TEJON RANCH CO
Form 10-Q
May 08, 2013

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

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

For the quarterly period ended March 31, 2013
Or

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

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

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

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

P.O. Box 1000, Lebec, California 93243
(Address of principal executive offices)
Registrant's telephone number, including area code: (661) 248-3000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No X The number of the Company's outstanding shares of Common Stock on May 1, 2013 was 20,131,845.

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PART I – FINANCIAL INFORMATION
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TEJON RANCH CO. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended March 31	
	2013	2012
Revenues:		
Real estate - commercial/industrial	$2,722	$2,148
Real estate - resort/residential	237	41
Mineral resources	2,866	3,906
Farming	3,935	3,484
Total revenues	9,760	9,579
Costs and Expenses:		
Real estate - commercial/industrial	3,113	3,025
Real estate - resort/residential	309	1,018
Mineral resources	160	117
Farming	2,257	2,261
Corporate expenses	3,831	3,134
Total expenses	9,670	9,555
Operating income	90	24
Other Income:		
Investment income	275	318
Interest income (expense)	—	(2)
Other income	3	24
Total other income	278	340
Income from operations before equity in earnings of unconsolidated joint ventures	368	364
Equity in earnings (loss) of unconsolidated joint ventures, net	409	(359)
Income before income tax expense (benefit)	777	5
Income tax expense (benefit)	147	(228)
Net income	630	233
Net income (loss) attributable to non-controlling interest	15	(42)
Net income attributable to common stockholders	$615	$275
Net income per share attributable to common stockholders, basic	$0.03	$0.01
Net income per share attributable to common stockholders, diluted	$0.03	$0.01

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

	Three Months Ended March 31	
	2013	2012
Net income	$630	$233
Other comprehensive income (loss):		
Unrealized gains (losses) on available for sale securities	(43)	219
Equity in other comprehensive income of unconsolidated joint venture	—	55
Other comprehensive income (loss) before taxes	(43)	274
(Provisions) benefit for income taxes related to other comprehensive income (loss) items	17	(109)
Other comprehensive income (loss)	(26)	165
Total comprehensive income	604	398
Total comprehensive income (loss) attributable to non-controlling interests	15	(42)
Total comprehensive income attributable to common stockholders	$589	$440

See accompanying notes.

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TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$4,283	$7,219
Marketable securities - available-for-sale	65,905	65,049
Accounts receivable	5,486	8,768
Inventories	5,685	3,839
Prepaid expenses and other current assets	4,661	4,881
Deferred tax assets	1,014	997
Total current assets	87,034	90,753
Property and equipment - net of depreciation (includes $72,787 at March 31, 2013 and $72,115 at December 31, 2012, attributable to Centennial Founders LLC, Note 12)	151,781	146,590
Investments in unconsolidated joint ventures	55,331	54,022
Long-term water assets	28,509	28,565
Long-term deferred tax assets	5,376	5,376
Other assets	2,541	2,550
TOTAL ASSETS	$330,572	$327,856
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$3,745	$3,845
Accrued liabilities and other	3,769	2,132
Deferred income	1,353	1,195
Current portion of long-term debt	42	41
Total current liabilities	8,909	7,213
Long-term debt, less current portion	202	212
Long-term deferred gains	2,248	2,248
Other liabilities	6,970	6,508
Pension liability	3,254	3,416
Total liabilities	21,583	19,597
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders’ Equity		
Common stock, $.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 20,131,845 at March 31, 2013 and 20,085,865 at December 31, 2012	10,066	10,043
Additional paid-in capital	198,220	198,117
Accumulated other comprehensive loss	(5,144)	(5,118)
Retained earnings	66,165	65,550
Total Tejon Ranch Co. Stockholders’ Equity	269,307	268,592
Non-controlling interest	39,682	39,667
Total equity	308,989	308,259
TOTAL LIABILITIES AND EQUITY	$330,572	$327,856

See accompanying notes.

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

	Three Months Ended March 31	
	2013	2012
Operating Activities		
Net income	$630	$233
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	923	875
Amortization of premium/discount of marketable securities	232	206
Equity in (earnings) losses of unconsolidated joint ventures, net	(409)	359
Non-cash retirement plan expense	162	113
Gains on sales of real estate/assets	—	(137)
Amortization of stock compensation expense	629	1,052
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	2,488	(849)
Current liabilities, net	(1,088)	(4,901)
Net cash provided by (used in) operating activities	3,567	(3,049)
Investing Activities		
Maturities and sales of marketable securities	7,189	2,852
Funds invested in marketable securities	(8,320)	(7,834)
Property and equipment expenditures	(3,718)	(3,654)
Investment in long term term water assets	(121)	—
Investment in unconsolidated joint ventures	(900)	(3,804)
Other	10	72
Net cash used in investing activities	(5,860)	(12,368)
Financing Activities		
Repayments of long-term debt	(9)	(9)
Proceeds from exercise of stock options	211	123
Taxes on vested stock grants	(845)	(1,124)
Net cash used in financing activities	(643)	(1,010)
Decrease in cash and cash equivalents	(2,936)	(16,427)
Cash and cash equivalents at beginning of year	7,219	18,372
Cash and cash equivalents at end of period	$4,283	$1,945
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	$2,170	$577

See accompanying notes.

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TEJON RANCH CO. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except shares outstanding)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Tejon Ranch Co.'s Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2012	19,975,706	$9,988	$194,273	$ (4,756)	$61,109	$ 260,614	$ 39,825	$ 300,439
Net income	—	—	—	—	4,441	4,441	(158)	4,283
Other comprehensive income	—	—	—	(362)	—	(362)	—	(362)
Exercise of stock options and related tax benefit of $8	13,641	7	363	—	—	370	—	370
Restricted stock issuance	179,172	89	(89)	—	—	—	—	—
Stock compensation	—	—	5,832	—	—	5,832	—	5,832
Shares withheld for taxes	(82,654)	(41)	(2,262)	—	—	(2,303)	—	(2,303)
Balance at December 31, 2012	20,085,865	10,043	198,117	(5,118)	65,550	268,592	39,667	308,259
Net income	—	—	—	—	615	615	15	630
Other comprehensive income	—	—	—	(26)	—	(26)	—	(26)
Exercise of stock options and related tax benefit of $3	7,567	4	207	—	—	211	—	211
Restricted stock issuance	66,722	33	(33)	—	—	—	—	—
Stock compensation	—	—	760	—	—	760	—	760
Shares withheld for taxes	(28,309)	(14)	(831)	—	—	(845)	—	(845)
Balance at March 31, 2013	20,131,845	$10,066	$198,220	$ (5,144)	$66,165	$ 269,307	$ 39,682	$ 308,989

See accompanying notes.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2013

1. BASIS OF PRESENTATION

The summarized information of Tejon Ranch Co. and its subsidiaries, (collectively, the “Company”), furnished pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of the Company’s management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature. The Company has reclassified certain prior period amounts in the consolidated statements of operations, and cash flows to conform to the current year presentation. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

The periods ending March 31, 2013 and 2012 include the consolidation of Centennial Founders, LLC’s statement of operations within the resort /residential segment and statements of cash flows. The Company’s March 31, 2013 and December 31, 2012 balance sheets and statements of equity are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

The Company has identified four reportable segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; and farming. The Company determined that the mineral resources segment should be reported, as a result of an evaluation of the Company's operations during the fourth quarter of 2012. Mineral resources collects royalty income from oil and gas leases, rock and aggregate leases, and from a cement company. Information for the Company’s reported segments is presented in its consolidated statements of operations. The Company’s reporting segments follow the same accounting policies used for the Company’s consolidated financial statements. Management evaluates a segment’s performance based upon a number of factors including pretax results.

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

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

2. NET INCOME (LOSS) PER SHARE

Basic net income or loss per share is based upon the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is based upon the weighted average number of shares of common stock outstanding and the weighted average number of shares outstanding assuming the issuance of common stock upon exercise of stock options and vesting of stock grants per U.S. generally accepted accounting principles, or GAAP.

	Three Months Ended March 31	
	2013	2012
Weighted average number of shares outstanding:		
Common stock	20,100,115	19,990,558
Common stock equivalents-stock options, grants	15,327	32,744
Diluted shares outstanding	20,115,442	20,023,302

3. MARKETABLE SECURITIES

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

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The following is a summary of available-for-sale securities at March 31, 2013 and December 31, 2012:

($ in thousands)		2013		2012	
Marketable Securities:	Fair Value Hierarchy	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Certificates of deposit					
with unrecognized losses for less than 12 months		$1,435	$1,431	$1,578	$1,571
with unrecognized losses for more than 12 months		58	58	508	507
with unrecognized gains		7,040	7,102	5,586	5,628
Total Certificates of deposit	Level 1	8,533	8,591	7,672	7,706
US Treasury and agency notes					
with unrecognized losses for less than 12 months		992	982	3,057	3,024
with unrecognized losses for more than 12 months		3,936	3,909	874	873
with unrecognized gains		12,177	12,271	12,175	12,267
Total US Treasury and agency notes	Level 2	17,105	17,162	16,106	16,164
Corporate notes					
with unrecognized losses for less than 12 months		5,207	5,156	1,993	1,971
with unrecognized losses for more than 12 months		—	—	201	200
with unrecognized gains		25,278	25,655	29,210	29,653
Total Corporate notes	Level 2	30,485	30,811	31,404	31,824
Municipal notes					
with unrecognized losses for less than 12 months		1,286	1,281	1,961	1,948
with unrecognized losses for more than 12 months		827	822	620	613
with unrecognized gains		7,128	7,238	6,702	6,794
Total Municipal notes	Level 2	9,241	9,341	9,283	9,355
		$65,364	$65,905	$64,465	$65,049

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

At March 31, 2013, the fair market value of investment securities exceeded the cost basis by $541,000. The cost basis includes any other-than-temporary impairments that have been recorded for the securities. None have been recorded at March 31, 2013. The Company has determined that any unrealized losses in the portfolio are temporary as of March 31, 2013. The Company believes that market factors such as, changes in interest rates, liquidity discounts, and premiums required by market participants rather than an adverse change in cash flows or a fundamental weakness in credit quality of the issuer have led to the temporary declines in value. In the future based on changes in the economy, credit markets, financial condition of issuers, or market interest rates, this could change.

As of March 31, 2013, the adjustment to accumulated other comprehensive income (loss) in consolidated equity for the temporary change in the value of securities reflects a decrease in the market value of available-for-sale securities of $26,000, which includes estimated taxes of $17,000.

As of March 31, 2013, the Company’s gross unrealized holding gains equal $643,000 and gross unrealized holding losses equal $102,000.

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

(in thousands)

At 3/31/2013	2013	2014	2015	2016	2017	Total
Certificates of deposit	$1,255	$1,627	$4,213	$1,301	$—	$8,396
U.S. Treasury and agency notes	5,316	6,232	3,573	2,000	18	17,139
Corporate notes	6,514	6,729	9,730	4,681	1,625	29,279
Municipal notes	1,705	4,340	2,205	735	—	8,985
	$14,790	$18,928	$19,721	$8,717	$1,643	$63,799

(in thousands)

At 12/31/2012	2013	2014	2015	2016	Total
Certificates of deposit	$1,268	$1,627	$4,316	$301	$7,512
U.S. Treasury and agency notes	6,285	7,248	2,633	11	16,177
Corporate notes	10,916	6,729	9,420	3,325	30,390
Municipal notes	2,305	4,340	1,960	400	9,005
	$20,774	$19,944	$18,329	$4,037	$63,084

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

4. LONG TERM WATER ASSETS

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

The Company also owns additional transferable water as well as holding State Water Project, or SWP contracts with the Tulare Water Storage and Dudley-Ridge Water Storage Districts to supply water through 2035. These contracts are being amortized using the straight line method over that period. Annual amortization for the next five years will be $708,000 per year. Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, and the Tejon-Castac Water District, or TCWD, are also in place, but were entered into with each district at inception of the contract and not purchased later from third parties, and do not have a related financial value on the books of the Company. Therefore there is no amortization expense related to these contracts. Annual costs associated with these contracts are expensed each quarter.

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Purchased water assets consist of the following:

(in acre feet)	March 31, 2013	December 31, 2012
Banked water and water for future delivery		
AVEK water bank	11,616	11,478
Company water bank	8,818	8,700
AVEK water for future delivery	2,362	2,362
Total Company and AVEK banked water	22,796	22,540
Transferable Water with AVEK	14,786	14,786
SWP contracts	3,444	3,444
Total purchased water - third parties	41,026	40,770
WRMWSD - Contracts with Company	15,547	15,547
TCWD - Contracts with Company	5,278	5,278
TCWD - Banked water contracted to Company	38,945	38,945
Total purchased and contracted water sources in acre feet	100,796	100,540

($ in thousands)	March 31, 2013	December 31, 2012
Banked water and water for future delivery - Company and AVEK	$4,492	$4,448
Transferable water	8,988	8,988
SWP Contracts (net of accumulated amortization of $2,198 and $2,021 at March 31, 2013 and December 31 2012, respectively)	15,737	15,837
Total water assets	29,217	29,273
Less: current portion	(708)	(708)
Long-term water assets	$28,509	$28,565

5. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

($ in thousands)	March 31, 2013	December 31, 2012
Accrued vacation	$689	$674
Accrued paid personal leave	629	662
Accrued bonus	912	573
Water payable	386	—
Property tax payable	606	—
Other	547	223
	$3,769	$2,132

6. SHORT-TERM AND LONG TERM DEBT

Long-term debt consists of the following:

($ in thousands)	March 31, 2013	December 31, 2012
Note payable to a bank	$244	$253
Less current portion	(42)	(41)
	$202	$212

This debt is being used to provide long-term financing for a building being leased to Starbucks and the debt is secured by the leased building and land. The balance of the long-term debt instrument listed above approximates the fair value of the instrument.

We have a long-term revolving line of credit of $30,000,000 that, as of March 31, 2013, had no outstanding balance. At the Company's option, the interest rate on this line of credit can float at 2.50% over a selected LIBOR rate or can be fixed at 2.25% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in October 2013), we can borrow at

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any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. Under the terms of the line of credit, we must maintain tangible net worth, defined as total equity, including noncontrolling interest, plus debt less intangible assets, of not less than $175,000,000 and liquid assets of not less than $25,000,000. At March 31, 2013 our tangible net worth was $309,233,000 and liquid assets were $70,188,000. A portion of our farm acreage secures this line of credit.

7. STOCK COMPENSATION

The Company's stock incentive plans provide for the making of awards to employees based upon time-based criteria or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with time-based vesting, performance share grants that only vest upon the achievement of specified performance conditions, such as corporate cash flow goals, and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones. The payouts at each performance goal are as follows:

Performance Share Grants with Performance Conditions (in shares)	
Below threshold performance	—
Threshold performance	93,550
Target performance	558,582
Maximum performance	821,814

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

	March 31 2013	December 31 2012
Stock Grants Outstanding Beginning of the Year	688,041	744,508
New Stock Grants/Estimated additional shares maximum performance	56,087	113,643
Vested Grants	(62,997)	(170,110)
Expired/Forfeited Grants	(70,145)	—
Stock Grants Outstanding March 31, 2013	610,986	688,041

The unamortized cost associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of March 31, 2013 was $6,013,000 and 38 months, respectively. The fair value of restricted stock with time-based vesting features is based upon the Company's share price on the date of grant and is expensed over the service period. Fair value of performance grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company's stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance grants that contain a range of shares from zero to maximum we determine, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance grants is tied to the achievement of a performance condition, we estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition. Under the Non-Employee Director Stock Incentive Plan, or NDSI Plan, each non-employee director receives his or her annual compensation in stock.

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

(in shares)	Three Months Ended	Three Months Ended
Employee 1998 Plan:	March 31, 2013	March 31, 2012
Expensed	$437,000	$971,000
Capitalized	131,000	196,000