TEJON RANCH CO
Form 10-K
March 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-7183

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

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

P.O. Box 1000, Lebec, California 93243
(Address of principal executive offices)
Registrant's telephone number, including area code: (661) 248-3000
Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ((§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

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 x

The aggregate market value of registrant's Common Stock, par value $.50 per share, held by persons other than those who may be deemed to be affiliates of registrant on June 30, 2017 was $422,344,798 based on the last reported sale price on the New York Stock Exchange as of the close of business on that date.

The number of the Company's outstanding shares of Common Stock on February 28, 2018 was 25,912,425.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders relating to the directors and executive officers of the Company are incorporated by reference into Part III.

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PART I

Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements, including statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields and prices, water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness and other future events and conditions. In some cases, these statements are identifiable through the use of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “will,” “should,” “w expressions. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, market and economic forces, availability of financing for land development activities, competition and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above and in Part I, Item 1A, “Risk Factors” of this report.

As used in this annual report on Form 10-K, references to the “Company,” “Tejon,” “TRC,” “we,” “us,” and “our” refer to Tej Ranch Co. and its consolidated subsidiaries. The following discussion should be read in conjunction with the consolidated financial statements and the accompanying notes appearing elsewhere in this annual report on Form 10-K.

ITEM 1. BUSINESS

Company 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 create value for our shareholders. Current operations consist of land planning and entitlement, land development, commercial sales and leasing, leasing of land for mineral royalties, water asset management and sales, grazing leases, income portfolio management, farming, and ranch operations.

These activities are performed through our five segments:

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

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 projects to serve the growing populations of Southern and Central California. Once all entitlements are approved, our mixed use master planned residential developments collectively may include up to 35,000 housing units, with 15,450 units currently approved, and more than 35 million square feet of commercial space, with 25 million square feet currently approved. We have obtained entitlements on Mountain Village at Tejon Ranch, or MV, and Grapevine at Tejon Ranch, or Grapevine, and are currently in the entitlement process with Centennial at Tejon Ranch, or Centennial. We are currently engaged in entitlement, 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 farming, mineral resources, and our various joint ventures.

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Percentage of Total Revenue[1] and Other Income by Segment:

[1] Real Estate includes equity in earnings of unconsolidated joint ventures.

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

FINANCIAL INFORMATION ABOUT SEGMENTS
(Amounts in thousands of dollars)

	Year Ended December 31,		
	2017	2016	2015
Revenues and Other Income			
Real Estate—Commercial/Industrial (2)	$9,403	$9,438	$8,272
Mineral Resources	5,983	14,153	15,116
Farming	16,434	18,648	23,836
Ranch operations (2)	3,837	3,338	3,923
Segment revenues	35,657	45,577	51,147
Gain on sale of real estate	—	1,044	—
Investment income	462	457	528
Other income	153	158	381
Revenues and other income	$36,272	$47,236	$52,056
Equity in earnings of unconsolidated joint ventures	4,227	7,098	6,324
Total revenues and other income (1)	$40,499	$54,334	$58,380
Segment Profits (Losses) and Net Income			
Real Estate—Commercial/Industrial (2)	$2,874	$2,338	$1,578
Real Estate—Resort/Residential	(1,955)	(1,630)	(2,349)
Mineral Resources	3,019	6,357	7,720
Farming	233	(25)	4,852
Ranch operations (2)	(1,574)	(2,396)	(2,189)
Segment profits (3)	2,597	4,644	9,612
Gain on sale of real estate	—	1,044	—
Investment income	462	457	528
Other income	153	158	381
Corporate expenses	(10,141)	(12,550)	(12,808)
Operating (loss) income before equity in earnings of unconsolidated joint ventures	(6,929)	(6,247)	(2,287)
Equity in earnings of unconsolidated joint ventures	4,227	7,098	6,324
(Loss) income before income taxes	(2,702)	851	4,037
Income tax (benefit) provision	(1,123)	336	1,125
Net (loss) income	(1,579)	515	2,912
Net loss attributable to noncontrolling interest	(24)	(43)	(38)
Net (loss) income attributable to common stockholders	$(1,555)	$558	$2,950
Identifiable Assets by Segment (4)			
Real estate—commercial/industrial	$63,065	$65,290	$67,550
Real estate—resort/residential	258,697	243,963	228,064
Mineral Resources	48,305	45,066	46,025
Farming	36,317	36,895	32,542
Ranch operations	3,625	3,893	4,313
Corporate	108,190	44,594	53,425
Total assets	$518,199	$439,701	$431,919

(1) Refer to Note 16, Reporting Segments and Related Information of the Notes to the Consolidated Financial Statements for additional detail related to segment revenues.
(2) During the fourth quarter of 2015, the Company reclassified revenues and expenses previously classified as commercial/industrial into a new segment called Ranch Operations. Ranch operations comprise of grazing leases, game management and other ancillary services supporting the ranch.

(3) Segment profits are revenues less operating expenses, excluding investment income and expense, corporate expenses, equity in earnings of unconsolidated joint ventures, and income taxes.
(4) Total Assets by Segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist of cash and cash equivalents, refundable and deferred income taxes, land, buildings and improvements.

Real Estate Development Overview

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

Interstate 5, one of the nation’s most heavily traveled freeways, brings in excess of 83,000 vehicles per day through our land, which includes 16 miles of Interstate 5 frontage on each side of the freeway and the commercial land surrounding three interchanges. The strategic plan for real estate focuses on development opportunities along the Interstate 5 and Highway 138 corridors, which includes TRCC in Kern County, Centennial, a mixed use master planned community on our land in Los Angeles County, Mountain Village, a resort and residential community in Kern County, and Grapevine, a mixed use master planned community on our land in Kern County. TRCC includes developments east and west of Interstate 5 at TRCC-East and TRCC-West, respectively.

The chart below is a continuum of the real estate development process highlighting each project's current status and key milestones to be met in moving through the real estate development process in California. During this process, we may experience delays arising from factors beyond our control. Such factors include litigation and a changing regulatory environment.

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

Operating Segments
Real Estate - Commercial/Industrial
Construction:
During 2017, our TRC-MRC 1 joint venture with Majestic Realty Co., or Majestic, completed the construction of a state-of-the-art, 480,480 square foot distribution facility.
During 2016, our commercial retail activity continued to grow as new leases came on line with Habit Burger and Baja Fresh. In addition, our TA/Petro, or Petro, joint venture completed construction of a new Shell gas station and convenience store that commenced operations during the first quarter of 2016. Lastly, we have entered into two joint venture operating agreements with Majestic, a Los Angeles based commercial/industrial developer, to pursue the development, construction, leasing, and management of an approximately 480,480 square foot industrial building on the Company’s property at TRCC-East and to purchase, own, and manage a 652,000 square foot, fully leased, industrial building in TRCC-West.
The following is a summary of the Company's commercial, retail and industrial real estate developments as of December 31, 2017:
($ in thousands)

Project	Cost to Date	Estimated Cost to Complete	Total Estimated Cost at Completion	Estimated Completion Date
Tejon Ranch Commerce Center	$83,582	$ 71,909	$ 155,491	TBD
Less: Reimbursements from TRPFFA[1]	64,862	60,450	125,312	TBD
TRCC Development Costs, net	$18,720	$ 11,459	$ 30,179	

1The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and Tejon-Castac Water District, or TCWD, to finance public infrastructure within the Company’s Kern County developments. TRPFFA, through bond sales, will reimburse the Company for qualifying infrastructure costs at TRCC.

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The following table summarizes total entitlements for TRCC as of December 31, 2017:

(in square feet)	Industrial	Commercial Retail
Total entitlements received	19,300,941	956,309
Total entitlements used	4,237,149	632,795
Entitlements available	15,063,792	323,514

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Leasing:
Within our commercial/industrial segment, we lease land to various types of tenants. We currently lease land to two auto service stations with convenience stores, 13 fast-food operations, two full-service restaurants, a motel, an antique shop, and a United States Postal Service facility.
In addition, the Company leases several microwave repeater locations, radio and cellular transmitter sites, fiber optic cable routes, and 32 acres of land to Pastoria Energy Facility, L.L.C., or PEF, for an electric power plant.
The sale and leasing of commercial/industrial real estate is very competitive, with competition coming from numerous and varied sources around California. Our most direct regional competitors are in the Inland Empire, a large industrial area located east of Los Angeles which continues its expansion eastward beyond Riverside and San Bernardino including Perris, Moreno Valley, and Beaumont region of Southern California, Northern Los Angeles including both the San Fernando Valley and Santa Clarita Valley, and areas north of us in the San Joaquin Valley of California. The principal factors of competition in this industry are price, availability of labor, proximity to the port complex of Los Angeles/Long Beach and customer base. A potential disadvantage to our development strategy is our distance from the ports of Los Angeles and Long Beach in comparison to the warehouses and distribution centers located in the Inland Empire. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcels.
During 2017, vacancy rates in the Inland Empire approximated 3.7%, the lowest vacancy rate ever recorded in the Inland Empire. Vacancy is at an all-time low and further declines will be hard to achieve. This is especially true given that 26.1 million square feet remains in the construction pipeline. The low vacancy rates have also led to an increase in lease rates of 7.7% 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 2017, vacancy rates in the Northern Los Angeles industrial market, which includes the San Fernando Valley and Santa Clarita Valley, approximated 1.7%. This industrial market continues to see available supply remain at extremely low levels, and while new construction has recently been at higher levels, it still has not been enough to keep pace with strong demand, resulting in vacancy remaining at all-time lows and rental rates still rising rapidly.
Demand for industrial space in this market will continue to be driven by domestic and global consumption levels. In 2017, the Los Angeles and Long Beach Port container traffic recorded its highest container total ever with 16.89 million Twenty-Foot Equivalent Units, or TEU's, up 8% from 2016 and 7% higher than its second highest year during 2006. TEU is a measure of a ship's cargo carrying capacity. The dimensions of one TEU are equal to that of a standard shipping container measuring 20 feet long by 8 feet tall.
The following table summarizes information with respect to lease expirations for our consolidated entities as of December 31, 2017.

Year of Lease Expiration	Number of Expiring Leases	RSF of Expiring Leases	Annualized Base Rent[1]	Percentage of Annual Minimum Rent
2018	3	55,321	$78	0.69%
2019	1	—	$24	0.21%
2020	3	61,495	315	2.76
2021	6	60,722	$229	2.01%
2022	5	46,414	$296	2.59%
2023	2	4,640	213	1.86%
2024	—	—	—	—%
2025	2	4,613	260	2.27
2026	3	4,645	$256	2.24%
2027	1	1,801	$86	0.76%
2028	—	—	—	—%
Thereafter[2]	6	1,589,905	$3,956	—%

1 - Annualized base rent is calculated as monthly base rent (cash basis) per the lease, as of the reporting period, multiplied by 12. Annualized base rent shown in thousands.

2 - This amount includes 32 acres of the PEF ground lease.

Eight leases expired during the year-ended December 31, 2017. The leases were renewed in 2017 and represented less than 5% of annualized base rent.

Please refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding our 2017 commercial/industrial activity.

Joint Ventures:

During 2016, we entered into a joint venture operating agreement with Majestic to pursue the development, construction, leasing, and management of an approximately 480,480 square foot industrial building on the Company's property at Tejon Ranch Commerce Center East. In addition, we entered into a second limited liability company agreement with Majestic Realty Co. for the purchase of, ownership of, and management of a fully leased, 651,909 square foot industrial building located at Tejon Ranch Commerce Center.

We are also involved in multiple joint ventures with several partners. Our joint TA/Petro joint venture, owns and operates two travel and truck stop facilities, restaurants, and five separate gas stations with convenience stores within TRCC-West and TRCC-East. We are involved in three joint ventures with Rockefeller Development Group which includes the following: Five West Parcel LLC, which owns a 606,000 square foot building in TRCC-West that is fully leased to Dollar General, 18-19 West LLC, which owns 61.5 acres of land for future development within TRCC-West, and TRCC/Rock Outlet Center LLC, which operates the Outlets at Tejon.

Real Estate - Resort/Residential

Our resort/residential segment activities include land entitlement, land planning and pre-construction engineering, and land stewardship and conservation activities. We have three major resort/residential communities within this segment: MV, which has entitlement approvals and approved tentative tract map for the first three phases of residential development; Centennial, which has zoning and land use designation within the Antelope Valley Area Plan, or AVAP, and the Los Angeles County General Plan, is completing the specific plan process in LA County; and Grapevine, which is on land owned within Kern County that has entitlement approvals and is in the litigation and permitting phase of the process. The entitlement process precedes the regulatory approvals necessary for land development and routinely takes several years to complete. The Conservation Agreement we entered into with five major environmental organizations in 2008 is designed to minimize opposition from environmental groups to these projects and eliminate or reduce the time spent in litigation once governmental approvals are received. Litigation by environmental and other special interest groups have been a primary cause of delays and increased costs for real estate development projects in California.

As we embark on our mixed use master planned communities, we understand that it can take up to 25 years, or longer, to complete from commencement of construction. The entitlement process for development of property in California is complex, lengthy (spanning multiple years) and costly, involving numerous federal, state, and county regulatory approvals. We are unable to determine anticipated completion dates for our real estate development projects with certainty because the time for completion is heavily dependent on the regulatory approvals necessary for land development. Also, as a real estate developer, we are cognizant of the micro- and macro-economic factors that have a significant influence on the real estate sector. As a developer, one would be at an economic disadvantage to bring product to market with no willing or able buyers. This ebb and flow of the economy also plays into the timing of our completion date. Costs will also fluctuate over the life of these projects as a result of the cost of labor and raw materials and the timing of approvals and other activity. The uncertainty of estimated costs to completion is compounded by the potential impact of inflation, which will fluctuate with the equally uncertain completion dates for our projects.

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Mountain Village at Tejon Ranch:

MV is planned to be an exclusive, low-density, resort-based community that will provide owners and guests with a wide variety of recreational opportunities, lodging and spa facilities, putting greens, a range of housing options, and other exclusive services and amenities that are designed to distinguish MV as the resort community of choice for the Southern California market. MV is being developed by Tejon Mountain Village LLC, or TMV LLC, a wholly owned subsidiary of the Company. MV encompasses 5,082 acres for a mixed use development to 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.

During December 2017, the Company received approval of Tentative Tract Maps for the first three phases of residential units of MV. We are working toward delivering the first phase of the 160,000 square foot commercial center that we call Farm Village. Farm Village will serve as the “front door” to MV. Farm Village will include fresh culinary offerings, artisan markets, boutique lodging, and an array of trails, gardens, and agriculture that will be intertwined to create the most unique, relaxing and “edu-taining” experience while fulfilling the needs of residents of Mountain Village. The Company has submitted plans for the first phase of this commercial village to Kern County for review and approval.

In 2014, the Company acquired full ownership of TMV LLC through the purchase of DMB TMV LLC's interest in the former joint venture for $70,000,000 in cash.

The Company's decision to obtain full ownership of MV reflects the Company's growth as a fully integrated real estate company and demonstrates our belief in the future success of the development.

MV is fully entitled and all necessary permits have been issued to begin development once the mapping process is complete. Timing of MV development in the coming years will be dependent on the strength of both the economy and the residential real estate market. 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 capital funding sources for this development.

Centennial at Tejon Ranch:

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 19,333 homes, and 10.1 million square feet of commercial development. Centennial will also incorporate business districts, schools, retail and entertainment centers, medical facilities and other commercial office and light industrial businesses that, when complete, will create a substantial number of jobs. Centennial is being developed by Centennial Founders, LLC, a consolidated joint venture in which we have a 89.28% ownership interest as of December 31, 2017. In 2016, Lewis Investment Company withdrew from the joint venture. The surviving members (TRC, TRI Pointe Homes and CalAtlantic) absorbed the equity of Lewis Investment Company based on their respective proportionate interest in the joint venture at the time of the withdrawal. The withdrawal was deemed an equity transaction between members and had no earnings impact to the Company. Centennial is envisioned to be an ecologically friendly and commercially viable development.

Currently, the Los Angeles County Department of Regional Planning is finalizing responses to comments received during the public review of the Draft Environmental Impact Report for the Company’s Centennial master planned community. The responses will become part of the Final Environmental Impact Report that will be considered first by the Los Angeles County Regional Planning Commission tentatively scheduled in April 2018 and later by the Board of Supervisors.

During 2014, the Los Angeles County Board of Supervisors approved the AVAP. The AVAP is designed to guide future development and conservation in the northern-most region of unincorporated Los Angeles County. Centennial is included in the AVAP as part of the west Economic Opportunity Area, or EOA, where future development would be directed. This particular EOA is located along Highway 138 and encompasses the vast majority of Centennial's proposed boundaries. In June 2015, the Los Angeles County Board of Supervisors gave final approval for the AVAP. The AVAP provides Centennial with land use designation and zoning for residential and commercial development.

Grapevine at Tejon Ranch:

Grapevine is a 15,315-acre potential development area located on the San Joaquin Valley floor area of our lands, adjacent to TRCC. The 2008 Conservation Agreement allows for the development of up to 12,400 acres in this area.

We are currently focusing on 8,010 acres for a mixed use development to include housing, retail, and commercial industrial components. Grapevine has received approval for 12,000 homes, 5.1 million square feet for commercial development, and more than 3,367 acres of open space and parks. On December 6, 2016, the Kern County Board of Supervisors unanimously approved the specific plan and the Environmental Impact Report, or EIR, for the development of the Grapevine community, which included

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approval for land use designation, zoning and a development agreement. Subsequently, Kern County was sued related to the approval and we are working with Kern County to defend the approved EIR. The entire litigation and permitting process will take several years and the investment of several million dollars to successfully complete.

The greatest competition for the Centennial and Grapevine communities will come from California developments in the Santa Clarita Valley, Lancaster, Palmdale, and Bakersfield. The developments in these areas will be providing similar housing product as our developments. The principal factors of competition in this industry are pricing of product, amenities offered, and location. We will attempt to differentiate our developments through our unique setting, land planning and different product offerings. MV will compete generally for discretionary dollars that consumers will allocate to recreational and residential homes.

The following is a summary of the Company's residential real estate developments as of December 31, 2017:

Community:	Mountain Village	Grapevine	Centennial	Resort
Location:	Kern County	Kern County	Los Angeles County	Residential
Entitlement Status[1]:	Entitled	Entitled[2]	In Progress	Total
Entitlement Area (acres):	26,417	8,010	12,323	46,750
Housing Units:	3,450	12,000	19,333	34,783
Commercial Development (sqft)[3]:	160,000	5,100,000	10,100,000	15,360,000
Open Areas (acres):	21,335	3,367	5,624	30,326
Costs to Date[4]:	$132,034	$28,139	$94,271	$254,444

(1) Estimated completion anticipated to be 25 years, or longer, from commencement of construction. To-date construction has not begun.

(2) Kern County was sued related to the approval of the EIR and we are working with Kern County to defend the approved EIR.

(3) MV also has approval for up to 750 lodging units and 350,000 square feet of facilities in support of two 18-hole golf courses.

(4) Total estimated project costs are difficult to accurately forecast with any certainty at this time due to finalization of entitlement and mapping processes, as well as final engineering for the developments, and capital funding structure selected. Dollars presented in thousands.

Mineral Resources

Mineral resources consist of oil and gas royalties, rock and aggregate royalties, royalties from a cement operation leased to National Cement Company of California, Inc., or National, and the management of water assets and water infrastructure. We continue to look for opportunities to grow our mineral resource revenues through expansion of leasing and encouraging new exploration. Within our water assets we are expanding our resources through new well drilling programs, while at the same time looking for opportunities to continue to purchase water as we have in the past. We will look to sell excess water over our internal needs on a temporary basis until that water is needed by us in our real estate and agricultural operations.

We are cautiously optimistic that we could see new production activity later in 2018 as oil prices in Kern County stabilize in the mid-$50 per barrel range or higher. We expect the increased oil prices will provide some improvements to our 2018 royalty revenues as compared to 2017 royalty revenues. We are expecting water sales for 2018 to improve when compared to the prior year due to a decline in rain and snow in California in late 2017 and early 2018, as compared to the previous winter. Currently, the California State Water Project 2018 allocation is only at 20% of contract water amounts. This factor is also supportive of improved water sales.

We lease certain portions of our land to oil companies for the exploration and production of oil and gas. We however do not engage in any oil exploration or extraction activities. As of December 31, 2017, 8,824 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 263,000 barrels of oil and 209,000 MCF (each MCF being 1,000 cubic feet) of dry gas during 2017. Our share of production, based upon average royalty rates during the last three years, has been 99, 114, and 149, barrels of oil per day for 2017, 2016, and 2015, respectively. There are 310 active oil wells located on the leased land as of December 31, 2017. Royalty rates on our leases averaged approximately 13% of oil production in 2017.

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

We have approximately 2,000 acres under lease to National, for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. National owns and operates a cement manufacturing plant on our property with a capacity of approximately 1,000,000 tons of cement per year. The amount of payment that we receive under the lease is based upon shipments from the cement plant, which increased during 2017 compared to 2016. The improvement in shipments is due to an increase in road construction activity as compared to the prior years. The term of this lease expires in 2026, but National has options to extend the term for successive periods of 20 and 19 years. Proceedings under environmental laws relating to the cement plant are in process. The Company is indemnified by the current and former tenants and at this time we have no cost related to the issues at the cement plant. See Item 3, “Legal Proceedings,” for a further discussion.

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

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

In August 2015, we entered into a water sale agreement with PEF our current lessee under a power plant lease. Beginning in 2016, PEF may purchase from us up to 2,000 acre-feet of water and from January 2017 through July 2030, PEF may purchase from us up to 3,500 acre feet of water per year, with an option to extend the term. PEF is under no obligation to purchase water from us in any year, but is required to pay us an annual option payment equal to 30% of the maximum annual payment. The price of the water under the agreement is $1,088 per acre-foot of annual water in 2018, subject to 3% annual increases for the duration of the lease agreement. The Company's commitments to sell water can be met through current water assets.

Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes—1,186; almonds—1,983 (1,379 in production and 604 not in production); and pistachios—1,053. We manage the farming of alfalfa and forage mix on 775 acres in the Antelope Valley and we periodically lease 1,000 acres of land that is used for the growing of vegetables but also can be used for the development of permanent crops such as almonds.

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

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

In 2017, we sold 51% of our grape crop to one winery, 21% to a second winery and the remainder to three other customers. These sales are under long-term contracts ranging from one to 12 years. In 2017, our almonds were sold to various commercial buyers, with the largest buyer accounting for 50% of our almond revenues. We sold pistachios to two customers with the largest accounting for 74% of our pistachio revenues. We do not believe that we would be adversely affected by the loss of any or all of these large buyers because of the markets for these commodities, the large number of buyers that would be available to us, and the fact that the prices for these commodities do not vary based on the identity of the buyer or the size of the contract.

Our almond, pistachio, and wine grape crop sales are highly seasonal with a majority of our sales occurring during the third and fourth quarters. Nut and grape crop markets are particularly sensitive to the size of each year’s world crop and the demand for those crops. Large crops in California and abroad can rapidly depress prices. Crop prices, especially almonds, are also adversely affected by a strong U.S. dollar which makes U.S. exports more expensive and decreases demand for the products we produce. The low value of the U.S. dollar in prior years has helped to maintain strong almond prices in overseas markets, but we are now seeing this change as the U.S. dollar has strengthened against the Euro. The full potential impact of an increasing U.S. dollar to our pricing and revenue is not known at this time.

Weather conditions, such as warmer than normal winter temperatures such as in 2018, could impact the number of tree and vine dormant hours, which are integral to tree and vine growth. We will not know if there has been a negative impact on 2018 production until late spring or early summer of 2018. We have also seen lighter rain fall during winter of 2017-2018, which could also negatively impact 2018 production.

Many counties within California including Kern County are again considered to be in a drought condition based on the below average rainfall received this winter. The reduced amount of rain and snow pack has led the State Department of Water Resources, or DWR, to announce that its estimated water supply delivery for 2018 will be at 20% of full entitlement. The current 20% allocation of state SWP water alone is not enough for us to farm our crops, but our additional water resources, such as groundwater and surface sources, and those of the water districts we are in, should allow us to have sufficient water for our farming needs. It is too early in the year to determine the impact of the 2018 water supplies and its impact on 2018 California crop production for almonds, pistachios, and wine grapes. See discussion of water contract entitlement and long-term outlook for water supply under Item 2, “Properties.” Also see Note 6, (Long-Term Water Assets) of the Notes to Consolidated Financial Statements for additional information regarding our water assets.

Ranch Operations

During 2015, the Company reclassified certain revenues and expenses previously classified as commercial/industrial into a new segment called Ranch Operations.

Ranch operations consist of game management revenues and ancillary land uses such as grazing leases and filming. Within game management we operate our High Desert Hunt Club, a premier upland bird hunting club. The High Desert Hunt Club offers over 6,400 acres and 35 hunting fields, each field providing different terrain and challenges. The hunting season runs from mid-October through March. We sell individual hunting packages as well as memberships.

Ranch operations also includes Hunt at Tejon, which offers a wide variety of guided big game hunts including trophy Rocky Mountain elk, deer, turkey and wild pig. We offer guided hunts and memberships for both the Spring and Fall hunting seasons. At December 31, 2017, game management accounts for 41% of the total revenue from ranch operations.

In addition, the ranch operations segment is in charge of upkeep, maintenance, and security of all 270,000 acres of land.

Approximately 256,000 acres are used for two grazing leases, which account for 42% of total revenues from ranch operations at December 31, 2017.

General Environmental Regulation

Our operations are subject to federal, state, and local environmental laws and regulations including laws relating to water, air, solid waste, and hazardous substances. Although we believe that we are in material compliance with these requirements, there can be no assurance that we will not incur costs, penalties, and liabilities, including those relating to claims for damages to property or natural resources, resulting from our operations. Environmental liabilities may also arise from claims asserted by adjacent landowners or other third parties. We also expect continued legislation and regulatory development in the area of climate change and greenhouse gases. It is unclear as of this date how any such developments will affect our business. Enactment of new environmental laws or regulations, or changes in existing laws or regulations or the interpretation of these laws or regulations, might require expenditures in the future. We historically have not had material environmental liabilities.

Customers

During 2017, our PEF power plant lease accounted for 11% of total revenues. In 2016, and 2015 the PEF power plant lease generated 8%, and 7% of our total revenues, respectively. No other client tenant represents 5% or more of our revenues in 2017 and 2016.

Organization

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

Employees

At December 31, 2017, we had 131 full-time employees. We believe that we have good relations with our employees. We have adopted a Compliance with State and Federal Statutes, Rules and Regulations Reporting Policy that applies to all of our employees. Its receipt and review by each employee is documented and verified quarterly. None of our employees are covered by a collective bargaining agreement.

Reports

We make available free of charge through our Internet website, www.tejonranch.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or to be furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. We also make available on our website our corporate governance guidelines, charters of our key Board of Directors' Committees (audit, compensation, nominating and corporate governance, and real estate), and our Code of Business Conduct and Ethics for Directors, Officers, and Employees. These items are also available in printed copy upon request. We intend to disclose in the future any amendments to our Code of Business Conduct and Ethics for Directors, Officers, and Employees, or waivers of such provisions granted to executive officers and directors, on the web site within four business days following the date of such amendment or waiver. Any document we file with the Securities and Exchange Commission, or SEC, may be inspected, without charge, at the SEC's public reference room at 100 F Street, N.E. Washington, D.C. 20549 or at the SEC's internet site address at http://www.sec.gov. Information related to the operation of the SEC's public reference room may be obtained by calling the SEC at 1-800-SEC-0330.

Executive Officers of the Registrant

The following table shows each of our executive officers and the offices held as of March 1, 2018, the period the offices have been held, and the age of the executive officer.

Name	Office	Held since	Age
Gregory S. Bielli	President and Chief Executive Officer, Director	2013	57
Allen E. Lyda	Executive Vice President, Chief Financial Officer	1990	60
Hugh McMahon	Executive Vice President, Real Estate	2014	51
Joseph N. Rentfro	Executive Vice President, Real Estate	2015	49
Robert D. Velasquez	Senior Vice President, Finance and Chief Accounting Officer	2015	51
Michael R.W. Houston	Senior Vice President, General Counsel	2016	43

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

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

Mr. Lyda has been employed by us since 1990, serving as Vice President, Finance and Treasurer. He was elected Assistant Secretary in 1995 and Chief Financial Officer in 1999. Mr. Lyda was promoted to Senior Vice President in 2008, and Executive Vice President in 2012. Mr. Lyda's title was subsequently changed to Executive Vice President and Chief Financial Officer to more accurately describe the responsibilities of his office.

Mr. McMahon joined the Company in November 2001 as Director of Financial Analysis. In 2008, Mr. McMahon became Vice President of Commercial/Industrial Development and in December of 2014, was promoted to Senior Vice President of Commercial/Industrial Development and elected as an officer of the Company. In 2015, he was promoted to Executive Vice President. Mr. McMahon's title was subsequently changed to Executive Vice President, Real Estate.

Mr. Rentfro joined the Company on February 27, 2015 and was elected Executive Vice President of Real Estate on March 9, 2015. Mr. Rentfro's prior experiences involved development efforts for a number of major projects within the Emirate of Abu Dhabi in the United Arab Emirates. Notable developments include the Westin Abu Dhabi Golf Resort & Spa, Monte Carlo Beach Club-Saadiyat, Eastern Mangroves Resort and Residences, St. Regis Saadiyat Island Residences, and the Al Yamm and Al Sahel Villas at the Desert Islands Resort & Spa by Anantara. Prior to his work in the Middle East, Mr. Rentfro held executive positions at The St. Joe Company (NYSE: JOE), ascending ultimately to Regional Vice President and General Manager. There he led all efforts related to planning, design, entitlement, development, construction, asset management, marketing and sales for real estate operations within a 330,000-acre region along the Gulf Coast of Northwest Florida.

Mr. Velasquez joined the Company as Vice President of Finance of Tejon Ranchcorp, or TRC, a subsidiary of the Company, in 2017. Mr. Velasquez's title was subsequently changed to Vice President of Finance and Chief Accounting Officer to more accurately describe the responsibilities of his office. Prior to joining TRC, Mr. Velasquez served as an Executive Director at Ernst & Young in their audit and assurance practice section. Mr. Velasquez worked with Ernst & Young from 1999 through 2014. Mr. Velasquez holds a B.S. in Business Administration with an option in Accounting from California State University, Los Angeles. Mr. Velasquez is a Certified Public Accountant in the state of California. On January 1, 2018 he was promoted to Senior Vice President, Finance and Chief Accounting Officer.

Mr. Houston joined the Company in May 2016 as the Senior Vice President, General Counsel. He previously worked for the City of Anaheim, where he served as City Attorney from 2013 through 2016. His background involves extensive experience in corporate governance, municipal law, real estate, land use and environmental issues. Prior to working for the City of Anaheim, he served as a partner for a Newport Beach, CA-based law firm of Cummins & White from 2011 to 2013, and prior to that, was a partner at Rutan & Tucker, LLP, Costa Mesa, CA.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing the Company. If any of the following risks occur, our business, financial condition, results of operations or future prospects could be materially adversely affected. Our strategy, focused on more aggressive development of our land, involves significant risk and could result in operating losses. The risks that we describe in our public filings are not the only risks that we face. Additional risks and uncertainties not presently known to us, or that we currently consider immaterial, also may materially adversely affect our business, financial condition, and results of operations.

STRATEGIC RISKS

Strategic risk relates to the Company's future business plans and strategies, including the risks associated with the macro- and micro- environment in which we operate, including the demand for our products and services, the success of investments in our real estate development, technology and public policy.

Adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our future homes and commercial products live could reduce the demand for our products and, as a result, could adversely affect our business, results of operations, and financial condition. Adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our real estate products live have had and may in the future have a negative impact on our business. Adverse changes in employment levels, job growth, consumer confidence, interest rates, and population growth, or an oversupply of product for sale or lease may reduce demand and depress prices and cause buyers to cancel their purchase agreements. This, in turn, could adversely affect our results of operations and financial condition.

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

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

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

We are subject to environmental regulations and opposition from environmental groups that could cause delays and increase the costs of our development efforts or preclude such development entirely. Environmental laws that apply to a given site can vary greatly according to the site's location and condition, present and former uses of the site, and the presence or absence of sensitive elements like wetlands and endangered species. Federal and state environmental laws also govern the construction and operation of our projects and require compliance with various environmental regulations, including analysis of the environmental impact of our projects and evaluation of our reduction in the projects' carbon footprint and greenhouse gas emissions. Environmental laws and conditions may result in delays, cause us to incur additional costs for compliance, mitigation and processing land use applications, or preclude development in specific areas. In addition, in California, third parties have the ability to file litigation challenging the approval of a project which they usually do by alleging inadequate disclosure and mitigation of the environmental impacts of the project. Certain groups opposed to development have made clear they intend to oppose our projects vigorously, so litigation challenging their approval is expected. Currently, the Grapevine entitlement approval has been opposed and litigation has been filed against Kern County as the approving governmental entity. The issues most commonly cited in opponents' public comments include the poor air quality of the San Joaquin Valley air basin, potential impacts of projects on the California condor and other species of concern, the potential for our lands to function as wildlife movement corridors, potential impacts of our projects on traffic and air quality in Los Angeles County, emissions of greenhouse gases, water availability and criticism of proposed development in rural areas as being "sprawl". In addition, California has a specific statutory and regulatory scheme intended to reduce greenhouse gas emissions in the state and efforts to enact federal legislation to address climate change concerns could require further reductions in our projects' carbon footprint in the future.

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

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

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

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

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

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

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

OPERATIONAL RISKS

Operational risk relates to risks arising from external market factors that affect the operation of our businesses. It includes weather and other natural conditions; regulatory requirements; information management and data protection and security, including cybersecurity; supply chain and business disruption; and other risks, including human resources and reputation.

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

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

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

The inability of a client tenant to pay us rent could adversely affect our business. Our commercial revenues are derived primarily from rental payments and reimbursement of operating expenses under our leases. If our client tenants fail to make rental payments under their leases, our financial condition and cash flows could be adversely affected.

Our inability to renew leases or re-lease space on favorable terms as leases expire may significantly affect our business. Some of our revenues are derived from rental payments and reimbursement of operating expenses under our leases. If a client tenant experiences a downturn in its business or other types of financial distress, it may be unable to make timely payments under its lease. Also, if our client tenants terminate early or decide not to renew their leases, we may not be able to re-lease the space. Even if client tenants decide to renew or lease space, the terms of renewals or new leases, including the cost of any tenant improvements, concessions, and lease commissions, may be less favorable to us than current lease terms. Consequently, we could generate less cash flow from the affected properties than expected, which could negatively impact our business. We may have to divert cash flow generated by other properties to meet our debt service payments, if any, or to pay other expenses related to owning the affected properties.

We may experience increased operating costs, which may reduce profitability to the extent that we are unable to pass those costs on to client tenants. Our properties are subject to increases in operating expenses including insurance, property taxes, utilities, administrative costs, and other costs associated with security, landscaping, and repairs and maintenance of our properties. Our leases allow us to pass along real estate taxes, insurance, utilities, common area, and other operating expenses (including increases thereto) in addition to base rent. However, we cannot be certain that our client tenants will be able to bear the full burden of these higher costs, or that such increased costs will not lead them, or other prospective client tenants, to seek space elsewhere. If operating expenses increase, the availability of other comparable space in the markets we operate in may hinder or limit our ability to increase our rents if operating expenses increase without a corresponding increase in revenues, our profitability could diminish.

If we experience shortages or increased costs of labor and supplies or other circumstances beyond our control, there could be delays or increased costs within our industrial development, which could adversely affect our operating results.

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

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

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

Volatile oil and natural gas prices could adversely affect our cash flows and results of operations. Our cash flows and results of operations are dependent in part on oil and natural gas prices, which are volatile. Oil and natural gas prices also impact the amount we receive for our mineral leases. Moreover, oil and natural gas prices depend on factors we cannot control, such as: changes in foreign and domestic supply and demand for oil and natural gas; actions by the Organization of Petroleum Exporting Countries; weather; political conditions in other oil-producing countries, including the possibilities of insurgency or war in such areas; prices of foreign exports; domestic and international drilling activity; price and availability of alternate fuel sources; the value of the U.S. dollar relative to other major currencies; the level and effect of trading in commodity markets; and the effect of worldwide energy conservation measures and governmental regulations. Any substantial or extended decline in the price of oil and gas could have a negative impact on our business, liquidity, financial condition and results of operations. Substantial or extended declines in future natural gas or crude oil prices would have a material adverse effect on our future business, financial condition, results of operations, cash flows, liquidity or ability to finance planned capital expenditures and commitments. Furthermore, substantial, extended decreases in natural gas and crude oil prices may cause us to delay development projects and could negatively impact our ability to borrow, our cost of capital and our ability to access capital markets, increase our costs under our revolving credit facility, and limit our ability to execute aspects of our business plans.

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

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

Our future revenue and profitability related to our water resources will primarily be dependent on our ability to acquire and sell water assets. In light of the fact that our water resources represent a portion of our overall business at present, our long-term profitability will be affected by various factors, including the availability and timing of water resource acquisitions, regulatory approvals and permits associated with such acquisitions, transportation arrangements, and changing technology. We may also encounter unforeseen technical or other difficulties which could result in cost increases with respect to our water resources. Moreover, our profitability is significantly affected by changes in the market price of water. Future sales and prices of water may fluctuate widely as demand is affected by climatic, economic, demographic and technological factors as well as the relative strength of the residential, commercial, financial, and industrial real estate markets. The factors described above are not within our control.

Terrorist attacks may have an adverse impact on our business and operating results and could decrease the value of our assets. Terrorist attacks, particularly those that may cause a decline in global economic activity could have a material adverse impact on our business, our operating results, and the market price of our common stock. Future terrorist attacks may result in declining economic activity, which could reduce the demand for and the value of our properties. To the extent that future terrorist attacks impact our client tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their lease obligations.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations, financial condition, and stock price. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of internal control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatement because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations, and financial condition could be materially harmed, and we could fail to meet our reporting obligations and there could be a material adverse effect on our stock price.

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

Increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, solutions, services and data. Increased global cybersecurity vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to the security of Tejon's and its customers', partners', suppliers' and third-party service providers' products, systems and networks and the confidentiality, availability and integrity of Tejon's and its customers' data. While we attempt to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, we remain potentially vulnerable to additional known or unknown threats. We also may have access to sensitive, confidential or personal data or information that is subject to privacy and security laws, regulations or customer-imposed controls. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, production downtimes and operational disruptions. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action.

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

Inflation can adversely impact our real estate operations, by increasing costs of material and labor as well as the cost of capital, which can impact operating margins. In an inflationary environment, we may not be able to increase prices at the same pace as the increase in inflation, which would further erode operating margins.

FINANCIAL RISKS

Financial risk relates to our ability to meet financial obligations and mitigate exposure to broad market risks, including volatility in interest rates and commodity prices; credit risk; and liquidity risk, including risk related to our credit ratings and our availability and cost of funding. Credit risk is the risk of financial loss arising from a customer or counterparty failure to meet its contractual obligations. We face credit risk in our industrial businesses, as well as in our investing and leasing activities and derivative financial instruments activities. Liquidity risk refers to the potential inability to meet contractual or contingent financial obligations (whether on- or off-balance sheet) as they arise, and could potentially impact an institution's financial condition or overall safety and soundness.

Constriction of the credit markets or other adverse changes in capital market conditions could limit our ability to access capital and increase our cost of capital. During past economic downturns, we relied principally on positive operating cash flow, cash and investments, and equity offerings to meet current working capital needs, entitlement investment, and investment within our developments. While the current economy is seen as strong, any slowdown in the economy could negatively impact our access to credit markets and may limit our sources of liquidity in the future and potentially increase our costs of capital.

We regularly assess our projected capital requirements to fund future growth in our business, repay our debt obligations, and support our other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. As market conditions permit, we may issue new equity securities through the public capital markets, enter new joint ventures, or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. Adverse changes in economic, or capital market conditions could negatively affect our business, liquidity and financial results.

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

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

Inability to comply with long-term debt covenants, restrictions or limitations could adversely affect our financial condition. Our ability to meet our debt service and other obligations and the financial covenants under our credit facility will depend, in part, upon our future financial performance. Our future results are subject to the risks and uncertainties described in this report. Our revenues and earnings vary with the level of general economic activity in the markets we serve and the level of commodity prices related to our farming and mineral resource activities. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the addition of debt, the sale of equity, refinancing existing debt, or the sale of assets.

Our credit facility contains financial covenants requiring the maintenance of a maximum total liabilities to tangible net worth not greater than .75 to 1 at each quarter end, a debt service coverage ratio not less than 1.25 to 1.00, and a minimum level of liquidity of $20,000,000, including any unused portion of our revolving credit facility. A failure to comply with these requirements could allow the lending bank to terminate the availability of funds under our revolving credit facility and/or cause any outstanding borrowings to become due and payable prior to maturity.

MARKET RISKS

Market risk relates to the functioning of the marketplace. Many factors affect market function; investor anticipation, shocks in other markets, and anything that limits the efficient functioning of the marketplace. Market risks can affect the price of our Common Stock.

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

Concentrated ownership of our Common Stock creates a risk of sudden change in our share price. As of February 28, 2018, directors and members of our executive management team beneficially owned or controlled approximately 30% of our Common Stock. Investors who purchase our Common Stock may be subject to certain risks due to the concentrated ownership of our Common Stock. The sale by any of our large shareholders of a significant portion of that shareholder’s holdings could have a material adverse effect on the market price of our Common Stock. In addition, the registration and sale of any significant number of additional shares of our Common Stock will have the immediate effect of increasing the public float of our Common Stock and any such increase may cause the market price of our Common Stock to decline or fluctuate significantly.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Land

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

Approximately 247,000 acres of our land are located in Kern County, California. The Kern County general plan, or the "General Plan," for this land contemplates continued commercial, resource utilization, farming, grazing and other agricultural uses, as well as certain new developments and uses, including residential and recreational facilities. While the General Plan is intended to provide guidelines for land use and development, it is subject to amendment to accommodate changing circumstances and needs. We have three major master planned real estate projects in Kern County that have received entitlement approvals from Kern County: Mountain Village, TRCC and Grapevine.

The remainder of our land, approximately 23,000 acres, is in Los Angeles County. This area is accessible from Interstate 5 via Highway 138. Los Angeles County has adopted general plan policies that contemplate future residential development of portions of this land, subject to further assessments of environmental and infrastructure constraints. We are currently pursuing specific plan entitlement for Centennial on 12,323 acres of this land. See Item 1, "Business—Real Estate Development Overview."

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

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

Water Operations

Our existing long-term water contracts with the Wheeler Ridge-Maricopa Water Storage District, or WRMWSD, provide for water entitlements and deliveries from the SWP, to our agricultural and municipal/industrial operations in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts, we are entitled to annual water for 5,496 acres of land, or 15,547 acre-feet of water subject to SWP allocations, which is adequate for our present farming operations. It is assumed, that at the end of the current contract period all water contracts will be extended for approximately the same amount of annual water.

In addition to the WRMWSD contract water entitlements, we have an additional water entitlement from the SWP sufficient to service a substantial amount of future residential and/or commercial development in Kern County. The Tejon-Castac Water District, or TCWD, a local water district serving our land in the district and land we have sold in TRCC, has 5,749 acre-feet of SWP entitlement (also called Table A amount), subject to SWP allocations. In addition, TCWD has 49,184 acre-feet of water stored in Kern County water banks. Both the entitlement and the banked water are the subject of a long-term water supply contract extending to 2035 between TCWD and our Company. TCWD is the water supplier to TRCC, and will be the principal water supplier for any significant mixed use development in MV. TCWD will also be the water district that provides services to Grapevine.

We have a 150-acre water bank consisting of nine ponds on our land in southern Kern County. Water is pumped into these ponds and then percolates into underground aquifers. Since 2006, we have banked 31,497 acre-feet of water from the Antelope Valley-East Kern Water Agency, or AVEK, which has been pumped from the California aqueduct and is currently retained in this water bank. In 2007 and 2008 we contracted for 2,362 additional acre-feet of water from AVEK, which was delivered in full in 2017. We anticipate adding additional water to the water bank in the future, as water is available. In 2010 we began participating with AVEK in a water-banking program and we have

13,033 acre-feet of water to our credit in this program.

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

The initial term of the water purchase agreement with Nickel runs through 2044 and includes a Company option to extend the contract for an additional 35 years. This contract allows us to purchase water each year. The purchase cost of water in 2017 was $717 per acre-foot. Purchase costs are subject to annual cost increases based on the greater of the consumer price index and 3%, resulting in a 2018 purchase cost of $738 per acre-foot.

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

During 2017, SWP allocations were 85% of contract levels, and WRMWSD was able to supply us with water from various sources that when combined with our water sources provided sufficient water to meet our farming and real estate demands. In some years, there is also sufficient runoff from local mountain streams to allow us to capture some of this water in reservoirs and utilize it to offset some of the SWP water. In years where the supply of water is sufficient, both WRMWSD and TCWD are able to bank (percolate into underground aquifers) some of their excess supplies for future use. At this time, Wheeler Ridge expects to be able to deliver our entire contract water entitlement in any year that the SWP allocations exceed 30% by drawing on its ground water wells and water banking assets. Based on historical records of water availability, we do not believe we have material problems with our water supply. However, if SWP allocations are less than 30% of our entitlement in any year, or if shortages continue for a sustained period of several years, then WRMWSD may not be able to deliver 100% of our entitlement and we will have to rely on our own ground water sources, mountain stream runoff, water transfer from other sources, and water banking assets to supply the needs of our farming and development activities. Water from these sources may be more expensive than SWP water because of pumping costs and/or transfer costs. A 20% preliminary SWP water allocation has been made by the DWR for 2018. The current 20% allocation of SWP water is not enough for us to farm our crops, but our additional water resources, such as groundwater and surface sources, and those of the water districts we are in, should allow us to have sufficient water for our farming needs.

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

Portions of our property also have available groundwater, which we believe would be sufficient to supply commercial development in the Interstate 5 corridor and support current agricultural operations. Ground water in the Antelope Valley Basin is the subject of litigation. See Item 3, “Legal Proceedings” for additional information about this litigation. Please refer to "Note 14 (Commitments and Contingencies)" for further discussion.

A new development with respect to groundwater is the Sustainable Groundwater Management Act, or SGMA, which became effective January 1, 2015. For the water districts in which the Company participates in the San Joaquin Valley, Groundwater Sustainability Plans are to be developed by 2020. Through these plans it will have to be demonstrated to the satisfaction of the Department of Water Resources, that the basins are "sustainable" and in balance by 2040, which could ultimately lead to restrictions on the use of groundwater. The Company's lands are located in the White Wolf Basin, which is a basin that is currently not over-drafted, so there is no anticipation at this time of any restriction related to manageable uses of ground water. However, the Company's lands are in relatively good condition because of the diverse inventory of surface water supplies and banked water that the Company has access to as mentioned above.

There have been many environmental challenges regarding the movement of SWP water through the Sacramento Delta. Operation of the Delta pumps are of primary importance to the California water system because these pumps are part of the system that moves water from Northern California to Southern California. Biological Opinions, or BOs, issued by the U.S. Fish and Wildlife Service and National Marine Fisheries Service in 2008 and 2009 contain restrictions on pumping from the Delta. These BOs are being challenged in the courts by both water agencies and environmental groups, which challenges were for the most part unsuccessful. There are many groups, governmental and private, working together to develop a solution in the future to mitigate the curtailment of water from the Delta.

Historic SWP restrictions on the right to use agricultural water entitlement for municipal purposes were removed in 1995. For this purpose, “municipal” use includes residential and industrial use. Therefore, although only 2,000 of TCWD's 5,749 acre-feet of entitlement are labeled for municipal use, there is no practical restriction on TCWD's ability to deliver the remaining water to residential or commercial/industrial developments.

Other Activities

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company’s Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company’s land to secure payment of special taxes related to $28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company’s land to secure payments of special taxes related to $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 $65,000,000 of additional bond debt authorized by TRPFFA. Proceeds from the sales of these bonds are to reimburse the Company for public infrastructure related to TRCC-East. During 2016, we received $6,155,000 in reimbursement from the East CFD bonds.

In 2017 and 2016, we paid $2,578,000 and $2,585,000 in special taxes related to the CFDs. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the assessed special tax. It is expected that we will have special tax payments in 2018 of $2,570,000, but this could change in the future based on the amount of bonds outstanding within each CFD and the amount of taxes paid by other owners and tenants. The assessment of each individual property sold or leased is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at December 31, 2017.

ITEM 3.   LEGAL PROCEEDINGS

The Company is involved in various legal matters arising out of its operations in the normal course of business. None of these matters are expected, individually or in the aggregate, to have a material adverse effect on the Company.

For a discussion of legal proceedings, see Note 14 (Commitments and Contingencies) of the Notes to the Consolidated Financial Statements.

ITEM 4.   MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

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

	2017		2016	
Quarter	High	Low	High	Low
First	$26.04	$20.58	$21.58	$16.85
Second	$24.18	$19.90	$24.90	$19.50
Third	$21.94	$19.67	$26.99	$22.00
Fourth	$22.81	$18.59	$27.99	$21.13

As of February 28, 2018, there were 374 registered owners of record of our Common Stock.

No cash dividends were paid in 2017 or 2016 and at this time there is no intention of paying cash dividends in the future.

On October 13, 2014, the Tejon Ranchcorp, a subsidiary of the Company, entered into an Amended and Restated Credit Agreement, a Term Note and a Revolving Line of Credit Note. This credit facility contains customary negative covenants that limit the ability of the Company to, among other things, pay dividends or repurchase stock to the extent that immediately following any such dividend or repurchase of stock, total liabilities divided by tangible net worth (Stockholders Equity) is not greater than 0.75 to 1.0.

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

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

ITEM 6. SELECTED FINANCIAL DATA

	2017	2016	2015	2014	2013
Total revenues from operations, including interest and other income	$36,272	$47,236	$52,056	$52,291	$46,345
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	$(6,929)	$(6,247)	$(2,287)	$3,165	$2,183
Equity in earnings of unconsolidated joint ventures	$4,227	$7,098	$6,324	$5,294	$4,006
Net (loss) income	$(1,579)	$515	$2,912	$5,762	$4,103
Net (loss) income attributable to noncontrolling interests	$(24)	$(43)	$(38)	$107	$(62)
Net (loss) income attributable to common stockholders	$(1,555)	$558	$2,950	$5,655	$4,165
Total assets	$518,199	$439,701	$431,919	$431,923	$342,879
Long-term debt	$69,959	$73,867	$74,215	$74,459	$4,693
Equity	$426,810	$334,467	$331,308	$324,333	$320,187
Net (loss) income attributable to common stockholders per share, diluted	$(0.07)	$0.03	$0.14	$0.27	$0.20

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

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

This discussion and analysis is based on, should be read together with, and is qualified in its entirety by, the consolidated financial statements and notes thereto included in Item 15(a)1 of this Form 10-K, beginning at page F-1. It also should be read in conjunction with the disclosure under “Forward-Looking Statements” in Part 1 of this Form 10-K. When this report uses the words “we,” “us,” “our,” “Tejon,” “TRC,” and the “Company,” they refer to Tejon Ranch Co. its subsidiaries, unless the context otherwise requires. References herein to fiscal year refer to our fiscal years ended or ending December 31.

OVERVIEW

Our Business

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

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

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

Our commercial/industrial real estate development segment generates revenues from building, land lease activities, and land and building sales. The primary commercial/industrial development is TRCC. The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. Within our resort/residential segment, the three active mixed use master plan developments are MV, Centennial, and Grapevine. Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, a lease with National Cement and sales of water. The farming segment produces revenues from the sale of wine grapes, almonds, and pistachios. Lastly, the ranch operation segment consists of game management revenues and ancillary land uses such as grazing leases and filming.

Financial Highlights

For 2017, net loss attributable to common stockholders was $1,555,000 compared to net income attributed to common stockholders of $558,000 in 2016. Factors driving the change include: a decline in farming revenues of $2,214,000 resulting from a decline in pistachio production in excess of 2,200,000 pounds, a decline in mineral resource revenues of $8,170,000 resulting from decreased sales opportunities for water in 2017 when compared to 2016, and a decrease in income from unconsolidated joint ventures of $2,871,000. From an expense perspective, expenses decreased $10,282,000 as a result of reduced water sales and our staff rightsizing initiatives.

For 2016, net income attributable to common stockholders was $558,000 compared to $2,950,000 in 2015. Factors driving the change include: a decline in farming revenues of $5,188,000 resulting from declines in commodity prices and a decline of mineral resource revenues of $963,000 resulting from falling oil prices in 2016. Offsetting the decline in net income were the following factors: an increase in commercial real estate revenues of $1,166,000 resulting from a land sale, and increased rents, a gain on sale of building and land located in Rancho Santa Fe, California of $1,044,000, an overall reduction in total expenses of $860,000, and an increase in income from unconsolidated joint ventures of $774,000.

For the year ended December 31, 2017 we had no material lease renewals.

During 2018, we will continue to invest funds toward the achievement of entitlements, permits, and maps for our land and for master project infrastructure and vertical development within our active commercial and industrial development. Securing entitlements for our land is a long, arduous process that can take several years and often involves litigation. During the next few years, our net income will fluctuate from year-to-year based upon, among other factors, commodity prices, production within our farming segment, and the timing of sales of land and the leasing of land within our industrial developments.

During the fourth quarter of 2015, the Company reclassified revenues and expenses previously classified as commercial/industrial into a new segment called Ranch Operations. Ranch Operations is comprised of grazing leases, game management, and other ancillary services supporting the ranch.

This Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative discussion of our results of operations. It contains the results of operations for each operating segment of the business and is followed by a discussion of our financial position. It is useful to read the business segment information in conjunction with Note 16 (Operating Segments and Related Information) of the Notes to Consolidated Financial Statements.

Critical Accounting Policies

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

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

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

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

From time to time the Company sells easements over its land. The easements are either in the form of rights of access granted for such things as utility corridors or are in the form of conservation easements that generally require the Company to divest its rights to commercially develop a portion of its land, but do not result in a change in ownership of the land or restrict the Company from continuing other revenue generating activities on the land. Sales of conservation easements are accounted for in accordance with Staff Accounting Bulletin Topic 13 - Revenue Recognition, or SAB Topic 13.

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

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

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

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

For a discussion of implementation of Accounting Standards Update (ASU) 2014-09 “Revenue with Contracts from Customers (Topic 606),” see Note 1 (Summary of Significant Accounting Policies) of the Notes to the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

Defined Benefit Retirement Plans – The plan obligations and related assets of our defined benefit retirement plan are presented in Note 15 (Retirement Plans) of the Notes to Consolidated Financial Statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued using level one and level two indicators, which are quoted prices in active markets and quoted prices for similar types of assets in active markets for the investments. Pension benefit obligations and the related effects on operations are calculated using actuarial models. The estimation of our pension obligations, costs and liabilities requires that we make use of estimates of present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

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

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

The discount rate enables us to state expected future cash flows at a present value on the measurement date. In determining the discount rate, the Company utilizes the yield on high-quality, fixed-income investments currently available with maturities corresponding to the anticipated timing of the benefit payments. Salary increase assumptions are based upon historical experience and anticipated future management actions. To determine the expected long-term rate of return on pension plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. At December 31, 2017, the weighted-average actuarial assumption of the Company’s defined benefit plan consisted of a discount rate of 3.7% and a long-term rate of return on plan assets of 7.5%. For the years beginning with 2017, there are no assumed salary increase factors included in the plan assumptions due to the plan being amended to freeze future benefits. The effects of actual results differing from our assumptions and the effects of changing assumptions are recognized as a component of other comprehensive income, net of tax. Amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost. If we were to assume a 50-basis point change in the discount rate used, our projected benefit obligation would change approximately $800,000.

Stock-Based Compensation - We apply the recognition and measurement principles of ASC 718, “Compensation – Stock Compensation” in accounting for long-term stock-based incentive plans. Our stock-based compensation plans include both restricted stock units and restricted stock grants. We have not issued any stock options to employees or directors since January 2003, and our 2017 financial statements do not reflect any compensation expenses for stock options. All stock options issued in the past have been exercised or forfeited.

We make stock awards to employees based upon time-based criteria and through the achievement of performance-related objectives. Performance-related objectives are either stratified into threshold, target, and maximum goals or based on the achievement of a milestone event. These stock awards are currently being expensed over the expected vesting period based on each performance criterion. We make estimates as to the number of shares that will actually be granted based upon estimated ranges of success in meeting the defined performance measures. If our estimates of performance shares vesting were to change by 25%, stock compensation expense would increase or decrease by approximately $400,000 depending on whether the change in estimate increased or decreased shares vesting.

See Note 11, (Stock Compensation - Restricted Stock and Performance Share Grants), of the Notes to Consolidated Financial Statement for total 2017 stock compensation expense related to stock grants.

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

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

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

Recent Accounting Pronouncements

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

Results of Operations by Segment
We evaluate the performance of our operating segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluation as we monitor current market conditions, market opportunities, and available resources. The performance of each segment is discussed below:
Real Estate – Commercial/Industrial
During 2017, commercial/industrial segment revenues decreased $35,000, or 0%, when compared to 2016. The Pastoria lease revenues increased $242,000, or 7%, when compared to 2016, we also experienced an increase of $366,000, or 18%, in leasing revenues within TRCC. These increases were offset by a decrease in commercial lease revenues of $354,000, or 22%, as a result of the sale in 2016 of an investment asset. During 2017, we satisfied our performance obligation relating to the land sale which occurred in 2016 and recognized the remaining deferred revenue in 2017.
Commercial/industrial real estate segment expenses decreased $571,000, or 8%, from $7,100,000 in 2016 to $6,529,000 during 2017. During 2017, payroll, overhead, and bonuses decreased $269,000 as a result of our staff right sizing. Also contributing to the decrease were reductions in professional services and repairs and maintenance costs of $149,000 and $153,000 respectively.
During 2016, commercial/industrial segment revenues increased $1,166,000, or 14% when compared to 2015. In October 2016, we sold unimproved real property located at TRCC-East for $1,193,000. We recognized $710,000 of the revenues in 2016 and recognized the remainder during the first half of 2017 upon completion of the performance obligations. Also in 2016, we placed into service a multi-tenant building leased to Baja Fresh and Habit Burger increasing lease revenue by $266,000. Lastly, we recognized additional leasing revenues of $48,000 from Starbucks and Pieology given that they were not placed into service until the latter part of the second quarter of 2015.
Commercial/industrial real estate segment expenses were $7,100,000 during 2016, an increase of $406,000, or 6%, compared to the same period in 2015. During 2016, there were increases in professional services and repairs and maintenance of $126,000 and $108,000, respectively. Additionally, the basis in the land sold was $95,000.

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. We believe that our ability to provide fully-entitled, shovel-ready land parcels to support buildings of any size, especially buildings 1.0 million square feet or larger, can provide us with a potential marketing advantage in the future. We are also expanding our marketing efforts to include industrial users in the Santa Clarita Valley of northern Los Angeles County, and the northern part of the San Fernando Valley due to the limited availability of new product and high real estate costs in these locations. Tenants in these geographic areas are typically users of relatively smaller facilities. In pursuit of such opportunities, the Company, in 2017, completed development of a 480,480 square foot, state-of-the-art distribution facility with Majestic Realty Co. The Company and Majestic Realty Co. are in the process of fully leasing this industrial building.

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 2017, vacancy rates in the Inland Empire approximated 3.7%, the lowest vacancy rate ever recorded in the Inland Empire. Vacancy is at an all-time low and further declines will be hard to achieve. This is especially true given that 26.1 million square feet remains in the construction pipeline. The low vacancy rates have also led to an increase in lease rates of 7.7% 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 2017, vacancy rates in the northern Los Angeles industrial market, which includes the San Fernando Valley and Santa Clarita Valley, approximated 1.7%. This industrial market continues to see available supply remain at extremely low levels, and while new construction has recently been at higher levels, it still has not been enough to keep pace with strong demand, resulting in vacancy remaining at all-time lows and rental rates still rising rapidly.

Demand for industrial space in this market will continue to be driven by domestic and global consumption levels. In 2017, the Los Angeles and Long Beach Port container traffic recorded its highest container total ever with 16.89 million Twenty-Foot Equivalent Units, or TEU's, up 8% from 2016 and 7% higher than its second highest year during 2006. TEU is a measure of a ship's cargo carrying capacity. The dimensions of one TEU are equal to that of a standard shipping container measuring 20 feet long by 8 feet tall.

We expect the commercial/industrial segment to continue to experience costs, net of amounts capitalized, primarily related to professional service fees, marketing costs, commissions, planning costs, and staffing costs as we continue to pursue development opportunities. 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 over several years as we develop our land holdings. We will also continue to evaluate land resources to determine the highest and best uses for our land holdings. Future sales of land are dependent on market circumstances and specific opportunities. Our goal in the future is to increase land value and create future revenue growth through planning and development of commercial and industrial properties.

Real Estate – Resort/Residential

In 2017, resort/residential segment expenses increased $325,000 primarily due to reduced capitalization of payroll and overhead costs that in the prior years were identified to be incremental to our mixed use master plan development

projects. We are in the preliminary stages of development, hence no revenues are attributed to this segment.
In 2016, resort/residential segment expenses declined $719,000 primarily due to additional capitalization of payroll and overhead costs of $475,000 that were identified to be incremental to our master plan development projects. In addition, there were decreases in professional service and fees of $261,000.

Our resort/residential segment activities include land entitlement, land planning and pre-construction engineering and conservation activities. We have three major resort/residential communities within this segment: Centennial, Grapevine, and MV.

- For Centennial, Los Angeles County is currently reviewing the EIR, the responses will become part of the Final Environmental Impact Report that will be considered first by the Los Angeles County Regional Planning Commission tentatively in April 2018 and later by the Board of Supervisors.
- For Grapevine, we are working with Kern County to defend litigation related to the approved EIR. The entire litigation and permitting process will take several years and the investment of several million dollars to successfully complete.
- For MV, we have a fully permitted and entitled project and received approval of a Tentative Tract Map for our first phases of development in December 2017. The timing of MV development in the coming years will be dependent on the strength of both the economy and the second home real estate market. 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 capital funding sources for this development.

The resort/residential segment will continue to incur costs in the future related to professional service fees, public relations costs, and staffing costs as we continue forward with entitlement and permitting activities for the above communities and continue to meet our obligations under the Conservation Agreement. We expect these expenses to remain consistent with current years cost in the near term and only begin to increase as we move into the development phase of each project in the future. The actual timing and completion of entitlement-related activities and the beginning of development is difficult to predict due to the uncertainties of the approval process, the possibility of litigation upon approval of our entitlements in the future, and the status of the economy. We will also continue to evaluate land resources to determine the highest and best use for our land holdings. Our long-term goal through this process is to increase the value of our land and create future revenue opportunities through resort and residential development.

We are continuously monitoring the markets in order to identify the appropriate time in the future to begin infrastructure improvements and lot sales. Our long-term business plan of developing the communities of MV, Centennial, and Grapevine remains unchanged. As the California economy continues to improve we believe the perception of land values will also begin to improve and the long-term fundamentals that support housing demand in our region, primarily California population growth and household formation will also improve. California also has a significant documented housing shortage, which we believe our communities will help ease as the population base within California continues to grow.

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

Mineral Resources

	2017	2016	2015
Oil and gas			
Oil production (barrels)	263,000	301,000	445,000
Average price per barrel	$45.00	$37.00	$45.00
Blended royalty rate	13.7 %	13.7 %	13.7 %
Natural gas production (millions of cubic feet)	209,000	238,000	315,000
Average price per thousand cubic feet	$0.74	$0.56	$1.58
Blended royalty rate	14.5 %	14.4 %	14.1 %
Water			
Water sold in acre-feet	939	7,285	7,922
Average price per acre-feet	$1,181	$1,317	$1,284
Cement			
Tons sold	1,063,000	909,000	961,000
Average price per ton	$1.52	$1.41	$1.31
Rock/Aggregate			
Tons sold	1,222,000	1,397,000	1,181,000
Average price per ton	$0.88	$0.85	$0.73

2017 Operational Highlights:

- Revenues from our mineral resources segment decreased $8,170,000, or 58%, to $5,983,000 in 2017 compared to $14,153,000 in 2016. During the 2016/2017 winter, California experienced above normal rain fall and snow levels, resulting in a reduction in water market activity throughout the state adversely impacting water sales opportunities.

This resulted in an $8,347,000 decline in water sales. The reduced water sales accordingly decreased mineral resources expenses associated with the cost of sales of water by $4,832,000. California has historically experienced decades-long droughts, the rain falls in 2017 do not appear to be repeating in 2018, which leads some to believe the drought may be returning, suggesting water opportunities in 2018 can see improvements. This also lends itself to a volatile water market that can change from year-to-year based on rain and snow levels.

- We experienced improvements in cement production as a result of increased demand and pricing during 2017 compared to 2016. The improvement in shipments is due to an increase in road construction activity as compared to the prior years.
- Despite falling production, we experienced improvements for oil and gas royalties as a result of improved oil prices. Please refer to above table for current and historical production volume and pricing.

2016 Operational Highlights:

- Revenues decreased $963,000, or 6%, to $14,153,000 in 2016 compared to $15,116,000 in 2015. The decrease is primarily due to a $1,112,000 decrease in oil royalty revenues driven by lower average prices for a barrel of oil, which then led to declines in production.
- Also in 2016, we sold 7,285 acre-feet of water compared to 7,922 acre-feet in 2015 reducing water revenues by $570,000. Offsetting those amounts were improvements in cement, sand, and rock royalties of $330,000 and reimbursable costs and other of $364,000.
- Expenses during 2016 increased $400,000 compared to 2015, primarily due to increases in payroll and salaries of $125,000 and fuel costs of $94,000 related to transferring and banking water. The remainder of the increase can be attributed to increases in other expenses including property taxes, professional services, and fees.

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

Although oil prices improved during the fourth quarter of 2017 and throughout the early part of 2018, we expect our largest tenant, California Resources Corporation, or CRC, to continue its program of producing from current active wells at lower levels with no near-term intent to begin new drilling programs until oil prices stabilize at the current 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. During 2017, CRC executed a new exploration lease with us covering 1,524 acres. With the overall improvement in prices, we could see an improvement in royalty revenue. Thus far in 2018, oil prices have improved and are within 5% of West Texas Intermediate pricing. Since we only receive royalties based on tenant production and market prices and do not produce oil, we do not have information as to the potential size of oil reserves.

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

Farming

($ in thousands)	December 31, 2017 Revenue	Quantity Sold[2]	Average Price	December 31, 2016 Revenue	Quantity Sold[2]	Average Price	Change Revenue	Quantity Sold	Average Price
ALMONDS (lbs.)									
Current year crop	$5,221	2,033	$2.57	$5,282	2,106	$2.51	$(61)	(73)	$0.06
Prior year crops	729	315	$2.31	1,363	454	3.00	(634)	(139)	(0.69)
Prior crop price adjustment	352			653			(301)		
Signing bonus	25			75			(50)		
Subtotal Almonds[1]	$6,327	2,348	$2.53	$7,373	2,560	$2.60	$(1,046)	(212)	$(0.07)
PISTACHIOS (lbs.)									
Current year crop	$1,288	643	$2.00	$5,844	2,883	$2.03	$(4,556)	(2,240)	$(0.03)
Prior year crops	1,007	247	4.08	274	47	5.83	733	200	(1.75)
Prior crop price adjustment	1,452			81			1,371		
Crop Insurance	776			—			776		
Subtotal Pistachios[1]	$4,523	890	$2.58	$6,199	2,930	$2.09	$(1,676)	(2,040)	$0.49
WINE GRAPES (tons)									
Current year crop	$4,131	15	$275.40	$3,725	14	$266.07	$406	1	$9.33
Crop Insurance	—			$19			(19)		
Subtotal Wine Grapes	$4,131	15	$275.40	$3,744	14	$266.07	$387	1	$9.33
Other									
Hay	$456			$520			$(64)		
Other farming revenues	997			812			185		
Total farming revenues	$16,434			$18,648			$(2,214)		

[1] Average price calculation reflects sale of almond and pistachio crops during the calendar reported year exclusive of any price adjustments.
[2] Almond and pistachio units are presented in thousands of pounds while wine grapes are presented in thousands of tons.

2017 Operational Highlights:

- During 2017, farming revenues decreased $2,214,000 from $18,648,000 in 2016 to $16,434,000 in 2017. When compared to 2016, pistachio revenues decreased $1,676,000. In comparison to 2016, which was a near record year in terms of yield, fiscal 2017 was an alternate down bearing year for pistachios. Additionally, the warm winter reduced the number of hours the trees were dormant. We experienced similarly low yields in 2015 as a result of the mild 2015 winter. The Company purchases crop insurance to mitigate weather-related reductions in crop production which mitigated $776,000 of total crop costs.
- Almond revenues decreased $1,046,000 as a result of both commodity pricing and overall units sold. Given the timing of 2017 crop sales management will carryforward 472,541 pounds to sell in future periods. In comparison, the Company carried forward 338,845 pounds in 2017.
- Farming expenses decreased $2,472,000, or 13% during 2017 compared to 2016. In 2017, we had reduced water costs of $1,584,000 when compared to 2016. The decrease is attributed to heavy rains during the 2017 winter along with credits received from the local water district, through the State Water Project. Despite the reduced revenues discussed above, reduced water and farming costs increased farm operating profits by $258,000 when compared to 2016.
- We experienced reduced cost of sales for our wine grapes and almonds of $342,000 and $751,000, respectively, as a result of reduced cultural costs largely tied to lower weed and pest control costs.

	December 31, 2016			December 31, 2015			Change		
($ in thousands)	Revenue	Quantity Sold[2]	Average Price	Revenue	Quantity Sold[2]	Average Price	Revenue	Quantity Sold	Average Price
ALMONDS (lbs.)									
Current year crop	$5,282	2,106	$2.51	$7,377	2,210	$3.34	$(2,095)	(104)	$(0.83)
Prior year crops	1,363	454	3.00	3,601	916	$3.93	(2,238)	(462)	(0.93)
Prior crop price adjustment	653			1,260			(607)		
Signing bonus	75			—			75		
Subtotal Almonds[1]	$7,373	2,560	$2.60	$12,238	3,126	$3.51	$(4,865)	(566)	$(0.91)
PISTACHIOS (lbs.)									
Current year crop	$5,844	2,883	$2.03	$183	64	$2.86	$5,661	2,819	$(0.83)
Prior year crops	274	47	5.83	1,271	214	5.94	(997)	(167)	(0.11)
Prior crop price adjustment	81			2,271			(2,190)		
Insurance	—			2,700			(2,700)		
Subtotal Pistachios[1]	$6,199	2,930	$2.09	$6,425	278	$5.23	$(226)	2,652	$(3.14)
WINE GRAPES (tons)									
Current year crop	$3,725	14	$266.07	$4,338	16	$271.13	$(613)	(2)	$(5.06)
Insurance	19			—			19		
Subtotal Wine Grapes	$3,744	14	$266.07	$4,338	16	$271.13	$(594)	(2)	$(5.06)
Other									
Hay	$520			$749			$(229)		
Other farming revenues	812			86			726		
Total farming revenues	$18,648			$23,836			$(5,188)		

[1] Average price calculation reflects sale of almond and pistachio crops during the calendar reported year exclusive of any price adjustments.

[2] Almond and pistachio units are presented in thousands of pounds while wine grapes are presented in thousands of tons.

2016 Operational Highlights:

- During 2016, farming revenues decreased by $5,188,000 from $23,836,000 in 2015 to $18,648,000 in 2016.

- An overall reduction in market price for 2016-year almonds along with management's decision to sell more crops in 2015, taking advantage of higher prices, reduced almond revenues by $4,865,000. In 2016, the California almond industry had strong yields, driving prices downward.
- We recovered from the mild winter of 2015 that adversely affected our 2015 pistachio crop yields. Total 2016 crop yield was at a recent historical high of 3,200,000 pounds. Despite the robust 2016 yields, a decline in market prices lowered pistachio revenues by $226,000 when compared to 2015 revenues, which were primarily generated through insurance proceeds and market price adjustments. In 2016, the California pistachio industry had strong yields, driving prices downward.
- Improvement in other revenues is driven by a new farm land lease and recoverable costs related to the lease.
- Farming expenses decreased $311,000, or 2% during 2016 compared to 2015. In 2016, almond costs decreased $1,019,000 or 15% as we spent less time pruning trees, applying pesticides, and removing mummies, all of which are time and labor intensive. The decrease in almond costs were offset by an increase in wine grape costs of $260,000 as a result of a 10% increase in the number of acres farmed and an increase in fixed water costs of $256,000 paid to WRMWSD.

Thus far in 2018, the prices for our crops, especially almonds and pistachios, remain consistent with 2017 levels. All of our crops are sensitive to the size of each year’s world crop. Large crops in California and abroad can depress prices. Our long-term projection is that crop production, especially of almonds and pistachios will continue to increase on a statewide basis over time because of new plantings, which could negatively impact future prices if the growth in demand does not keep pace with production.

An unknown factor related to future statewide production and the continuation of new plantings will be how new state ground water management laws impact the amount of farming land in production over the next five to ten years, which could eventually reduce production. The rains and snow of 2018 are not expected to significantly impact the ground water basins within the Central Valley of California, and therefore could lead to a reduction in crop production. We are less impacted due to our water sources and the ground water basin we are in. We have had a relatively mild winter thus far, which could possibly impact our almond and pistachio production due to a low level of dormant hours. Dormant hours allow the trees to rest, which enhances the growth of the tree and production. It is too early to project 2018 crop yields and what impact that may have on prices later in 2018.

Water delivery and water availability continues to be a long-term concern within California. Any limitation of delivery of SWP water and the absence of available alternatives during drought periods could potentially cause permanent damage to orchards and vineyards throughout California. While this could impact us, we believe we have sufficient water resources available to meet our requirements in 2018. Please see our discussion on water in Item 2, "Properties - Water Operations."

The DWR announced its 2018 estimated water supply delivery at 20% of full entitlement. The current 20% allocation of SWP water is not enough for us to farm our crops, but our additional water resources, such as groundwater and surface sources, and those of the water districts we are in should allow us to have sufficient water for our farming needs. See Note 6 (Long-Term Water Assets) of the Notes to Consolidated Financial Statements for additional information regarding our water assets.

For further discussion of the farming operations, refer to Item 1 “Business—Farming Operations.”

Ranch Operations

Revenues from ranch operations increased $499,000 from $3,338,000 in 2016 to $3,837,000 in 2017. When compared to 2016, we experienced an increase in grazing leases of $490,000 due to the fact that a drought clause was in effect during the 2016 drought.

Ranch operations expenses decreased $323,000 to $5,411,000 in 2017 from $5,734,000 in 2016. The decrease is attributed to reduced payroll, overhead, and incentive based compensation of $119,000 primarily a result of a staff rightsizing. The segment also saw a decrease in repairs and maintenance costs of $106,000.

Revenues from ranch operations decreased $585,000 from $3,923,000 in 2015 to $3,338,000 in 2016. The decline is attributed to a $362,000 decrease in game management revenues. The on-going California drought has had an adverse effect on the quality and availability of harvestable game due to shortages in food supplies. Also contributing to the decrease is a drought clause within our grazing leases taking effect amidst the California drought, which reduced revenues by $297,000. Improvements from other revenue sources, such as filming location fees offset the declines noted by $67,000.

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Ranch operations expenses decreased $378,000 to $5,734,000 in 2016 from $6,112,000 in 2015. The drought as discussed above, has reduced hunt volume in 2016, thus reducing related costs such as payroll, supplies, fuel, and other services.

Other Income

Total other income decreased $1,044,000 to $615,000, or 63%, during 2017 from $1,659,000 in 2016. The change resulted from the fact that in November 2016, we sold building and land located in Rancho Santa Fe, California for $4,700,000, recognizing a gain of $1,044,000.

Total other income increased $750,000 to $1,659,000, or 83%, during 2016 from $909,000 in 2015, primarily as a result of the gain from the Rancho Santa Fe sale of $1,044,000. Offsetting the gain from Rancho Santa Fe, California is a reduction of interest and other income of $294,000.

Corporate Expenses

Corporate general and administrative costs decreased $2,409,000, or 19%, during 2017 when compared to 2016. In 2017, we had a reduction in payroll, overhead, and incentive based compensation (both share-based and cash bonus) of $1,603,000 which was primarily a result of a staff rightsizing that occurred during the second quarter of 2017. We also benefited from savings of $924,000 as a result of reduced legal and information technology related professional services costs.

Corporate general and administrative costs decreased $258,000, or 2%, during 2016 when compared to 2015. In 2016, we did not recognize a one-time-non-cash pension settlement charge of $536,000 as we did in 2015, as a result of lump sum payment to retired former employees. which is discussed below. In addition, personnel levels decreased resulting in decreased payroll and salaries of $415,000. Offsetting the decreases include an increase in stock compensation of $532,000 resulting from meeting performance milestones and issuing new performance grants.

Equity in Earnings of Unconsolidated Joint Ventures

Equity in earnings of unconsolidated joint ventures is an important and growing component of our commercial/industrial activities and in the future, equity in earnings of unconsolidated joint ventures will become a significant part of our operational activity within the resort/residential segment. As we expand our current ventures and add new joint ventures, these investments will become a growing revenue source for the Company.

During 2017, equity in earnings from unconsolidated joint ventures decreased $2,871,000 to $4,227,000 when compared to $7,098,000 in 2016.

- There was a $995,000 decrease in our share of earnings from our TA/Petro joint venture. The decline was driven by increased operating costs and depreciation associated with new offerings at TA/Petro, a one time charge of $200,000 related to a workers' compensation claim, and a decline in gas fuel margins.
- There was a $989,000 decrease in our share of earnings from our TRCC/Rock Outlet joint venture. The decrease was attributable to write-off of tenant allowances and other leasing costs associated with lease terminations. The departing tenants have struggled nationally in recent years as a result of the retail slump and do not represent the overall performance of The Outlets at Tejon.

During 2017, sales per occupied square foot increased 13% as compared to 2016 as a result of increased tour bus traffic and improved conversion rates from shoppers. The conversion rate is the percentage of users who take a desired action. Operationally, The Outlets at Tejon is continually identifying new and desirable tenants to better serve its target demographic.

During the second quarter, Express, a nationally recognized brand focusing on men's and women's fashion commenced operations occupying a space approximating 7,828 square feet. On July 14, 2017, TRCC/Rock Outlets executed a lease with Old Navy for a space approximating 12,500 square feet. On July 21, 2017, Samsonite, a worldwide leader in superior travel bags and luggage, took possession of a vacated unit and immediately commenced operations.

- TRC-MRC 2, a joint venture which was formed during the third quarter of 2016, had an additional $839,000 loss as compared to 2016. The increase in loss was driven by non-cash GAAP losses stemming from purchase accounting adjustments, despite generating positive net operating income. Please refer to "Non-GAAP Measures" for further financial discussion on our joint ventures.

During 2016, equity in earnings from unconsolidated joint ventures grew to $7,098,000, or an increase of $774,000, compared to $6,324,000 in 2015. TA/Petro, when compared to 2015, contributed an additional $868,000 in earnings from unconsolidated joint ventures. The improvement in operations within the TA/Petro joint venture was driven by an increase in diesel volumes of 1.5 million gallons and gas volumes of 1.0 million gallons.

Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as U.S. Tax Reform. U.S. Tax Reform makes broad and complex changes to the U.S. tax code, including, but not limited to, (i) reducing the U.S. federal statutory tax rate from 35% to 21%; (ii) requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries; (iii) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (iv) requiring a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (v) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (vi) creating the base erosion anti-abuse tax (BEAT), a new minimum tax; (vii) creating a new limitation on deductible interest expense; (viii) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017, and (ix) modifying the officer’s compensation limitation.

The provision for income taxes for fiscal year 2017 includes a $54,000 estimated tax expense as a result of the revaluation of U.S. federal net deferred tax assets from 34% to 21% due to the enactment of U.S. Tax Reform. The final impact of U.S. Tax Reform may differ from these estimates, due to, among other things, changes in interpretations, analysis and assumptions made by management, additional guidance that may be issued by the U.S. Department of the Treasury and the Internal Revenue Service, and any updates or changes to estimates we have utilized to calculate the transition impact. Therefore, our accounting for the elements of U.S. Tax Reform is incomplete. However, we were able to make reasonable estimates of the effects of U.S. Tax Reform.

For the twelve months ended December 31, 2017, the Company incurred a net income tax benefit of $1,123,000 compared to a net income tax expense of $336,000 for the twelve months ended December 31, 2016. These represent effective income tax rates of approximately 42% and 39% for the twelve months ended December 31, 2017 and, 2016, respectively. Our effective income tax rate for the year ended December 31, 2017 was higher than the federal statutory rate in the United States primarily due to effects of recent tax law changes, state taxes, and other permanent differences. The effective tax rate was impacted by the aforementioned revaluation of net deferred assets related to the U.S. Tax Reform. As of December 31, 2017 and 2016 we had an income tax receivable of $1,804,000 and $468,000, respectively. For more detail, see Note 5, Income Taxes, of the Notes to Consolidated Financial Statements, included this Annual Report on Form 10-K.

As of December 31, 2017 (and after the aforementioned revaluation), we had net deferred tax assets of $1,562,000. Our largest deferred tax assets were made up of temporary differences related to the capitalization of costs, pension adjustments, and stock grant expense. Deferred tax liabilities consist of depreciation, deferred gains, cost of sale allocations, and straight-line rent. Due to the nature of most of our deferred tax assets, we believe they will be used in future years and an allowance is not necessary.

The Company classifies interest and penalties incurred on tax payments as income tax expenses. The Company made total income tax payments of $0 in 2017 and $$1,750,000 during 2016. The Company received refunds of $124,000 in 2017 and $615,000 in 2016.

Liquidity and Capital Resources

Cash Flow and Liquidity

Our financial position allows us to pursue our strategies of land entitlement, development, and conservation. Accordingly, we have established well-defined priorities for our available cash, including investing in core 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, 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.

On October 4, 2017, the Company commenced a rights offering to common shareholders whereby proceeds will be used to provide additional working capital for general corporate purposes, including to fund general infrastructure costs and the development of buildings at TRCC, to continue forward with entitlement and permitting programs for the Centennial and

Grapevine communities and costs related to the preparation of the development of MV. The rights offering concluded on October 27, 2017, with the Company raising $89,867,000, net of offering costs, from the sale of 5,000,000 shares at $18.00 per share.
Our cash and cash equivalents and marketable securities totaled approximately $90,975,000 at December 31, 2017, an increase of $63,042,000, or 226%, from the corresponding amount at the end of 2016.
The following table summarizes the cash flow activities for the following years ended December 31:

($ in thousands)	2017	2016	2015
Operating activities	$9,830	$5,585	$16,968
Investing activities	$(68,214)	$(10,242)	$(12,661)
Financing activities	$77,233	$3,985	$(8,015)

Cash flows provided by operating activities are primarily dependent upon the rental rates of our leases, the collectability of rent and recovery of operating expenses from our tenants, distributions from joint ventures, the success of our crops and commodity prices within our mineral resource segment. During 2017, our operations provided $9,830,000 of cash primarily attributable to operating results from mineral resources, and commercial real estate activities. We also received a $7,200,000 distribution from our TA/Petro joint venture. Please refer to "Results of Operations by Segment" for further discussion on our operating results.
During 2016, our operations provided $5,585,000 of cash primarily attributable to operating results from mineral resources, and commercial real estate activities. We also received a $4,500,000 distribution from our TA/Petro joint venture. Please refer to "Results of Operations by Segment" for further discussion on our operating results.
During 2017, investing activities used $68,214,000. During 2017, we invested a portion of our proceeds from the rights offering, totaling $52,716,000, into marketable securities. We also had $21,709,000 in capital expenditures associated with real estate and farm crop development. Of the $21,709,000 we spent $5,462,000 on tentative tract maps for MV, $4,831,000, on entitlement, and land planning activities for Centennial, and $3,938,000 on litigation defense and permitting activities for the Grapevine project. At TRCC we used $4,638,000 on continued expansion and infrastructure related to Wheeler Ridge Road and indirect costs supporting all ongoing infrastructure projects, such as expansion of water treatment facilities. Our farming segment had cash outlays of $2,129,000 for developing new almond orchards and purchase of replacement farm equipment. Lastly, we purchased water through our annual water contracts, using $4,717,000. Offsetting our cash outlays were maturity of marketable securities of $8,126,000, and distributions from our joint venture partners of $3,114,000.
During 2016, investing activities used $10,242,000 of cash primarily as a result of $26,380,000 in real estate and equipment expenditures. Of the $26,380,000 we spent $5,253,000, $5,244,000, $5,516,000 on pre-development and entitlement costs on our Centennial, MV, and Grapevine projects, respectively. At TRCC we used $5,196,000 for supporting infrastructure projects. Our farming segment cash outlay was $2,006,000 for developing new almond crops and acquiring farm equipment. We invested $2,161,000 into our mineral resources division primarily to develop two new water wells. The remainder of the capital investments primarily relate to capital equipment used as part of our ranch operations and corporate segments. Outside of capital projects, we acquired $5,983,000 in marketable securities and contributed $2,000,000 to joint ventures with Majestic. Offsetting our cash outlays are maturities and sales of marketable securities of $11,750,000, distributions from our joint venture partners of $1,600,000, and reimbursements from TRPFFA for qualifying infrastructure projects of $6,155,000,
Our estimated capital investment for 2018 is primarily related to our real estate projects as it was in 2017. These estimated investments include approximately $8,110,000 of infrastructure development at TRCC-East and West to support continued commercial retail and industrial development and to expand water facilities to support future anticipated absorption. It is assumed we will invest up to $800,000 into the Majestic joint venture as equity for tenant improvement and lease-up purposes. We are also investing approximately $3,624,000 to begin development of new almond orchards and acquiring new farming 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. We expect to possibly invest up to $18,462,000 for land planning, entitlement activities, litigation related to entitlement approvals, federal and state agency permitting activities, and development activities at MV, Centennial, and Grapevine during 2018. The timing of these investments is dependent on our coordination efforts with Los

Angeles County regarding entitlement efforts for Centennial, litigation and permitting activities for Grapevine, and final maps for MV. Our plans also include $6,224,000 for payment of annual water infrastructure and water related investments. We are also planning to potentially invest up to $300,000 in the normal replacement of operating equipment, such as ranch equipment, and updates to our information technology systems.

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 years ended December 31, 2017 and 2016, of $3,478,000 and $3,381,000, respectively, is classified in real estate development. We also capitalized payroll costs related to development, pre-construction, and construction projects which aggregated $2,809,000 and $2,656,000 for the years ended December 31, 2017 and 2016, respectively. Expenditures for repairs and maintenance are expensed as incurred.

During 2017, financing activities provided $77,233,000 through the rights offering discussed previously. A portion of the proceeds from the Rights Offering were used to payoff $17,000,0000 outstanding on our line-of-credit.

During 2016, financing activities provided $3,985,000 through $20,700,000 in drawdowns from our line-of-credit offset by paydowns of $13,815,000 on our line-of-credit and long-term borrowings.

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. Based on our experience, we believe we will have adequate cash flows, cash balances, and availability on our line of credit over the next twelve months to fund internal operations. As we move forward with the completion of the entitlement process 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.

Capital Structure and Financial Condition

At December 31, 2017, total capitalization at book value was $496,630,000 consisting of $69,820,000 of debt, net of deferred financing costs, and $426,810,000 of equity, resulting in a debt-to-total-capitalization ratio of approximately 14.0%, representing a decrease when compared to the debt-to-total-capitalization ratio of 19.6% at December 31, 2016.

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 adds a $70,000,000 term loan, or Term Loan, to the existing $30,000,000 revolving line of credit, or RLC. Funds from the Term Loan were used to finance the Company's purchase of DMB TMV LLC’s interest in MV as disclosed in the Current Report on Form 8-K filed on July 16, 2014. The Term Loan had a $66,046,000 balance as of December 31, 2017. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties. At the Company’s option, the interest rate on the RLC 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 credit facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. The outstanding balance on the RLC was $0 and $7,700,000 as of December 31, 2017 and 2016, respectively.

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

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than $20,000,000. At December 31, 2017, we were in compliance with the financial covenants.

The 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 Credit Facility contains customary events of default, including: failure to make required payments; failure to comply with terms of the Credit Facility; bankruptcy and insolvency; and a change in control without consent of bank (which consent will not be unreasonably withheld). The 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 with principal and interest due monthly starting on October 1, 2013. The interest rate on this promissory note is 4.25% per annum, with principal and interest payments ending on September 1, 2028. The balance as of December 31, 2017 is $3,695,000. The proceeds from this promissory note were used to eliminate debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment.

Our current and future capital resource requirements will be provided primarily from current cash and marketable securities, cash flow from on-going operations, distributions from joint ventures, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, additional use of debt, proceeds from the reimbursement of public infrastructure costs through CFD bond debt (described below under “Off-Balance Sheet Arrangements”), and the issuance of common stock. In April 2016, we filed an updated shelf registration statement on Form S-3 that went effective in May 2016. Under the shelf registration statement, we may offer and sell in the future one or more offerings, common stock, preferred stock, debt securities, warrants or any combination of the foregoing. The shelf registration allows for efficient and timely access to capital markets and when combined with our other potential funding sources just noted, provides us with a variety of capital funding options that can then be used and appropriately matched to the funding need.

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 3,000,000 warrants to purchase shares of Company common stock, par value $0.50 per share, or Warrants, to holders of record of Common Stock as of August 21, 2013, the Record Date. The Warrants were distributed to shareholders on August 28, 2013. Each Warrant entitled the holder to purchase one share of Common Stock at an initial exercise price of $40.00 per share and expired unexercised on August 31, 2016.

As noted above, at December 31, 2017, we had $90,975,000 in cash and securities and as of the filing date of this Form 10-K, we have $30,000,000 available on credit lines to meet any short-term liquidity needs.

We continue to expect that substantial 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 December 31, 2017, to be paid over the next five years:

	Payments Due by Period				
($ in thousands)	Total	Less than a year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Estimated water payments	$261,992	$8,884	$18,218	$18,846	$216,044
Long-term debt	69,959	4,004	8,241	8,915	48,799
Interest on long-term debt	15,494	2,775	5,056	4,348	3,315
Cash contract commitments	7,500	5,291	1,138	—	1,071
Defined Benefit Plan	3,658	200	546	585	2,327
SERP	4,958	526	979	956	2,497
Tejon Ranch Conservancy	3,200	800	1,600	800	—
Financing fees	163	163	—	—	—
Total contractual obligations	$366,924	$22,643	$35,778	$34,450	$274,053

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 the registrant that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction." Based on this definition, the table above includes only those contracts that include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

Our financial obligations to the Tejon Ranch Conservancy are prescribed in the Conservation Agreement. Our advances to the Tejon Ranch Conservancy are dependent on the occurrence of certain events and their timing, and are therefore subject to change in amount and period. The amounts included above are the minimum amounts we anticipate contributing through the year 2021, at which time our current contractual obligation terminates.

As discussed in Note 15 (Retirement Plans) of the Notes to 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. During 2017, we made pension contributions of $165,000 and it is projected that we will make a similar contribution in 2018.

Our cash contract commitments consist of contracts in various stages of completion related to infrastructure development within our industrial developments and entitlement costs related to our industrial and residential development projects. Also, included in the cash contract commitments are estimated fees earned during the second quarter of 2014 by a consultant, related to the entitlement of the Grapevine Development Area. The Company exited a consulting contract during the second quarter of 2014 related to the Grapevine Development and is obligated to pay an earned incentive fee at the time of successful receipt of litigated project entitlements and at a value measurement date five-years after entitlements have been achieved for Grapevine. The final amount of the incentive fees will not be finalized until the future payment dates. The Company believes that net savings from exiting the contract over this future time period will more than offset the incentive payment costs.

Estimated water payments include the Nickel 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, Tejon-Castac Water District, Tulare Lake Basin Water Storage District, and Dudley-Ridge Water Storage District. These contracts for the supply of future water run through 2035. Please refer to Note 6 (Long-Term Water Assets) of the Notes to Consolidated Financial Statements for additional information regarding water assets.

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

Off-Balance Sheet Arrangements

The following table shows contingent obligations we have with respect to 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	$4,921	$ —	$ 4,921	$ —	$ —
Total other commercial commitments	$4,921	$ —	$ 4,921	$ —	$ —

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 $4,921,000 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 year's worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. As development occurs within TRCC-East there is a mechanism in the bond documents to reduce the amount of the letter of credit. The Company believes that the letter of credit will never be drawn upon. This letter of credit is for a two-year period of time and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately $83,000.

The assessment of each individual property sold or leased within each CFD is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at December 31, 2015.

At December 31, 2017, aggregate outstanding debt of unconsolidated joint ventures was $114,272,000. We guarantee $98,993,000 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 do not expect the guarantee to ever be called upon. We do not provide a guarantee on the $15,279,000 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.

	Year-Ended December 31,		
($ in thousands)	2017	2016	2015
Net (loss) income	$(1,579)	$515	$2,912
Net (loss) attributed to non-controlling interest	(24)	(43)	(38)
Interest, net			
Consolidated interest income	(462)	(457)	(528)
Our share of interest expense from unconsolidated joint ventures	1,730	1,449	1,113
Total interest, net	1,268	992	585
Income tax (benefit) expense	(1,123)	336	1,125
Depreciation and amortization:			
Consolidated	4,551	4,549	5,090
Our share of depreciation and amortization from unconsolidated joint ventures	5,419	3,630	2,878
Total depreciation and amortization	9,970	8,179	7,968
EBITDA	8,560	10,065	12,628
Stock compensation expense	3,552	4,585	3,757
Adjusted EBITDA	$12,112	$14,650	$16,385

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)	Year-Ended December 31,		
Net operating income	2017	2016	2015
Pastoria Energy Facility	3,854	3,612	3,694
TRCC	1,447	1,327	1,346
Communication leases	799	795	788
Other commercial leases	618	817	758
Total Commercial/Industrial net operating income	6,718	6,551	6,586

	Year-Ended December 31,		
($ in thousands)	2017	2016	2015
Commercial/Industrial operating income	$2,874	$2,338	$1,578
Plus: Commercial/Industrial depreciation and amortization	615	585	552
Plus: General, administrative and other expenses	5,570	6,084	6,011
Less: Other revenues including land sales	(2,341)	(2,456)	(1,522)
Total Commercial/Industrial net operating income	$6,718	$6,551	$6,619

The Company utilizes net operating income (NOI) of unconsolidated joint ventures as a measure of financial or operating performance that is not specifically defined by GAAP in the United States. We believe net operating income 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 from unconsolidated joint ventures to net operating income of unconsolidated joint ventures.

	Year-Ended December 31,		
($ in thousands)	2017	2016	2015
Net income of unconsolidated joint ventures	$6,371	$11,782	$10,523
Interest expense of unconsolidated joint ventures	3,364	2,757	2,135
Operating income of unconsolidated joint ventures	9,735	14,539	12,658
Depreciation and amortization of unconsolidated joint ventures	10,361	6,832	5,425
Net operating income of unconsolidated joint ventures	$20,096	$21,371	$18,083

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Financial Market Risks

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

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields and prudently managing risk. To achieve this objective and limit interest rate exposure, we limit our investments to securities with a maturity of less than five years and an investment grade rating from Moody's or Standard and Poor's. See Note 3 (Marketable Securities) of the Notes to Consolidated Financial Statements.

Our current RLC has no outstanding balance. 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 for $66,046,000 that is tied to LIBOR plus a margin of 1.70%. The interest rate for the term of this loan has been fixed through the use of an interest rate swap that fixed the rate at 4.11%. The outstanding balance on the second term loan is $3,695,000 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 new loan.

Market risk related to our farming inventories ultimately depends on the value of almonds, grapes, and pistachios at the time of payment or sale. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and periodic credit evaluations of our customers' financial conditions, we believe our credit risk is minimal. Market risk related to our farming inventories is discussed below in the section pertaining to commodity price exposure.

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

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2017
(In thousands except percentage data)

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$20,227	$30,315	$20,420	$36	$68	$—	$71,066	$70,868
Weighted average interest rate	1.61 %	1.83 %	2.02 %	— %	— %	— %	1.83 %	
Liabilities:								
Long-term debt ($4.75M note)	$277	$289	$302	$315	$328	$2,184	$3,695	$3,695
Weighted average interest rate	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	4.25 %	
Long-term debt ($70.0M note)	$3,563	$3,715	$3,881	$4,051	$4,221	$46,615	$66,046	$66,046
Weighted average interest rate	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	4.11 %	
Long-term debt (other)	$163	$55	$—	$—	$—	$—	$218	$218
Weighted average interest rate	3.35 %	3.35 %	— %	— %	— %	— %	3.35 %	

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2016
(In thousands except percentage data)

	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$6,979	$13,787	$6,007	$—	$—	$—	$26,773	$26,675
Weighted average interest rate	1.32 %	1.59 %	1.73 %	— %	— %	— %	1.55 %	
Liabilities:								
Revolving line of credit	$7,700	$—	$—	$—	$—	$—	$7,700	$7,700
Weighted average interest rate	2.26 %	— %	— %	— %	— %	— %	— %	
Long-term debt ($4.75M note)	$266	$277	$289	$302	$315	$2,512	$	