	\$ 652	\$ 1,440	\$ 3,688
Plus: Commercial/Industrial depreciation and amortization	117	144	367	432
Plus: General, administrative, cost of sales and other expenses	1,816	1,564	4,950	7,460
Less: Other revenues including land sales	(401)	(515)	(1,260)	(5,878)
<b>Total Commercial/Industrial net operating income</b>	<b>\$ 2,216</b>	<b>\$ 1,845</b>	<b>\$ 5,497</b>	<b>\$ 5,702</b>

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net operating income				
Pastoria Energy Facility	\$ 1,467	\$ 1,088	\$ 3,464	\$ 3,487
TRCC	377	375	935	1,071
Communication leases	229	223	683	683
Other commercial leases	143	159	415	461
<b>Total Commercial/Industrial net operating income</b>	<b>\$ 2,216</b>	<b>\$ 1,845</b>	<b>\$ 5,497</b>	<b>\$ 5,702</b>

The Company utilizes NOI of unconsolidated joint ventures as a measure of financial or operating performance that is not specifically defined by GAAP. We believe NOI of unconsolidated joint ventures provides investors with additional information concerning operating performance of our unconsolidated joint ventures. We also use this measure internally to monitor the operating performance of our unconsolidated joint ventures. Our computation of this non-GAAP measure may not be the same as similar measures reported by other companies. This non-GAAP financial measure should not be considered as an alternative to net income as a measure of the operating performance of our unconsolidated joint ventures or to cash flows computed in accordance with GAAP as a measure of liquidity, nor are they indicative of cash flows from operating and financial activities of our unconsolidated joint ventures.

The following schedule reconciles net income of unconsolidated joint ventures to NOI of unconsolidated joint ventures. Please refer to Note 15 (Investment in Unconsolidated and Consolidated Joint Ventures) of the Notes to Unaudited Consolidated Financial Statements for further discussion on joint ventures.

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income of unconsolidated joint ventures	\$ 1,724	\$ 3,653	\$ 5,802	\$ 8,187
Interest expense of unconsolidated joint ventures	1,288	1,384	3,881	4,251
Operating income of unconsolidated joint ventures	3,012	5,037	9,683	12,438
Depreciation and amortization of unconsolidated joint ventures	2,204	1,901	6,072	5,920
<b>Net operating income of unconsolidated joint ventures</b>	<b>\$ 5,216</b>	<b>\$ 6,938</b>	<b>\$ 15,755</b>	<b>\$ 18,358</b>

### 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 and Poor's. See Note 3 (Marketable Securities) of the Notes to Unaudited Consolidated Financial Statements.

The RLC had no outstanding balance as of September 30, 2020. The interest rate on the RLC can either float at 1.50% over a selected LIBOR rate 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, one of which was for \$55,879,000 as of September 30, 2020 and 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 4.16%. The outstanding balance on the second term loan as of September 30, 2020 was \$2,250,000 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 term loan (discussed here).

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 our 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, 2020**  
(In thousands except percentage data)

	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
<b>Assets:</b>								
Marketable securities	\$11,395	\$2,775	\$—	\$—	\$—	\$—	\$14,170	\$14,199
Weighted average interest rate	1.94%	0.99%	—%	—%	—%	—%	1.76%	
<b>Liabilities:</b>								
Long-term debt (\$4.75M note)	\$59	\$244	\$254	\$265	\$277	\$1,151	\$2,250	\$2,250
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (Amended Term Loan)	\$992	\$4,051	\$4,221	\$4,429	\$4,624	\$37,562	\$55,879	\$55,879
Weighted average interest rate	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	

**Interest Rate Sensitivity Financial Market Risks**  
**Principal Amount by Expected Maturity**  
**At December 31, 2019**  
(In thousands except percentage data)

	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value
<b>Assets:</b>								
Marketable securities	\$38,133	\$900	\$—	\$—	\$—	\$—	\$39,033	\$39,084
Weighted average interest rate	2.03%	2.06%	—%	—%	—%	—%	2.03%	
<b>Liabilities:</b>								
Long-term debt (\$4.75M note)	\$302	\$315	\$328	\$343	\$357	\$1,484	\$3,129	\$3,129
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (\$70.0M note)	\$3,881	\$4,051	\$4,221	\$4,429	\$4,624	\$37,562	\$58,768	\$58,768
Weighted average interest rate	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	

**Commodity Price Exposure**

Farming inventories and accounts receivables are exposed to adverse price fluctuations. Farming inventories consists of farming cultural and processing costs associated with crop production. Farming inventory costs are recorded as incurred. Historically, these costs have been recovered through crop sales occurring after harvest.

With respect to accounts receivables, the amount at risk primarily relates 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 \$9,731,000 of accounts receivable outstanding at September 30, 2020, \$1,370,000, or 14%, is at risk to changing prices. Of the amount at risk to changing prices, \$898,000 is attributable to pistachios and \$471,000 is attributable to almonds.

The price estimated for the remaining accounts receivable for pistachios recorded at September 30, 2020 was \$2.04 per pound and \$1.98 per pound at December 31, 2019. For each \$0.01 change in the price per pound of pistachios, our receivable for pistachios increases or decreases by \$4,400. Although the final price per pound of pistachios, and therefore the extent of the risk is presently unknown, pricing over the past three years has ranged from \$1.98 to \$2.04. With respect to almonds, the price estimated for the remaining receivable at September 30, 2020 was \$2.63 per pound, as compared to \$2.63 per pound at December 31, 2019. For each \$0.01 change in the price of almonds, our receivable for almonds increases or decreases by \$1,800. The range of final prices over the last three years for almonds has ranged from \$2.57 to \$2.63 per pound.

#### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of 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 as of the end of the period covered by this report, our disclosure controls and procedures were 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 is recorded, processed, summarized and reported within the time period required by the rules and regulations of the SEC.

(b) Changes in Internal Control Over Financial Reporting

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

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

*The following supplements and updates the risk factors in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, as updated by the risk factors in Part II, Item 1A "Risk Factors" in our Quarterly Report for the quarterly period ended March 31, 2020 and June 30, 2020.. If any of the risks discussed in these filings occur, our results of operations could be adversely affected. Some statements in this Quarterly Report on Form 10-Q, including statements in the following risk factor constitute forward-looking statements. Please refer to Part I, Item 2 of this Quarterly Report on Form 10-Q for more information.*

#### **Risks Related to Our Business**

##### ***Our results of operation could be adversely affected by the ongoing COVID-19 pandemic.***

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. This outbreak, which has spread widely throughout the United States and nearly all other regions of the world, has prompted federal, state and local governmental authorities in the United States to declare states of emergency and institute preventative measures to contain and/or mitigate the public health effects. These preventative measures, which include quarantines, shelter-in-place orders and similar mandates that substantially restrict daily activities for many individuals, as well as orders calling for the closure and/or curtailment of operations for many businesses, have caused and continue to cause significant disruption to businesses in affected areas, as well as the financial markets both globally and in the United States, more broadly. In California, the gradual re-opening and redeployment of quarantine measures has had an adverse impact on our operations and those of our commercial tenants.

In response to the COVID-19 pandemic and measures taken by applicable governmental authorities, beginning in mid-March 2020 and continuing with California's blueprint for reducing COVID-19, which was released in August 2020, our employees are required to wear masks when working in our offices, while also maintaining proper safe social distancing. Subject to the use of appropriate risk mitigation and safety practices, we are continuing our business operations while adhering to California's blueprint criteria for activities within the state, which include in-door dining and retail shopping restrictions. We believe these measures were advisable and in the best interests of our employees, suppliers, customers and communities. Further, in the event any of our employees, and/or employees of our service providers or trade partners, contract COVID-19 or are otherwise compelled to self-quarantine, we may experience shortages in labor and services that we require for our operations.

A majority of our segments were exempt from the application of "stay-at-home" orders, yet are able to continue operating under California's blueprint as discussed above. Decreases in traffic and minimal indoor options have led our gas stations and quick service restaurants to reduce hours and manage labor as cost saving measures, which impacted their revenues. Some of our commercial tenants have sought and received rent deferrals and may seek further relief to the extent pandemic-related restrictions continue to significantly impact their operations.

We may also be materially and adversely affected by the disruptions to U.S. and local economies that result from the COVID-19 pandemic, including reduced consumer confidence, unemployment levels, wage growth and fluctuating interest rates. The COVID-19 pandemic has resulted in substantial volatility in U.S. and international debt and equity markets and has caused significant decreases in the market prices of equity securities, including our common stock. The possibility of a prolonged recession or economic downturn could result in, among other things, a decrease in demand for consumer goods and a diminished value in our real estate investments, including potential impairments.

Ultimately, the effects of the COVID-19 pandemic on our business and results of operation will depend upon future developments, including the severity of COVID-19 and the duration of the outbreak; the duration of social distancing and shelter-in-place orders; further mitigation strategies taken by applicable government authorities; the availability of a vaccine, adequate testing and treatments and the prevalence of widespread immunity to COVID-19; the impacts on our supply chain; the health of our employees, service providers and trade partners; and the reactions of U.S. and global markets and their effects on consumer confidence and spending. Such adverse effects, however, may continue to include decreases in the following: oil prices, commodity prices, and traffic, which our commerce center is highly dependent on, and which impacted our results of operations during the third quarter of 2020. Volume of activity within TRCC did begin to improve in late summer and early fall, which has begun to help our tenants. The impact of COVID-19 may also exacerbate other risks discussed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K, any of which could have a material effect on us.

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

None.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits:

3.1	Restated Certificate of Incorporation	FN 1
3.2	Amended and Restated Bylaws	FN 2
4.3	Registration and Reimbursement Agreement	FN 5
4.5	Form of Indenture for Debt	FN 37
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 6
10.7	*Severance Agreement	FN 7
10.8	*Director Compensation Plan	FN 7
10.9	*Amended and Restated Non-Employee Director Stock Incentive Plan	FN 8
10.9(1)	*Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan	FN 7
10.10	*Amended and Restated 1998 Stock Incentive Plan	FN 9
10.10(1)	*Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan	FN 7
10.12	Ground Lease with Pastoria Energy Facility L.L.C.	FN 10
10.15	Form of Securities Purchase Agreement	FN 11
10.16	Form of Registration Rights Agreement	FN 12
10.17	*2004 Stock Incentive Program	FN 13
10.18	*Form of Restricted Stock Agreement for Directors	FN 13
10.19	*Form of Restricted Stock Unit Agreement	FN 13
10.23	Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 14
10.24	Tejon Ranch Conservation and Land Use Agreement	FN 15
10.25	Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC	FN 16
10.26	*Executive Employment Agreement - Allen E. Lyda	FN 17
10.27	Limited Liability Company Agreement of TRCC/Rock Outlet Center LLC	FN 18
10.28	Warrant Agreement	FN 19
10.29	Amendments to Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 20
10.30	Membership Interest Purchase Agreement - Tejon Mountain Village LLC	FN 21
10.31	Amended and Restated Credit Agreement	FN 22
10.32	Term Note	FN 22
10.33	Revolving Line of Credit	FN 22
10.34	Amendments to Lease Agreement with Pastoria Energy Facility L.L.C.	FN 23
10.35	Water Supply Agreement with Pastoria Energy Facility L.L.C.	FN 24
10.37	Limited Liability Company Agreement of TRC-MRC 2, LLC	FN 26
10.38	Limited Liability Company Agreement of TRC-MRC 1, LLC	FN 27
10.39	Centennial Founders LLC, Redemption and Withdrawal Agreement - Lewis Tejon Member, LLC	FN 28



10.40	First Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 29
10.41	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 30
10.42	Limited Liability Company Agreement of TRC-MRC 3, LLC	FN 31
10.43	Fourth Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 32
10.44	Centennial Founders, LLC Redemption and Withdrawal Agreement - CalAtlantic	FN 33
10.45	Amended Revolving Line of Credit	FN 34
10.46	Amended Term Note	FN 35
10.47	*Executive Officer Severance Agreement - Gregory S. Bielli	FN 38
16.1	Letter dated March 19, 2019 from Ernst & Young LLP to the Securities and Exchange Commission	FN 36
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).	
	* Management contract, compensatory plan or arrangement.	

FN 1	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 99.1 to our Current Report on Form 8-K filed May 26, 2020, is incorporated herein by reference. This Exhibit was not filed with the Securities and Exchange Commission in an electronic format.
FN 2	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 99.1 to our Current Report on Form 8-K filed on May 26, 2020, is incorporated herein by reference.
FN 5	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 4.1 to our Current Report on Form 8-K filed on December 20, 2005, is incorporated herein by reference.
FN 6	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference. This Exhibit was not filed with the Securities and Exchange Commission in an electronic format.
FN 7	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by reference.
FN 8	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) 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 9	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) 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 10	This document filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.16 to our Annual Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by reference.
FN 11	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 4.1 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
FN 12	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 4.2 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.

- FN 13 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibits 10.21-10.23 to our Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by reference.
- FN 14 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.24 to our Current Report on Form 8-K filed on May 24, 2006, is incorporated herein by reference.
- FN 15 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.28 to our Current Report on Form 8-K filed on June 23, 2008, is incorporated herein by reference.
- FN 16 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.25 to our Quarterly Report on Form 10-Q for the period ended June 30, 2009, is incorporated herein by reference.
- FN 17 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on May 8, 2013, for the period ending March 31, 2013, is incorporated herein by reference.
- FN 18 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.27 to our Current Report on Form 8-K filed on June 4, 2013, is incorporated herein by reference.
- FN 19 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.1 to our Current Report on Form 8-K filed on August 8, 2013, is incorporated herein by reference.
- FN 20 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) 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 21 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.30 to our Current Report on Form 8-K filed on July 16, 2014, is incorporated herein by reference.
- FN 22 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) 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 23 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) 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 24 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.35 to our Quarterly Report on Form 10-Q for the period ended June 30, 2015, is incorporated herein by reference.
- FN 26 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.37 to our Quarterly Report on Form 10-Q for the period ended June 30, 2016, is incorporated herein by reference.
- FN 27 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.38 to our Quarterly Report on Form 10-Q for the period ended September 30, 2016, is incorporated herein by reference.
- FN 28 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.39 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 29 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.40 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 30 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.41 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 31 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.42 to our Quarterly Report on Form 10-Q for the period ended September 30, 2018, is incorporated herein by reference.
- FN 32 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.43 to our Annual Report on Form 10-K for the year ended December 31, 2018, is incorporated herein by reference.
- FN 33 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.44 to our Annual Report on Form 10-K for the year ended December 31, 2018, is incorporated herein by reference.
- FN 34 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.45 to our Quarterly Report on Form 10-Q for the period ending September 30, 2019, is incorporated herein by reference.

- FN 35 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.46 to our Quarterly Report on Form 10-Q for the period ending September 30, 2019, is incorporated herein by reference.
- FN 36 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 99.1 to our Current Report on Form 8-K filed on March 21, 2019, is incorporated herein by reference.
- FN 37 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 333-231032) as Exhibit 4.6 to our Registration Statement on Form S-3 filed on April 25, 2019, is incorporated herein by reference.
- FN 38 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-07183) as Exhibit 10.47 to our Annual Report on Form 10-K for the year ended December 31, 2019, is incorporated herein by reference.

**SIGNATURES**

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

**TEJON RANCH CO.**

November 3, 2020  
\_\_\_\_\_  
Date

/s/ Gregory S. Bielli  
\_\_\_\_\_  
Gregory S. Bielli  
President and Chief Executive Officer  
(Principal Executive Officer)

November 3, 2020  
\_\_\_\_\_  
Date

/s/ Robert D. Velasquez  
\_\_\_\_\_  
Robert D. Velasquez  
Senior Vice President of Finance and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT 31.1**

**Certification of Chief Executive Officer Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gregory S. Bielli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tejon Ranch Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2020

/s/ Gregory S. Bielli

Gregory S. Bielli  
President and Chief Executive Officer

**EXHIBIT 31.2**

**Certification of Chief Executive Officer Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robert D Velasquez, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tejon Ranch Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2020

/s/ Robert D. Velasquez

Robert D. Velasquez  
Senior Vice President of Finance and Chief Financial Officer

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in his capacity as an officer of Tejon Ranch Co. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his own knowledge:

- The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

A signed original of this written statement required by Section 906 has been provided to Tejon Ranch Co. and will be retained by Tejon Ranch Co., and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 3, 2020

/s/ Gregory S. Bielli

Gregory S. Bielli

President and Chief Executive Officer

/s/ Robert D. Velasquez

Robert D. Velasquez

Senior Vice President of Finance and Chief Financial Officer