

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

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_ Commission file number: 1-07183



**TEJON RANCH CO.**

(Exact name of registrant as specified in its charter)

Delaware 77-0196136

(State or other jurisdiction of incorporation or organization.) (I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

(661) 248-3000

(Registrant's telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.50 par value	TRC	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

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

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

Yes  No

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

Yes  No

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Yes  No

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, 2020 was \$377,594,813 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, 2021 was 26,285,692.

**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.



## TABLE OF CONTENTS

<b><u>PART I</u></b>		3
ITEM 1.	BUSINESS	4
ITEM 1A.	RISK FACTORS	26
ITEM 1B.	UNRESOLVED STAFF COMMENTS	32
ITEM 2.	PROPERTIES	33
ITEM 3.	LEGAL PROCEEDINGS	36
ITEM 4.	MINE SAFETY DISCLOSURES	36
<b><u>PART II</u></b>		37
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	37
ITEM 6.	SELECTED FINANCIAL DATA	37
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	38
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	59
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	61
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	61
ITEM 9A.	CONTROLS AND PROCEDURES	61
ITEM 9B.	OTHER INFORMATION	61
<b><u>PART III</u></b>		61
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	61
ITEM 11.	EXECUTIVE COMPENSATION	61
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	61
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	62
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	62
<b><u>PART IV</u></b>		63
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	63
ITEM 16.	FORM 10-K SUMMARY	63
<b><u>SIGNATURES</u></b>		67
ITEM 15(a)(1) - FINANCIAL STATEMENTS		70
ITEM 15(a)(2) - FINANCIAL STATEMENT SCHEDULES		70

## PART I

### **Forward-Looking Statements**

*This annual report on Form 10-K contains forward-looking statements, including without limitation, statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields, prices, and water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, and of current assets and contracts to meet our water and other commitments, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness, ongoing negotiations, the uncertainties regarding the expected impact of COVID-19 on the Company, its customers, suppliers, global economic conditions, and other future events and conditions. In some cases, these statements are identifiable through the use of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “will,” “should,” “would,” “likely,” and similar expressions such as “in the process,” “designed to,” or “envisioned to.” In addition, any statements that refer to projections of our future financial performance, our anticipated growth, and trends in our business and other characterizations of future events or circumstances are forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performance and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward-looking statements. These risks, uncertainties and important factors include, but are not limited to, the impact of COVID-19 and the actions taken by governments, businesses, and individuals in response to it, weather, market and economic forces, availability of financing for land development activities, and competition and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above and in 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 Tejon 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.

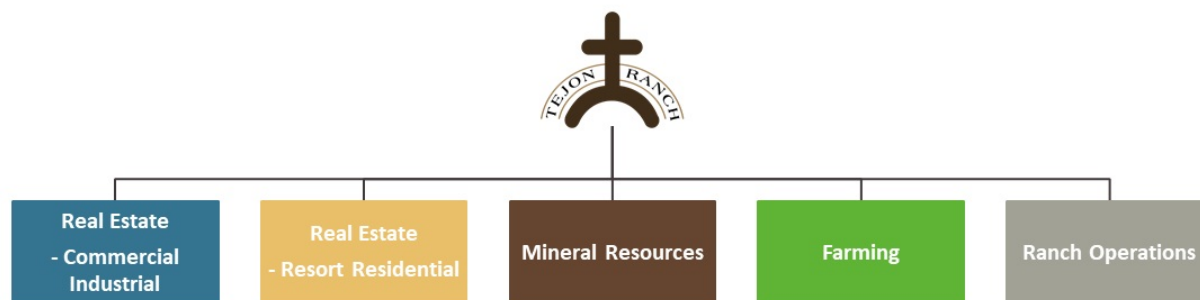


## ITEM 1. BUSINESS

### 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 land sales and leasing, leasing of land for mineral royalties, water asset management and sales, grazing leases, farming, and ranch operations.

These activities are performed through our five reporting 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 downtown 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/or sales, and conservation in order to maximize the highest and best use for our land. We are involved in seven joint ventures that either own, develop, and/or operate real estate properties. We enter into joint ventures as a means to facilitate the development of portions of our land.

### The COVID-19 Pandemic

Our first priority with regard to the COVID-19 pandemic is to provide for the health and safety of our employees, customers, suppliers and others with whom we partner. We are fully committed to continuing our essential business operations in this unprecedented environment, subject to appropriate risk mitigation and safety practices. Employees are required to wear masks and maintain proper social distancing. The commercial real estate operations that we and our joint ventures operate, are comprised of major national restaurant, retail and fuel brands that follow nationally accepted safety standards that help mitigate the spread of COVID-19.

The U.S. and global economies continue to be affected by the COVID-19 pandemic. There are no reliable estimates of how long the pandemic will last or how many more people will be affected by it, or its continued impact on our business. The return to normalcy is highly contingent on, among other things, the wide spread dissemination and use of an effective vaccine, which is still in its very early stages of distribution. Additionally, the efficacy of current vaccines on newer and potentially more lethal strains of COVID-19 is still being investigated by the scientific community and may also impact the return to normalcy.

We operate in the State of California and our operations were initially subject to the "shelter-in-place" order issued by the California Governor in March 2020, in addition to orders set by Los Angeles and Kern County governments. The State of California took an extremely cautious approach in reopening and even re-imposed statewide stay-at-home orders during the winter of 2020. On January 26, 2021, California lifted regional stay-at-home orders across the state, returning the state to a system of county-by-county restrictions. Kern County and Los Angeles County are rated Purple, as of the date of this report, and represents widespread COVID-19 transmission risk under California's Blueprint for a Safer Economy. Under such circumstances, our farming and mineral resources segments have operated and may continue to operate as normal, while our retail outlets can currently operate at 25% capacity and our restaurants can operate for take-out and outdoor dining only.

The actions taken by governments, other businesses, and individuals in response to the pandemic did have and will continue to have an impact on our results of operations and overall financial performance. In 2020, we evaluated our operations for expense reductions and cash savings by renegotiating contracts and pricing with a significant portion of our vendors, and right sizing our labor needs. We will continue to monitor and evaluate our needs for expense reduction throughout 2021.

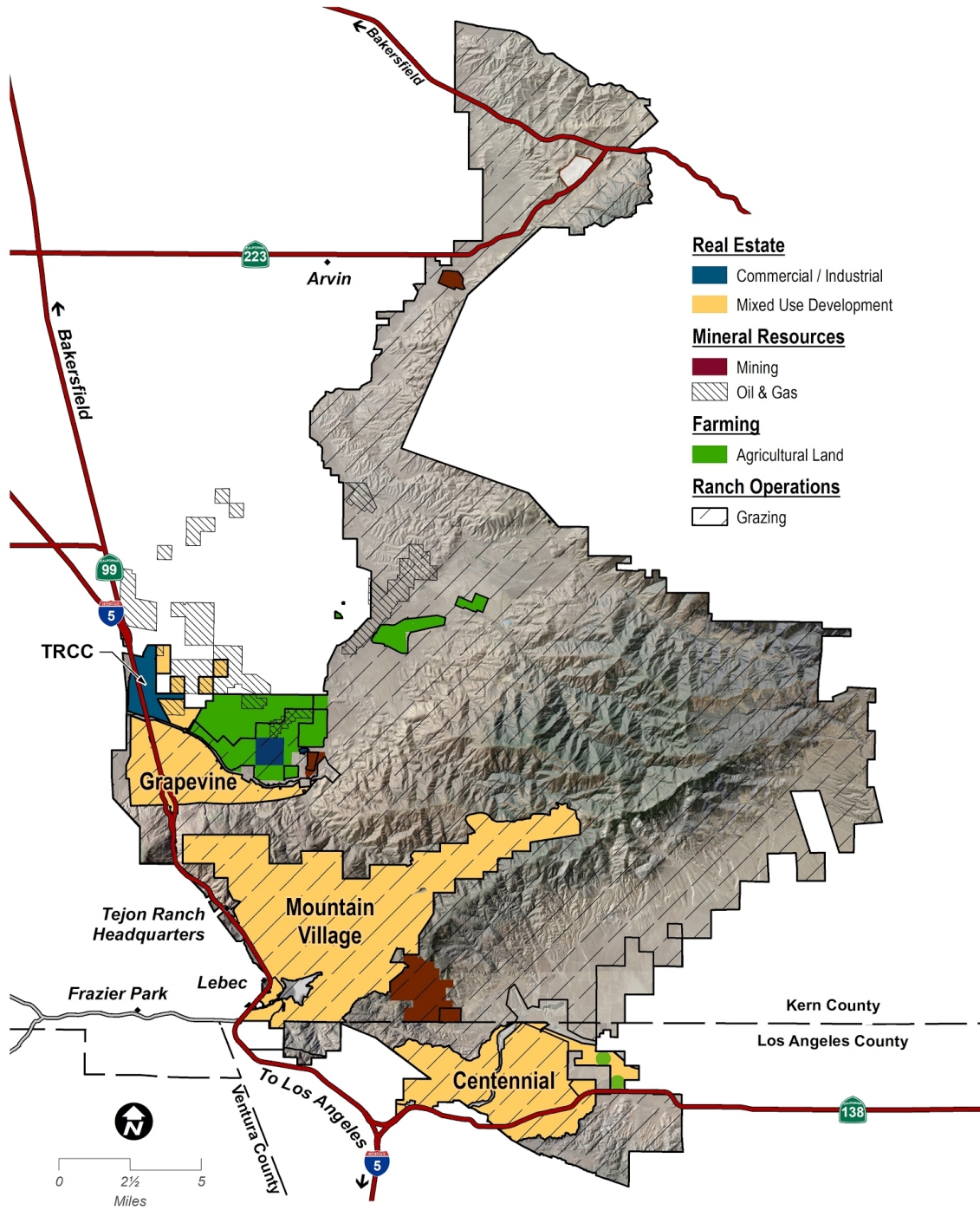
Please see the "Results of Operations" by Segment in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the impact of COVID-19 on our various reporting segments.



### 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. Our mixed-use master planned residential developments have been approved to collectively include up to 35,278 housing units, and more than 35 million square feet of commercial space. We have obtained entitlements on Mountain Village at Tejon Ranch, or MV, and the tentative tract map for the first four phases of residential development in MV has been approved, as well as the commercial site plan for the first phase of commercial development in MV. Centennial, at Tejon Ranch, or Centennial, had entitlements approved in December 2018, and received legislative approvals in April 2019 from the Los Angeles County Board of Supervisors. The Kern County Board of Supervisors unanimously reapproved the Grapevine at Tejon Ranch project, or Grapevine in 2019. We are currently engaged in construction, commercial sales, and leasing at our fully operational commercial/industrial center Tejon Ranch Commerce Center, or TRCC. In January 2021, the Kern County Board of Supervisors approved two Conditional Use Permits, authorizing development of multi-family apartment uses within the Tejon Ranch Commerce Center, on a 27-acre site located immediately north of the Outlets at Tejon. This authorization allows the Company to develop up to a maximum of 495 multi-family residences, in thirteen apartment buildings, as well as approximately 6,500 square feet of community amenity space and 8,000 square feet of community serving retail on the ground floor of a portion of the residential buildings. All of these efforts are supported by diverse revenue streams generated from other operations including: farming, mineral resources, and our various joint ventures.

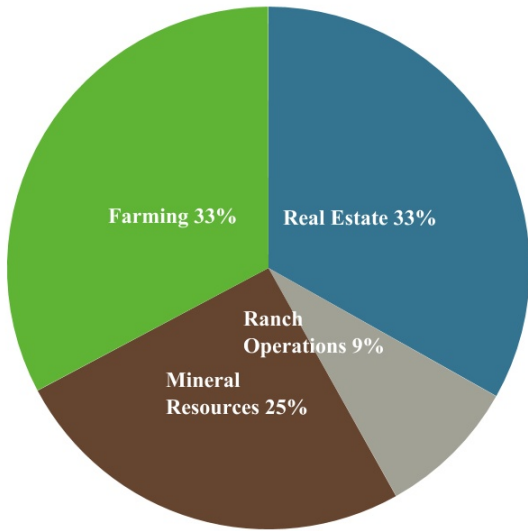
# MASTER LAND USE PLAN



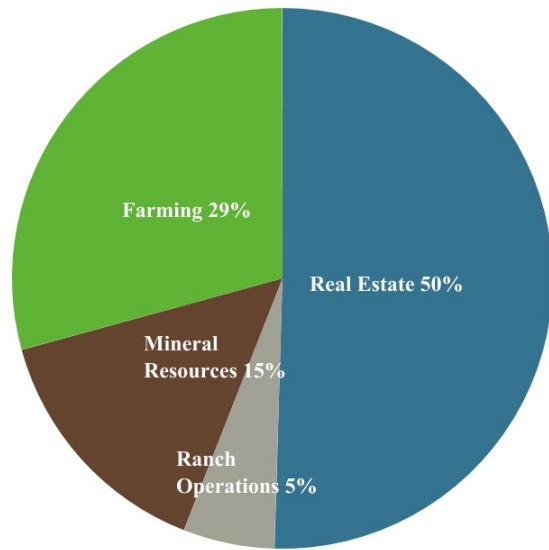


Percentage of Total Revenue<sup>1,2</sup> by Segment:

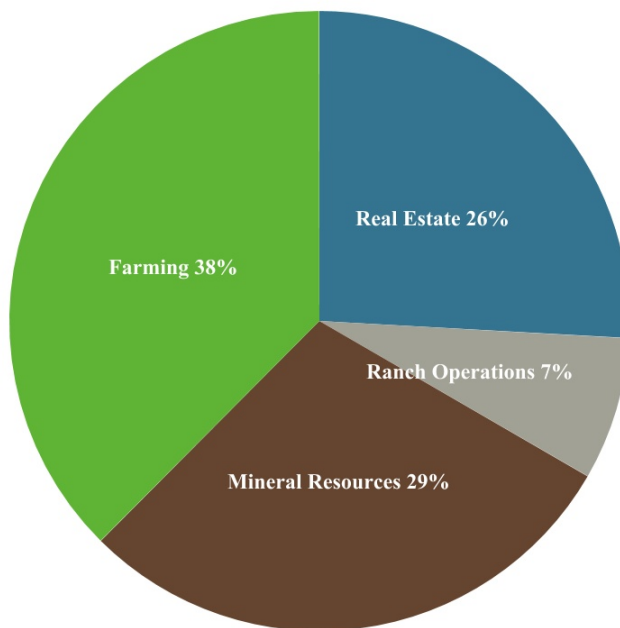
2020



2019

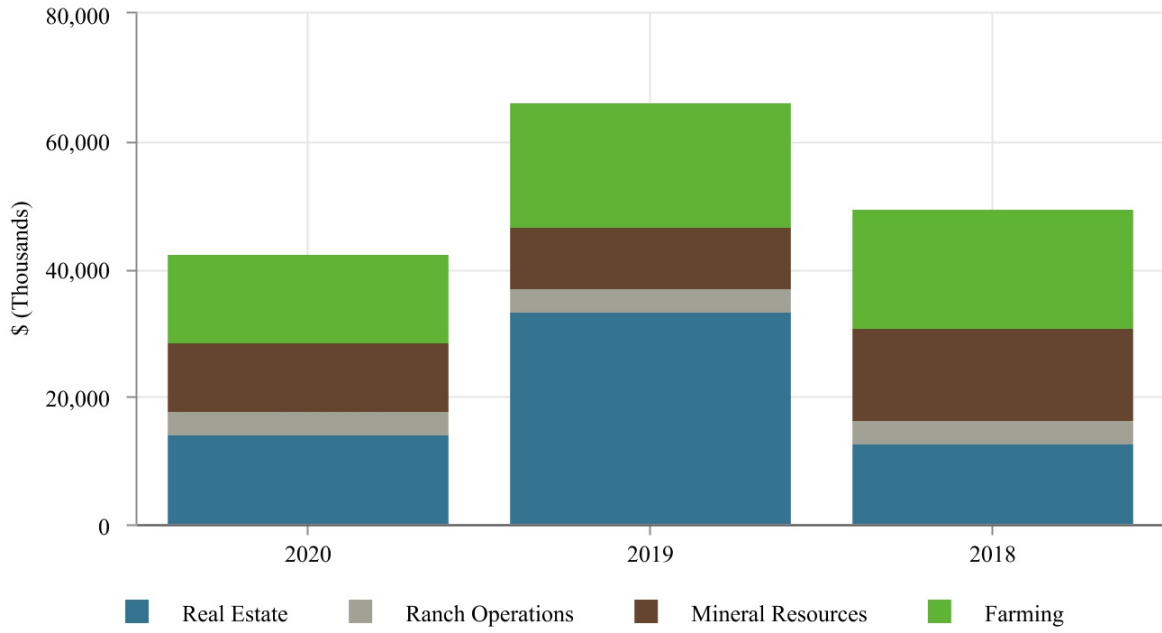


2018

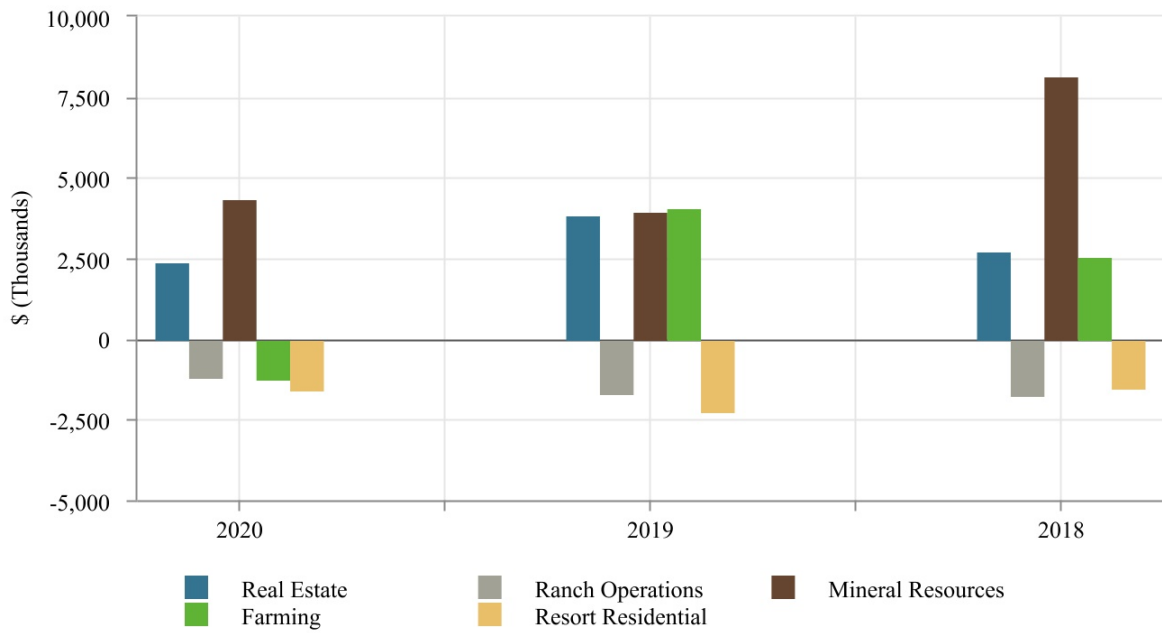


1. Real Estate includes equity in earnings of unconsolidated joint ventures.  
2. Charts presented only include the segment revenues, other income components are excluded.

### Segment Revenues



### Segment Profit and Loss



Note: Our Resort Residential reporting segment did not report revenues in the periods reported herein.

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,		
	2020	2019	2018
<b>Revenues and Other Income</b>			
Real Estate—Commercial/Industrial	\$ 9,536	\$ 16,792	\$ 8,970
Mineral Resources	10,736	9,791	14,395
Farming	13,866	19,331	18,563
Ranch operations	3,692	3,609	3,691
Segment revenues	37,830	49,523	45,619
Investment income	884	1,239	1,344
Revenues and other income	38,714	50,762	46,963
Equity in earnings of unconsolidated joint ventures	4,504	16,575	3,834
Total revenues and other income <sup>(1)</sup>	<u>\$ 43,218</u>	<u>\$ 67,337</u>	<u>\$ 50,797</u>
<b>Segment Profits (Losses) and Net Income</b>			
Real Estate—Commercial/Industrial	\$ 2,414	\$ 3,831	\$ 2,724
Real Estate—Resort/Residential	(1,612)	(2,247)	(1,530)
Mineral Resources	4,322	3,973	8,172
Farming	(1,237)	4,080	2,535
Ranch operations	(1,204)	(1,707)	(1,760)
Segment profits <sup>(2)</sup>	2,683	7,930	10,141
Gain on sale of real estate	1,331	—	—
Investment income	884	1,239	1,344
Other income (loss)	110	(1,824)	(59)
Corporate expenses	(9,430)	(9,361)	(9,705)
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	(4,422)	(2,016)	1,721
Equity in earnings of unconsolidated joint ventures	4,504	16,575	3,834
Income before income taxes	82	14,559	5,555
Income tax expense	829	3,980	1,320
Net (loss) income	(747)	10,579	4,235
Net loss attributable to non-controlling interest	(7)	(1)	(20)
Net (loss) income attributable to common stockholders	<u>\$ (740)</u>	<u>\$ 10,580</u>	<u>\$ 4,255</u>
<b>Identifiable Assets by Segment <sup>(3)</sup></b>			
Real estate—commercial/industrial	\$ 73,317	\$ 76,814	\$ 65,929
Real estate—resort/residential	297,052	286,801	273,620
Mineral Resources	57,797	55,049	54,144
Farming	38,090	41,258	40,835
Ranch operations	2,442	2,624	2,973
Corporate	67,651	76,876	91,547
Total assets	<u>\$ 536,349</u>	<u>\$ 539,422</u>	<u>\$ 529,048</u>

(1) Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for additional detail on segment revenues.

(2) Segment profits are revenues less operating expenses, excluding investment income and expense, corporate expenses, equity in earnings of unconsolidated joint ventures, and income taxes.

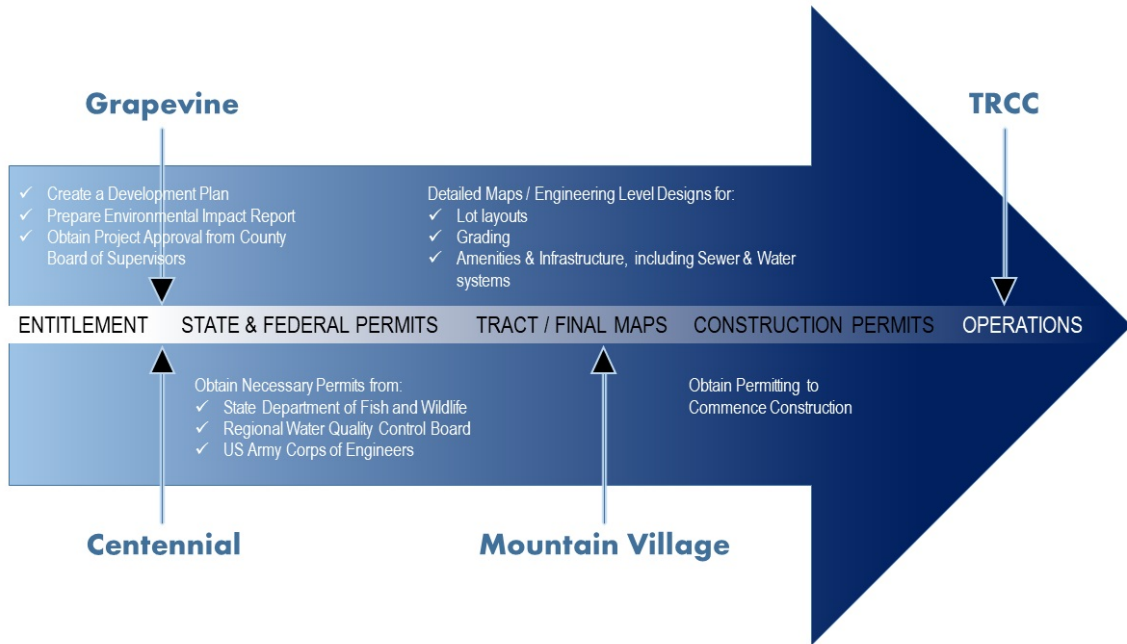
(3) Total Assets by Segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist of cash and cash equivalents, refundable and deferred income taxes, land, buildings, and improvements.

## Real Estate Development Overview

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

Interstate 5, one of the nation’s most heavily traveled freeways, brings in excess of 88,000 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, MV, 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.







**Operating Segments**

**Real Estate - Commercial/Industrial**

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

The U.S. Department of Commerce expanded the Foreign Trade Zone (FTZ) it previously granted, covering all the industrial sites within TRCC, an area totaling 1,094 acres. The FTZ designation allows the user within the FTZ to secure the many benefits and cost reductions associated with streamlined movement of goods in and out of the zone. This FTZ designation is further supplemented by the Economic Development Incentive Policy, or EDIP, adopted by the Kern County Board of Supervisors. EDIP is aimed to expand and enhance the County’s competitiveness by taking affirmative steps to attract new businesses and to encourage the growth and resilience of existing businesses. The EDIP provides incentives such as assistance in obtaining state tax incentives, building supporting infrastructure, and workforce development.

*TRCC Residential:*

On January 6, 2021, the Kern County Board of Supervisors approved two Conditional Use Permits (CUP) which will authorize development of multi-family apartment uses within the Tejon Ranch Commerce Center. The approved CUP's authorize the Company to develop up to a maximum of 495 multi-family residences, in thirteen apartment buildings, as well as approximately 6,500 square feet of community amenity space and 8,000 square feet of community retail on the ground floor of a portion of the residential buildings. The development would be located on a 27-acre site located immediately north of the Outlets at Tejon. The Company will allocate resources to this project during 2021 to advance this new project at TRCC, providing the much needed housing for the thousands of employees currently working at the various distribution centers, retailers and fast-food restaurants at TRCC.

*Construction:*

We formed TRC-MRC 3, a joint venture with Majestic Realty Co., or Majestic, a Los Angeles-based commercial/industrial developer, to pursue the development, construction, leasing, and management of a 579,040 square foot industrial building at TRCC-East in 2018. The construction of the industrial building was completed in the fourth quarter of 2019, and the Company has leased 100% of the rentable space to two tenants.

Also in 2019, we completed construction of a 4,900 square foot multi-tenant retail building at TRCC-East. We contributed this multi-tenant building and underlying land to our joint venture with TravelCenters of America Inc. In return for this land contribution, the Company received a priority distribution right of \$2.8 million from the joint venture. The joint venture opened this location for operations in 2020, operating several national brands including Dunkin' Donuts, Jamba Juice, Charleys Philly Steaks, and Baskin Robbins.

The following is a summary of the Company's commercial, retail and industrial real estate developments as of December 31, 2020:

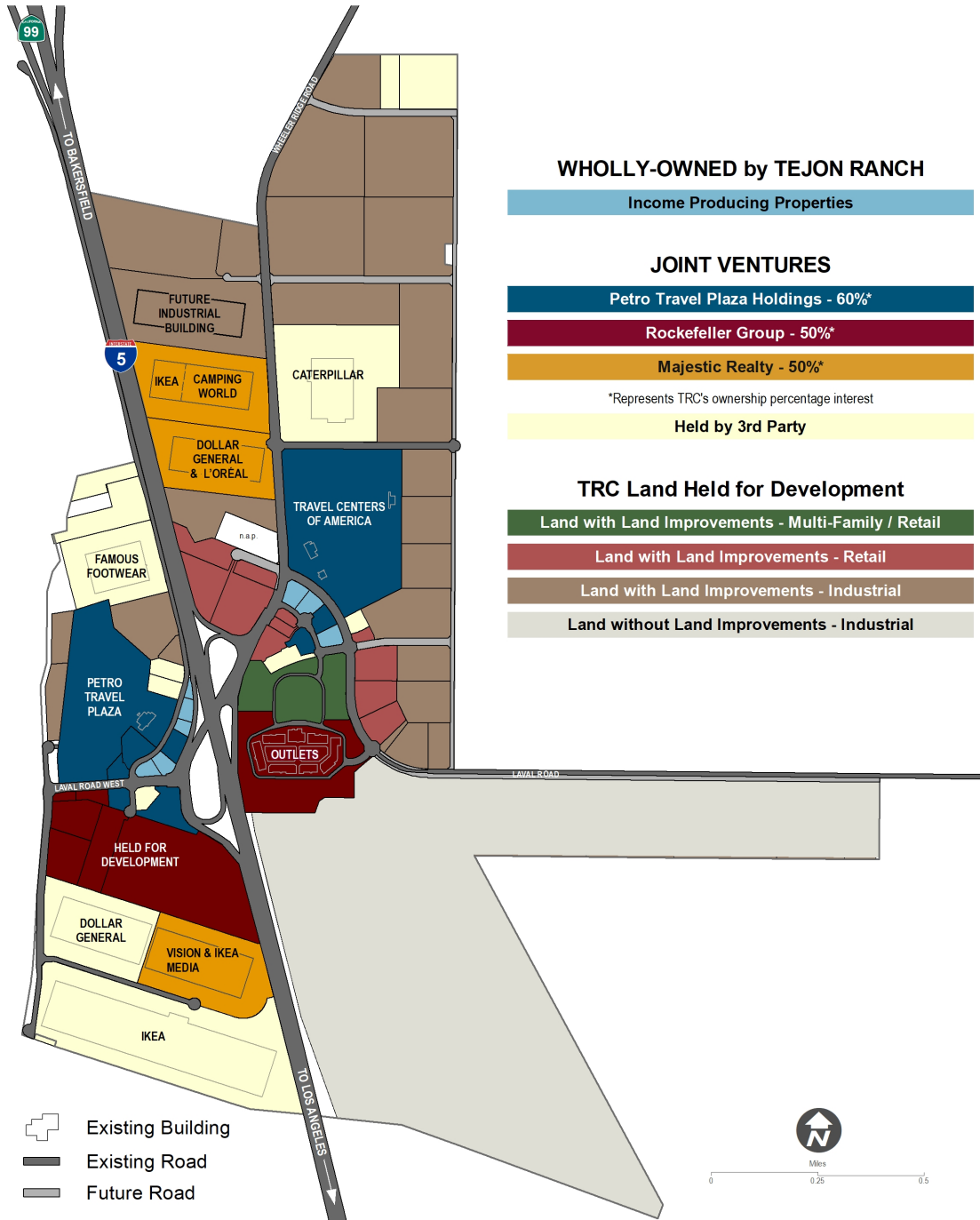
(\$ in thousands)

<b>Project</b>	<b>Cost to Date</b>	<b>Estimated Cost to Complete</b>	<b>Total Estimated Cost at Completion</b>	<b>Estimated Completion Date</b>
Tejon Ranch Commerce Center	\$ 90,294	\$ 70,083	\$ 160,377	TBD
Less: Reimbursements from TRPFFA <sup>1</sup>	76,891	50,537	127,428	TBD
<b>TRCC Development Costs, net</b>	<b>\$ 13,403</b>	<b>\$ 19,546</b>	<b>\$ 32,949</b>	

<sup>1</sup> The 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.

The following table summarizes total entitlements for TRCC as of December 31, 2020:

<b>(in square feet)</b>	<b>Industrial</b>	<b>Commercial Retail</b>
Total entitlements received	19,300,941	956,309
Total entitlements used	5,296,669	637,695
Entitlements available	14,004,272	318,614



The above land use plan is subject to change based upon economic and market variables.

#### *Commercial/industrial real estate sales:*

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 on the significant labor and logistical benefits of our site, the pro-business approach of Kern County, and the 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. 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, can provide us with a potential marketing advantage in the future. We continue our marketing efforts targeting industrial users in the Santa Clarita Valley of northern Los Angeles County, and the northern part of the San Fernando Valley for whom we may be an attractive provider 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 smaller facilities, but often are looking to expand operations and cannot find larger size buildings in these markets.

The commercial/industrial real estate sales market is highly competitive, with competition throughout California. The principal factors of competition in this industry are price, availability of labor, proximity to the port complexes of Los Angeles and 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 West Inland Empire.

Our most direct regional competitors are in the Inland Empire, a large industrial area located 60 miles east of Los Angeles, which continues its expansion eastward beyond Riverside and San Bernardino into the Perris, Moreno Valley, and Beaumont regions of Southern California. We also face competition within Northern Los Angeles, which is comprised of the San Fernando Valley and Santa Clarita Valley along with areas north of us in the San Joaquin Valley of California. Strong demand for large distribution facilities is driving development farther east in search for large entitled parcels. As development in the Inland Empire continues to move east and farther away from the ports, our distance from the ports is becoming less of a disadvantage.

During 2020, vacancy rates in the Inland Empire dropped to a historic low of 2.6% compared to 3.5% in 2019, with 2020 net absorption totaling 23,805,058 square feet. Asking rents continued to rise by 5.6% year-over-year. The Inland Empire industrial market has not been negatively impacted by the ongoing COVID-19 pandemic. As lease rates increase in the Inland Empire, we often times have greater pricing advantages due to our lower land basis.

During 2020, vacancy rates in the northern Los Angeles industrial market, which includes the San Fernando Valley and Santa Clarita Valley, increased to 2.3%, compared to 1.4% in 2019. Rents have been increasing for the past seven years, and is forecasted to stabilize at the current level at \$0.86 PSF NNN. Industrial vacancy rates are expected to continue to drop, and industrial users seeking larger spaces are having to go further north into neighboring Kern County and particularly, TRCC which has attracted increased attention as market conditions continue to tighten. In 2020, the Los Angeles and Long Beach Port container traffic remained high at 14.69 million Twenty-Foot Equivalent Units, or TEU's compared to 14.57 million TEU in 2019. 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.

#### *Joint Ventures:*

Our joint venture with TA/Petro 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 Majestic to develop, lease, manage, and/or acquire industrial buildings within TRCC. The three joint ventures currently own and operate three industrial buildings occupying over 1.7 million rentable square feet.

At December 31, 2020, we were involved in two joint ventures with Rockefeller Development Group (RDG). The two joint ventures are: (1) 18-19 West LLC, which owns 61.5 acres of land for future development within TRCC-West; and (2) TRCC/Rock Outlet Center LLC, which operates the Outlets at Tejon. Our Five West Parcel, LLC joint venture with RDG was dissolved in the fourth quarter of 2020. In 2019, Five West Parcel, LLC sold the building and land within the joint venture to a third party at a sales price of \$29,088,000, recognizing a gain of \$17,537,000. Our 18-19 West LLC joint venture entered into a land purchase option agreement with the third-party that purchased the Five West building and land, to purchase lots 18 and 19

at a price of \$13.8 million through the option period ending May 21, 2021. If the option is extended to November 21, 2021, the price increases to \$15.2 million. The land option expires in the fourth quarter of 2021.

In conjunction with providing relief to certain tenants as a result of the COVID-19 pandemic, the TRCC/Rock Outlet Center has agreed to defer rent for certain tenants due to the closure of the outlet center from March 20, 2020 through May 27, 2020. The following table sets forth information regarding the minimum rents billed and deferred to-date at the TRCC/Rock Outlet Center property level for the year-ended December 31, 2020. TRCC/Rock Outlet Center is continuing to work with tenants on temporary rent payment relief through rent deferrals. We continue to assess the probability of collecting outstanding receivables related to the two tenants with whom we are currently in on-going negotiations. Management will continue to monitor each negotiation diligently, and when determined collectability is not probable, will reserve accordingly.

(\$ in thousands, except number of tenants)	Tenants <sup>2</sup>	Rent Billing <sup>1</sup>	Rent Relief due to COVID-19	Deferred Rent Contractually Due in 2020	Deferred Rent Contractually Due in 2021
Rent Deferral Agreements	8	\$ 977	\$ 217	\$ 24	\$ 193
Rent Abatement Agreements	17	\$ 1,413	\$ 575	N/A <sup>3</sup>	N/A <sup>3</sup>
On-Going Deferral Negotiations	2	\$ 269	\$ —	\$ —	\$ —
	27	2,659	792	24	193

Percentage of Rent Deferred or Abated 30 %

<sup>1</sup>Amounts shown represent rent billing for tenants that had or are undergoing lease renegotiations as of the year-ended December 31, 2020. Of the total contractual rent billings of \$2.7 million, \$0.8 million was subject to COVID-19 rent relief, while \$1.9 million was contractually due as of December 31, 2020.

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

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

#### 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, a full-service restaurants, a motel, an antique shop, and a post office.

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.

In response to the COVID-19 pandemic, tenants began requesting various forms of rent relief beginning in March 2020 and although the requests range in scope, the most common request is for a full or partial rent deferment for three months. During the twelve months ended December 31, 2020, the Company has agreed to defer rent for certain tenants at TRCC, with the requirement that a significant amount of the deferred rent will be fully repaid in 2021. The following table sets forth information regarding the minimum rents billed and deferred for the twelve months ended December 31, 2020.

(\$ in thousands, except for impacted tenants)	Tenants	Rent Billing <sup>1</sup>	Deferred Rent due to COVID-19	Deferred Rent Contractually Due in 2020	Deferred Rent Contractually Due in 2021
TRCC Leasing	5	\$ 1,362	\$ 104	\$ 18	\$ 86
Other Commercial Leases	3	522	70	13	57
	8	\$ 1,884	\$ 174	\$ 31	\$ 143

Percentage of Rent Deferred 9 %

<sup>1</sup>Amounts shown represent rent billing for tenants that had or are undergoing lease renegotiation for the twelve months ended December 31, 2020. Of the total contractual rent billings of \$1.9 million, \$0.2 million was subject to COVID-19 rent relief, while \$1.7 million was contractually due as of December 31, 2020.

The following table summarizes information with respect to lease expirations for our consolidated entities as of December 31, 2020.

Year of Lease Expiration	Number of Expiring Leases	RSF of Expiring Leases	Annualized Base Rent <sup>1</sup>	Percentage of Annual Minimum Rent
2021	6	60,722	\$239	3.97%
2022	6	47,614	\$383	6.36%
2023	5	4,640	\$394	6.54%
2024	—	—	\$—	—%
2025	5	60,208	\$536	8.90%
2026	3	4,645	\$259	4.30%
2027	1	1,801	\$62	1.03%
2028 <sup>2</sup>	1	—	\$14	0.23%
2029 <sup>3</sup>	1	1,394,000	\$3,794	63.00%
2030	—	—	\$—	—%
2031	—	—	\$—	—%
Thereafter	4	193,207	\$341	5.66%

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 lease pertains to a communication lease that does not have defined rentable square feet.

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

For the year ended December 31, 2020, we had two lease renewals and three lease expirations. These expirations 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 2020 commercial/industrial operating results.

## 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:

- Mountain Village at Tejon Ranch
- Centennial at Tejon Ranch
- Grapevine at Tejon Ranch

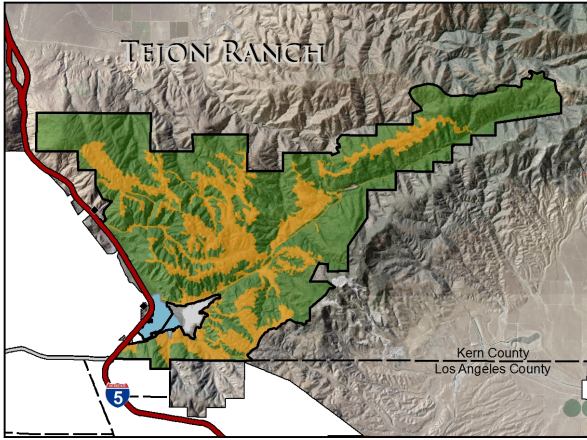
The entitlement process precedes the regulatory approvals necessary for land development and routinely takes several years to complete. The Conservation Agreement we entered into with five major environmental organizations in 2008 is designed to minimize opposition from environmental groups to these 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. For discussion on legal matters pertaining to our developments, see Note 14 (Commitments and Contingencies) of the Notes to Consolidated Financial Statements.

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.



# DEVELOPMENT PROJECTS

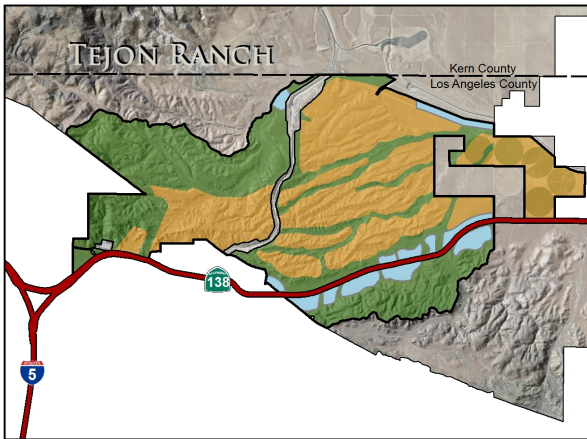
Mixed Use Development
  Commercial / Industrial
  Project Open Space



## MOUNTAIN VILLAGE

Kern County

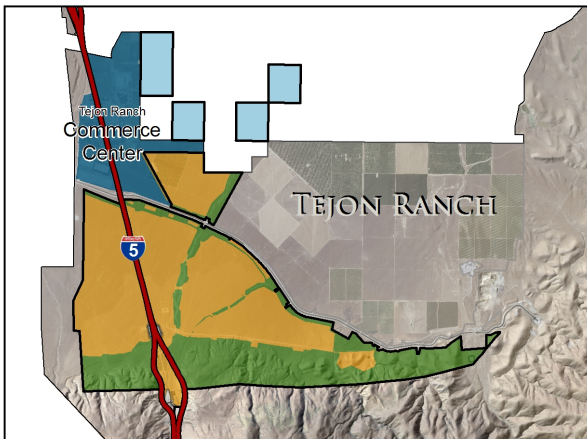
Project Area	26,417 ac
Acres to be Developed	5,082 ac
Open Space	21,335 ac
Dwelling Units	3,450 du
Commercial Development	160,000 sf
Lodging Units	750 keys



## CENTENNIAL

Los Angeles County

Project Area	12,323 ac
Acres to be Developed	6,699 ac
Open Space	5,624 ac
Dwelling Units	19,333 du
Commercial Development	10,100,000 sf



## GRAPEVINE

Kern County

Project Area	8,010 ac
Acres to be Developed	4,643 ac
Open Space	3,367 ac
Dwelling Units	12,000 du
Commercial Development	5,100,000 sf

The above land use plan is subject to change based upon economic and market variables.



#### *Mountain Village at Tejon Ranch:*

MV is planned to be an exclusive, low-density, resort-based community that will provide its 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 encompasses 26,417 acres, including 5,082 acres for a mixed-use master planned community 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 21,335 acres of open space. The first tentative tract map for the project, which includes 752 residential lots, was approved by Kern County in December 2017.

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 commercial center and community gathering place for MV residents and visitors, as well as the gateway 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 edutaining experience while fulfilling the needs of residents of MV. In April 2018, we obtained commercial site plan approval from Kern County for the first phase of the Farm Village consisting of 53,180 square feet.

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. For 2021, we will focus on the completion of 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. As we complete the final map, we expect to begin exploring funding opportunities for the development of MV. Such funding opportunities could come from a variety of sources, such as joint ventures with financial partners, debt financing, or the Company's issuance of common stock.

#### *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. Centennial is entitled for 19,333 homes and 10.1 million square feet of commercial development. Centennial will 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. The project is being developed by Centennial Founders, LLC, a consolidated joint venture in which we have a 92.85% ownership interest as of December 31, 2020. Centennial is envisioned to be an ecologically friendly community that will achieve a jobs-housing balance.

In December 2018, the Los Angeles County Board of Supervisors took action to approve the Specific Plan and 30 year Development Agreement for Centennial by a vote of 4-1. In April 2019, the Los Angeles County Board of Supervisors' affirmed their final approval of Centennial project. The Company is working with the County of Los Angeles to address litigation filed in the Los Angeles Superior Court and is currently waiting for the Court's decision.

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. In 2018, CalAtlantic also withdrew from the joint venture. The surviving members (TRC and TRI Pointe Homes, Inc.) absorbed the equity of CalAtlantic based on their respective proportionate interest in the joint venture at the time of the withdrawal. Both withdrawals were deemed an equity transaction between members and had no earnings impact on the Company.

#### *Grapevine at Tejon Ranch:*

Grapevine is a mixed-use master planned community encompassing 8,010 acres of our lands within Kern County located on the San Joaquin Valley floor, adjacent to TRCC. Grapevine is entitled for 12,000 homes, 5.1 million square feet for commercial development, and more than 3,367 acres of open space and parks. The 4,643 acres designated for mixed-use development will include housing, retail, commercial, and industrial components. 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 approval for land use designation, zoning and a development agreement. On December 11, 2018, the Kern County Superior Court ruled that portions of the EIR required corrections and ordered that the County rescind the Grapevine project approvals until a supplemental environmental analysis addressing the corrections was completed. On December 10, 2019, the Kern County Board of Supervisors adopted the supplemental re-circulated EIR prepared in response to the court ruling, and reapproved the development of Grapevine unanimously. On January 10, 2020, an action was filed in Kern County Superior Court pursuant to CEQA against Kern County, concerning Kern County's approval of the December 2019 re-entitlement, including certification of the final EIR. On January 22, 2021 the court ruled in favor of the Company and Kern

County on all issues, and directed Kern County and the Company to prepare a final judgment reflecting its ruling in favor of the Company. See Note 14 (Commitments and Contingencies) of the Notes to Consolidated Financial Statement for further discussion.

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 product segmentation, 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, 2020:

<b>Community: Location: Project Status<sup>1</sup>:</b>	<b>Mountain Village Kern County Entitled</b>	<b>Grapevine Kern County Entitled</b>	<b>Centennial Los Angeles County Entitled</b>	<b>Resort Residential Total</b>
Entitlement Area (acres):	26,417	8,010	12,323	46,750
Housing Units:	3,450	12,000	19,333	34,783
Commercial Development (sqft) <sup>2</sup> :	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 <sup>3</sup> :	\$146,662	\$36,815	\$108,600	\$292,077

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

(2) 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.

(3) 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. The management of our water assets consists of the evaluation of near-term highest and best uses, which can include the sale of water on a temporary basis, the use of water for internal purposes, and the storage of water for future use in our development projects. At the same time we are also evaluating opportunities as they arise for the purchase of additional water assets as we have done in the past.

We receive our royalty interest in cash. Royalty rates 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.

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 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, 2020, 10,332 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 114,567 barrels of oil and 207,000 MCF (each MCF being 1,000 cubic feet) of dry gas during 2020. Our share of production, based upon average royalty rates during the last three years, has been 37, 78, and 89 barrels of oil per day for 2020, 2019, and 2018, respectively. There are 313 active oil wells located on the leased land as of December 31, 2020. Royalty rates on our leases averaged approximately 12% of oil production in 2020.

In 2020, social distancing and California's stay-at-home orders reduced the demand for oil and gasoline within California. The average price per barrel of oil, at one point, decreased 25% from their December 31, 2019 levels. Oil pricing decreased as a result of a surplus of oil in the first half of 2020 impacting the production levels of our lessees. The Company believes that pricing will slowly and gradually improve once consumers feel safe and the global economy reopens, fully. However, it is very

difficult to predict when this will occur. Thus far in 2021, the price per barrel of oil is 22% higher than its December 31, 2020 level.

In July 2020, our largest oil royalty tenant, California Resources Corporation, or CRC, filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, intended to allow them to improve their liquidity and debt positions. While in bankruptcy CRC received permission from the courts to allow them to pay lease and oil royalty obligations without interruption. CRC successfully emerged from bankruptcy in October 2020 and is once again being traded on public markets. CRC reduced production in 2020 and we expect as prices improve that we will later in 2021 begin to see increases in production levels. CRC has approved permits and drill sites on our land and has delayed the start of drilling as it evaluates the market. A positive aspect of our lease with CRC is that the approved drill sites are in an area of the ranch where the development and production costs are moderate due to the depths being drilled. CRC is current on all payments due to us through December 31, 2020.

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. In 2020, payments increased due to an increase in production caused by an increase in regional construction. 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.

Water sales opportunities for 2021 will depend on rain and snowfall volume along with California State Water Project, or SWP, allocations. As of December 31, 2020, the 2021 SWP allocation is at 10% of contract amounts.

In August 2015, we entered into a water sale agreement with PEF, our current lessee under a power plant lease. PEF may purchase from us up to 3,500 acre feet of water per year through July 2030, 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 \$1,279 per acre-foot of annual water in 2020, subject to 3% annual increases for the duration of the lease agreement. The Company's commitments to sell this water can be met through current water sources.

### Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes— 835; almonds—2,281 (1,548 in production and 733 not in production); and pistachios—1,053. We manage the farming of alfalfa and forage mix on 626 acres in the Antelope Valley, and we periodically lease 720 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.

The Company's agribusiness operations are deemed essential and have been allowed to operate under California's COVID-19 orders. The Company continues to provide its employees with face masks and safety training to promote a safe working environment. As of the December 31, 2020, COVID-19 has not had a measurable impact on the Company's farming operations.

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.

Nut and grape crop markets are particularly sensitive to the size of each year's world crop and the demand for those crops. The industry continues to see strong demand for almonds and pistachios but the continued increase in production has begun to negatively impact 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 U.S. dollar weakened against the Chinese Yuan for most of 2020 as a result of the pandemic, making U.S. nut crops more attractive.

Sales of our grape crop typically occur in the third and fourth quarters of the calendar year. Sales of our pistachio and almond crops also typically occur in the third and fourth quarters of the calendar year, but can occur up to a year or more after each crop is harvested. In 2020, we sold 40% of our grape crop to one winery, 38% to a second winery and the remainder to two other

customers. These sales are under contracts ranging from one to eight years. In 2020, our almonds were sold to various commercial buyers, with the largest buyer accounting for 29% of our crop. We sold pistachios to three customers with the largest accounting for 62% of our crop. We do not believe that we would be adversely affected by the loss of any or all of these 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.

For 2020, the almond industry had record production in excess of 3 billion pounds. The Company's 2020 almond yields saw a small increase over 2019 levels as a result of putting into service two additional almond crop units. The mix of demand has been changed in the near term as a result of COVID-19 as more product is moving through wholesale markets and less through high end users such as restaurants. This temporary trend, along with the strong 2020 industry production, has negatively impacted pricing. Comparatively, the average price per pound for the 2020 almond crop is \$2.02 per pound compared to \$2.82 per pound for the 2019 almond crop.

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

For wine grapes, yields decreased as a result of removing a 313-acre vineyard in 2020. Overall average pricing for wine grapes has increased slightly because the remaining multi-year wine grape sales contracts have an overall higher price.

Weather conditions could impact the number of tree and vine dormant hours, which are integral to tree and vine growth. We will not know the impact of current weather conditions on 2021 production until the early summer of 2021.

At this time the State Department of Water Resources has announced that the estimated water supply for 2021 will be at 10% of full entitlement. This allocation is expected to change based upon winter storms. The current 10% allocation of 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 2021 water supplies and its impact on 2021 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**

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 also sell individual hunting packages as well as seasonal hunting memberships.

Approximately 256,000 acres are used for two grazing leases, which account for 43% of total revenues from ranch operations at December 31, 2020.

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, 2020, game management accounts for 37% 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.

### **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.

## Environmental Sustainability

Environmental stewardship, or sustainability, is one of Tejon Ranch Co.'s core values, along with quality and visionary innovation. This commitment to sustainability manifests itself in many ways across the Company and its operations.

### Climate Change

The Company maintains policies intended to both reduce its carbon footprint and proactively sequester, or capture and store, carbon.

- Since 2008, the Company has voluntarily conserved 240,000 acres of its land covered by trees and other vegetation. A recent analysis conducted for the Company by Dudek Environmental Services determined that this acreage effectively sequesters 3.3 million tons of carbon. That equals the volume of carbon produced in a single year by 2.5 million passenger vehicles-10% of California's 2019 passenger vehicle fleet.
- Solar power is used significantly within TRCC. For example, in 2019 the Company installed a solar covered parking structure at the Outlets at Tejon. The structure covers 1.85 acres and is projected to offset 83% of the center's electricity needs for shared spaces and produce 1,076,000 kWh of clean energy every year. In addition, the IKEA distribution center at TRCC features a 1.8 MW photovoltaic solar array covering 370,000 square feet of the warehouse's rooftop. The system handles the power needs of IKEA's distribution center and provides power into the electric grid as well.
- The Company has entered into a lease with Calpine Energy, a power generating company, for the development of a 600-acre industrial-sized solar field. Located immediately adjacent to Calpine's PEF, a natural gas and steam powered generating plant in the San Joaquin Valley portion of the Ranch, the solar array is expected to produce approximately 100 MW of power once fully operational.
- The Company's three master planned mixed-use residential communities are also designed to make use of renewable energy sources:
  - At Grapevine, 50% or more of its energy supply will be produced on site by renewable sources.
  - All homes in Mountain Village will feature roof-top photovoltaic solar arrays.
  - At Centennial, like Grapevine, at least 50% of the energy supply will be produced by on-site renewable sources.

### Air Quality

- The Company has contracted with the San Joaquin Valley Unified Air Pollution Control District ("SJVUAPCD") to pre-mitigate air emissions related to the Company's current development at TRCC-East and future development at Mountain Village and Grapevine. As of 2020, the SJVUAPCD had fully offset current air emissions at TRCC-East, as well as future emissions projected to occur at full build-out of the project.
- Nearly two decades ago, the Company helped establish and has continuously supported Valley Clean Air Now ("VCAN"), a non-profit, 501(c)(3) public charity that advances quantifiable and voluntary solutions addressing air pollution in California's San Joaquin Valley, a region with some of the worst air quality and highest poverty levels in the United States. The Company continues to support VCAN in its mission to improve public health and quality of life in disadvantaged communities located in the region.
  - VCAN's programs deliver \$850 smog repair vouchers and \$9,500 in down payment incentives to low-income residents in the region so they can replace high-polluting vehicles with used plug-in or hybrid cars.
  - In the past five years, VCAN has helped more than 35,000 households improve their vehicle emissions by completing over 20,000 smog repairs and providing more than 26,000 smog repair vouchers. Additionally, VCAN's vehicle replacement program has delivered more than 2,000 plug-in electric vehicles. Based on pre- and post-repair emission capture readings, VCAN's vehicle repair and replacement work has generated 692 tons of oxides of nitrogen (also known as "NOx"), 71 tons of carbon monoxide, and 90 tons of hydro-carbon emission reductions.

### Water Conservation

- At TRCC-East, all water used for irrigation purposes is reclaimed water from the water treatment plant. Landscaping at the Outlets at Tejon consists of drought-tolerant, native planting material.
- Each of the Company's master planned mixed-use residential communities will feature state-of-the-art water conservation measures, reclaimed water for irrigation, stormwater capture, and drought-tolerant landscaping.
- The Company's agricultural operations use highly efficient drip irrigation to water its orchards and vineyards.

## Customers

During 2020, our PEF power plant lease accounted for 12% of total revenues. In both 2019 and 2018, the PEF power plant lease generated 9% of our total revenues. No other customer represents 5% or more of our revenues in 2020 and 2018.

## 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, 2020, we had 85 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](http://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 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 website: <http://www.sec.gov>.

## Information about our Executive Officers

The following table shows each of our executive officers and the offices held as of March 3, 2021, 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	60
Allen E. Lyda	Executive Vice President and Chief Operating Officer	2019	63
Hugh McMahan	Executive Vice President, Real Estate	2014	54
Robert D. Velasquez	Senior Vice President, Chief Financial Officer	2019	54

A description of present and prior positions with us, and business experience 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, a diversified real estate company, 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, initially 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 in 2013 to Executive Vice President and Chief Financial Officer to more accurately describe the responsibilities of his office. On January 1, 2019, he was appointed to the role of Chief Operating Officer and ceased serving as the Company's Chief Financial Officer.

Mr. McMahan joined the Company in November 2001 as Director of Financial Analysis. In 2008, Mr. McMahan 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. McMahan's title was subsequently changed to Executive Vice President, Real Estate.

Mr. Velasquez joined the Company as Vice President of Finance in 2014. Mr. Velasquez's title was subsequently changed, in 2015, to Vice President of Finance and Chief Accounting Officer to more accurately describe the responsibilities of his office. Prior to joining the Company, 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 – Option: 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. On January 1, 2019, he was appointed Chief Financial Officer.

## 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. In addition, to the effects of the COVID-19 pandemic and resulting global disruptions on our business and operations discussed in Item 7 of this Form 10-K and in the risk factors below, additional or unforeseen effects from the pandemic and the global economic climate may give rise to or amplify many of these risks discussed below.

### 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 Centennial entitlement approval has been opposed through litigation against the Company and Los Angeles County. At Grapevine, 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 final permits are received, litigation is complete, and final maps 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 agency permits, overcoming litigation, and receiving final maps from local jurisdictions. A delay in achieving these items 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 and approvals, 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 have in the past and may in the future encounter other risks that could impact our ability to develop our land.** We have in the past and may in the future 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 litigation 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 a project's development 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 adversely affects 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. We cannot be certain that our client tenants will be able to bear the full burden of costs such as real estate taxes, insurance, utilities, common area and other expenses that we pass along through our leases, 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.

**From time to time we experience shortages or increased costs of labor and supplies or other circumstances beyond our control that cause delays or increased costs within our industrial development, which can adversely affect our operating results.** Our ability to develop our current industrial development has in the past and may in the future 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.

**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; 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. 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 could have an adverse effect on our future business, liquidity, financial condition and results of operations.

**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.

**Natural and man-made disasters, public health crises, political instability, and other potentially catastrophic events may have an adverse impact on our business and operating results and could decrease the value of our assets.** Natural and man-made disasters, public health crises, political instability, and other potentially catastrophic events including 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. Catastrophic events occurring anywhere in the world may result in declining economic activity, which could reduce the demand for and the value of our properties. To the extent that catastrophic events impact our client tenants, their businesses similarly could be adversely affected, including their ability to continue to honor their lease obligations. Disruptions to the global economy can also impact demand for and the prices of our products, which could adversely affect our future cash flow and results of operations.

**Our results of operation have been and may continue to be adversely affected by the ongoing COVID-19 pandemic.** In March 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of coronavirus first identified in Wuhan, China in December 2019, a pandemic. This outbreak, which has spread widely throughout the United States and nearly all other regions of the world, has prompted federal, state and local governmental authorities in the United States to declare states of emergency and institute preventative measures to contain and/or mitigate the public health effects. These

preventative measures, which include quarantines, shelter-in-place orders and similar mandates that substantially restrict daily activities for many individuals, as well as orders calling for the closure and/or curtailment of operations for many businesses, have caused and continue to cause significant disruption to businesses in affected areas, as well as the financial markets both globally and in the United States, more broadly.

On a broader scale, we may also be materially and adversely affected by the disruptions to U.S. and local economies that result from the COVID-19 pandemic, including reduced consumer confidence, unemployment levels, inflation and fluctuating interest rates. The possibility of a prolonged recession or economic downturn could result in, among other things, a decrease in demand and consumer goods; diminished value of our real estate investments, including potential impairments.

Ultimately, the prolonged effects of the COVID-19 pandemic on our business and results of operation, which are highly uncertain and cannot be predicted, will depend upon future developments, including the widespread acceptance and dissemination of vaccines amongst the broader population; the duration and severity of existing social distancing and shelter-in-place orders even after vaccines are widespread and available; further mitigation strategies taken by applicable government authorities; adequate treatments and the prevalence of widespread immunity to COVID-19; the impacts on our supply chain; the health of our employees, service providers and trade partners; and the reactions of U.S. and global markets and their effects on consumer confidence and spending. Such adverse effects, however, may also include decreases in: oil prices, commodity prices, and traffic, which our commerce center is highly dependent on, which may continue to impact our 2021 results of operations.

**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 our security and our customers', partners', suppliers' and third-party service providers' products, systems and networks and the confidentiality, availability and integrity of the data. We remain potentially vulnerable to additional known or unknown threats despite our attempts to mitigate these risks. 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. Our efforts to protect sensitive, confidential or personal data or information, may nonetheless leave us 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. Additionally, violations of privacy or cybersecurity laws (including the recently-passed California Consumer Privacy Act), regulations or standards increasingly lead to class-action and other types of litigation, which can result in substantial monetary judgments or settlements. Therefore, any such security breaches could have a material adverse effect on us.

**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.

**Government policies and regulations, particularly those affecting the agricultural sector and related industries, could adversely affect our operations and profitability.** Agricultural commodity production and trade flows are significantly affected by government policies and regulations. Governmental policies affecting the agricultural industry, such as taxes, trade tariffs, duties, subsidies, import and export restrictions on commodities and commodity products, can influence industry profitability, the planting of certain crops, the location and size of crop production, whether unprocessed or processed commodity products are traded, and the volume and types of imports and exports. In addition, international trade disputes can adversely affect trade flows by limiting or disrupting trade between countries or regions. Future governmental policies, regulations or actions affecting our industry may adversely affect the supply of, demand for and prices of our products, restrict our ability to do business and cause our financial results to suffer.

#### 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. 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.

**Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR in the future may adversely affect the value of any outstanding debt instruments.** National and international regulators and law enforcement agencies have conducted investigations into a number of rates or indices known as “reference rates.” Actions by such regulators and law enforcement agencies may result in changes to the manner in which certain reference rates are determined, their discontinuance, or the establishment of alternative reference rates. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. As a result, it appears highly likely that LIBOR will be discontinued or modified by 2023.

We have borrowing arrangements with financial institutions that calculate interest based on LIBOR. At this time, it is not possible to predict the effect that these developments, any discontinuance, modification or other reforms to LIBOR or any other reference rate, or the establishment of alternative reference rates may have on LIBOR, other benchmarks, or LIBOR-based debt instruments. Uncertainty as to the nature of such potential discontinuance, modification, alternative reference rates or other reforms may materially adversely affect the trading market for securities linked to such benchmarks. Furthermore, the use of alternative reference rates or other reforms could cause the interest rate calculated for the LIBOR-based debt instruments to be materially different than expected. Lastly, we may need to renegotiate any credit agreements extending beyond 2021 that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. There is currently no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, potential effect of any such event on our business, financial condition and results of operations cannot yet be determined.

#### 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 March 3, 2021, directors and members of our executive management team beneficially owned or controlled approximately 21.6% 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 approximately 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 reporting 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: MV, 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. In 2019, the Los Angeles County Board of Supervisors' affirmed their final approval of Centennial, and now the 19,333 residential units are fully entitled. 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 WRMWS D, 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 WRMWS D 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. 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 61,054 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 the 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 50,349 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. We anticipate adding additional water to the water bank in the future, as water is available.

Over time we have also purchased water for our future use or sale. We 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 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 2020 was \$793 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 2021 purchase cost of \$817 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 2020, SWP allocations were 20% of contract levels, and WRMWS D 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 WRMWS D 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 WRMWS D 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 10% preliminary SWP water allocation has been made by the California Department of Water Resources, or DWR, for 2021. The current 10% 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 for the next year.

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. WRMWS D 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 to an adjudication of the water basin that limits groundwater pumping.

The Sustainable Groundwater Management Act, or SGMA, is a sustainable groundwater framework that 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 and 2022. 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 Kern County agricultural lands and development lands are located in the White Wolf Basin and the Castac Lake Basin, which are basins that are 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 BiOps, issued by the U.S. Fish and Wildlife Service, or FWS, and National Marine Fisheries Service, or NMFS, in 2008 and 2009 contained restrictions on pumping from the Delta and were challenged in the courts by both water agencies and environmental groups, which challenges were for the most part unsuccessful. Since then a number of developments have occurred that affect or potentially affect SWP supplies from the Delta.

One development concerns the Coordinated Operation Agreement, or COA, that DWR and the Bureau of Reclamation, or the Bureau, which operates pumps in the Delta to supply water to its Central Valley Project, or CVP, entered into in 1986. The COA governs the concurrent state and federal pumping operations in the Delta. DWR and the Bureau renegotiated the COA in late 2018 to bring the COA up to date with various physical and legal changes that occurred over the course of thirty years. The renegotiated COA has generally resulted in reduced deliveries to SWP contractors.

Another is DWR's plan for construction of a facility to convey water through the Delta in the form of a tunnel system that would divert water at or near the northern end of the Delta and convey the water underground via tunnel for delivery at or near the southern end of the Delta. Originally envisioned as a two-tunnel system known as California WaterFix, that project was rescinded and has been replaced with a proposed downsized single-tunnel system referred to as the Delta Conveyance Project, or DCP. As of January, 2020, DWR has begun the environmental review process for the DCP by issuance of a Notice of Preparation of an EIR under CEQA, and DWR has been negotiating an agreement in principle with the SWP Contractors for terms of an amendment to the SWP long-term water supply contracts that if approved would provide for addition of the DCP to the SWP. The DCP is intended to increase the amount of water available for delivery through the Delta, particularly in wet years.

Another is the Reinitiation of Consultation on the Coordinated Long Term Operation of the Central Valley Project and State Water Project. This is a process that DWR and the Bureau jointly requested in 2016. It has resulted in new federal FWS and NMFS BiOps under Federal Endangered Species Act, or ESA, which are intended to enhance reliability of water available for pumping out of the Delta based on updated best available science. The State of California has noticed its intent to file a legal challenge to the new BiOps, which are currently being challenged in court by various non-governmental organizations under the ESA. Consequently, it is uncertain whether and when operations under the new BiOps will take effect.

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

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 \$75,965,000 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 \$44,035,000 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.



We paid \$2,550,000 and \$2,569,000 in special taxes related to the CFDs in 2020 and 2019, respectively. 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 2021 of \$2,473,000, 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, 2020.

### **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**

Our Common Stock trades under the symbol TRC on the New York Stock Exchange.

As of February 28, 2021, there were 279 registered owners of record of our Common Stock.

No cash dividends were paid in 2020 or 2019 and at this time there is no intention of paying cash dividends in the future.

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**

(\$ in thousands)	2020	2019	2018	2017	2016
Total revenues, including investment and other income (loss)	\$ 40,155	\$ 48,938	\$ 46,904	\$ 35,442	\$ 46,899
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	\$ (4,422)	\$ (2,016)	\$ 1,721	\$ (7,331)	\$ (5,845)
Equity in earnings of unconsolidated joint ventures	\$ 4,504	\$ 16,575	\$ 3,834	\$ 4,227	\$ 7,098
Net (loss) income	\$ (747)	\$ 10,579	\$ 4,235	\$ (1,821)	\$ 757
Net (loss) attributable to noncontrolling interests	\$ (7)	\$ (1)	\$ (20)	\$ (24)	\$ (43)
Net (loss) income attributable to common stockholders	\$ (740)	\$ 10,580	\$ 4,255	\$ (1,797)	\$ 800
Total assets	\$ 536,349	\$ 539,422	\$ 529,048	\$ 518,199	\$ 439,541
Long-term debt	\$ 57,078	\$ 61,897	\$ 65,915	\$ 69,959	\$ 73,867
Equity	\$ 445,331	\$ 445,624	\$ 434,672	\$ 426,810	\$ 334,709
Net (loss) income per share attributable to common stockholders, diluted	\$ (0.03)	\$ 0.40	\$ 0.16	\$ (0.08)	\$ 0.04

## 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. and 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 reporting segments: commercial/industrial real estate development; resort/residential real estate development; mineral resources; farming; and ranch operations.

Our commercial/industrial real estate 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 a joint venture. 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 2020, net loss attributable to common stockholders was \$747,000 compared to net income attributed to common stockholders of \$10,580,000 in 2019. Our commercial/industrial segment greatly influenced our 2020 operating results. Over the comparative period, commercial/industrial segment revenues and results from our commercial joint ventures declined \$7,256,000 and \$12,071,000, respectively. The decline is primarily attributed to the fact that in 2019, there were several major real estate asset contributions and sales made by the Company to its joint ventures, as described below, that did not occur in 2020. From a joint venture operations standpoint, our share of TA/Petro operating results declined \$3,088,000 after experiencing the effects of California's stay-at-home orders and other social distancing initiatives. Those factors resulted in lower fuel volumes that led to lower fuel margins. Additionally, TA/Petro had closed down its full service restaurants for most of the year as capacity limitations made operating economically unfeasible. Our farming segment saw a \$5,465,000 decline in revenues as a result of lower pistachio bonuses, pistachio yields, and a decline in almond pricing. Declines in revenues were partially offset by lower commercial expense, as a result of reduced cost of sales of \$5,839,000 and income taxes of \$3,151,000. Additionally, the Company benefited from recognizing a gain on sale of building and land of \$1,331,000 along with experiencing a \$1,934,000 reduction in other expense primarily associated with the disposal of a wine grape vineyard in 2019.

For 2019, net income attributable to common stockholders was \$10,580,000 compared to net income attributed to common stockholders of \$4,255,000 in 2018. Over the comparative period, commercial/industrial segment revenues and results from our commercial joint ventures improved \$7,822,000 and \$12,741,000, respectively. Improvements in commercial revenues were attributed to land and building contributions to two joint ventures, while our joint ventures improved because of improved fuel and non-fuel margins within our TA/Petro joint venture along with recognizing a substantial gain stemming from the sale

of the building and land previously held by our Five West Parcel joint venture. These improvements were offset by reduced mineral resources revenues of \$4,604,000 resulting from a lack of water sales opportunities due to the wet 2019 winter rain season, an increase in commercial/industrial expenses of \$6,715,000 as a result of land and building costs associated with the joint venture contributions discussed earlier, and a \$1,765,000 increase in other losses associated with the abandonment of a wine grape vineyard that will no longer be farmed and pension related expenses.

During 2021, we will continue to invest funds towards litigation defense, permits, and maps for our master plan mixed-use developments 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 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, the timing of land sales and the leasing of land and/or industrial space within our industrial developments, and equity in earnings realized from our unconsolidated joint ventures.

This Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative discussion of our results of operations. It contains the results of operations for each operating segment of the business and is followed by a discussion of our financial position. It is useful to read the business segment information in conjunction with Note 16 (Reporting 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 in the United States, 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, and stock compensation. 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 easements are accounted for in accordance with the five-step model under Accounting Standards Codification Topic 606, or ASC 606. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation. Since easements generally do not impose any significant continuing

performance obligations on the Company, revenue from easement sales are generally recognized in the period the sale has closed and consideration has been received.

In recognizing revenue from land sales, the Company follows ASC 606 to achieve the core principle that an entity recognizes revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASC 606 on January 1, 2018 impacted our accounting for land sales. Upon the adoption of ASC 606, for any future land sales with multiple performance obligations, the standard generally requires the Company to allocate the transaction price to the performance obligations in proportion to their standalone selling prices (i.e., on a relative standalone selling price basis) not total costs.

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 may 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.

*Impairment of Long-Lived Assets* – We evaluate our property and equipment and development projects for impairment on an ongoing basis. Our evaluation for impairment involves an initial assessment of each real estate development to determine whether events or changes in circumstances exist that may indicate that the carrying amounts of a real estate development are no longer recoverable. Possible indications of impairment may include events or changes in circumstances affecting the entitlement process, government regulation, litigation, geographical demand for new housing, and market conditions related to pricing of new homes. When events or changes in circumstances indicate that the carrying value of assets contained in our financial statements may not be recoverable.

We make significant assumptions to evaluate each real estate development for possible indications of impairment. These assumptions include the identification of appropriate and comparable market prices, the consideration of changes to legal factors or the business climate, and assumptions surrounding continued positive cash flows and development costs. Considering that the planned development communities will be in a location that does not currently have many comparable homes, the Company must make assumptions surrounding the expected ability to sell the real estate assets at a price that is in excess of current accumulated costs. We use our internal forecasts and business plans to estimate future prices, absorption, production, and costs. 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.

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. 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.

At this time, there are no assets within any of our reporting segments that we believe are at risk of being impaired due to market conditions nor have we identified any impairment indicators.

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.

*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 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.

*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 2020 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 \$22,000 depending on whether the change in estimate increased or decreased shares vesting. The Company also has performance share grants that contain both performance-based and market-based conditions. Compensation cost for these awards is recognized based on either the achievement of the performance-based conditions, if they are considered probable, or if they are not considered probable, on the achievement of the market-based condition. Failure to satisfy the threshold performance conditions will result in the forfeiture of shares. Forfeiture of share awards with service conditions or performance-based restrictions results in a reversal of previously recognized share-based compensation expense. For 2020, forfeiture of such awards would have resulted in a stock compensation savings of \$1,334,000. Forfeiture of share awards with market-based restrictions does not result in a reversal of previously recognized share-based compensation expense.

See Note 11. (Stock Compensation - Restricted Stock and Performance Share Grants), of the Notes to Consolidated Financial Statement for total 2020 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 reporting segments separately to monitor the different factors affecting financial results. Each reporting segment is subject to review and evaluation as we monitor current market conditions, market opportunities, and available resources. The performance of each reporting segment is discussed below:

#### Real Estate – Commercial/Industrial

(\$ in thousands)	2020	2019	2018
Commercial/industrial revenues			
Pastoria Energy Facility Lease	\$ 4,584	\$ 4,573	\$ 4,056
TRCC Leasing	1,744	1,815	1,760
TRCC management fees and reimbursements	715	1,172	822
Commercial leases	580	658	692
Communication leases	927	924	904
Landscaping and other	986	1,029	736
Land sales	—	6,621	—
Total commercial revenues	<u>\$ 9,536</u>	<u>\$ 16,792</u>	<u>\$ 8,970</u>
Total commercial expenses	<u>\$ 7,122</u>	<u>\$ 12,961</u>	<u>\$ 6,246</u>
Operating income from commercial/industrial	<u>\$ 2,414</u>	<u>\$ 3,831</u>	<u>\$ 2,724</u>

#### 2020 Operational Highlights:

- During 2020, commercial/industrial segment revenues decreased \$7,256,000, or 43%, from \$16,792,000 in 2019 to \$9,536,000. During 2020, the Company did not have any land sales, which contributed \$6,621,000 of the decrease. Additionally, management fees and reimbursements decreased \$457,000 primarily because there were no real estate construction projects in 2020.
- Commercial/industrial real estate segment expenses decreased \$5,839,000, or 45%, from \$12,961,000 in 2019 to \$7,122,000 in 2020. In the absence of land sales, there was a \$4,745,000 decrease in land cost of sales. The remainder of the decrease is attributed to lower fixed water assessments from TCWD.

- Please refer to Item 1, “Business – Real Estate Development Overview” for discussion over minimum rent deferrals that resulted from the COVID-19 pandemic.

#### **2019 Operational Highlights:**

- During 2019, commercial/industrial segment revenues increased \$7,822,000, or 87%, from \$8,970,000 in 2018 to \$16,792,000. The increase was primarily attributable to revenues of \$6,621,000 recognized as a result of asset contributions to unconsolidated joint ventures of 1) land, and 2) land and building. We contributed 34.85 acres to TRC-MRC 3, with recognized revenues of \$4,317,000, and a 4,900 square-foot multi-tenant building and land to our TA/Petro joint venture, with recognized revenues of \$2,303,000. Please refer to Note 17 (Investment in Unconsolidated and Consolidated Joint Ventures) for additional discussion.
- Also contributing to the increase in commercial/industrial revenues was a \$517,000 increase in PEF revenues which was primarily associated with a catch-up of its 2018 spark spread revenues that were above original estimates.
- Commercial/industrial real estate segment expenses increased \$6,715,000, or 108%, from \$6,246,000 in 2018 to \$12,961,000 in 2019. During 2019, as a result of the two land and building contributions mentioned above, the Company recorded cost of land and building sale of \$4,748,000. Additionally, the Company also experienced an increase in fixed water assessments of \$1,958,000.

For 2021, 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. TCWD water assessments may vary depending on water availability and its ability to sell water.

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.

See Item 1, “Business – Real Estate Development Overview” for discussion of the market outlook for the next year.

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

Our resort/residential segment activities include defending entitlements, land planning and pre-construction engineering and conservation activities for our Centennial, Grapevine, and MV projects.

We are in the preliminary stages of development; hence, no revenues are attributed to this segment for these reporting periods.

#### **2020 Operational Highlights:**

- In 2020, resort/residential segment expenses decreased \$635,000 to \$1,612,000, or 28%, when compared to \$2,247,000 in 2019. The decrease is attributed to an \$801,000 decrease in professional services as there were fewer strategic planning efforts in 2020. This decrease was partially offset by a \$171,000 increase in payroll and overhead costs, net of capitalization, as a result of right sizing initiatives and the issuance of performance based stock compensation.

#### **2019 Operational Highlights:**

- In 2019, resort/residential segment expenses increased \$717,000 to \$2,247,000, or 47%, when compared to \$1,530,000 in 2018. The higher expenses were attributable to an increase in professional services of \$720,000 associated with strategic planning efforts.

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 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 length of time related to litigation defense, 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 home buyer trends change in California to a more suburban orientation and the economy stabilizes, we believe the perception of land values will also begin to improve. Long-term macro fundamentals, primarily California's population growth and household formation will also support housing demand in our region. 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

(\$ in thousands)	2020	2019	2018
Mineral resources revenues			
Oil and gas	\$ 654	\$ 1,842	\$ 2,278
Rock aggregate	1,407	1,467	1,143
Cement	2,214	1,908	1,695
Exploration leases	100	101	102
Water sales	5,909	3,997	9,142
Reimbursables and other	452	476	35
Total mineral resources revenues	\$ 10,736	\$ 9,791	\$ 14,395
Total mineral resources expenses	\$ 6,414	\$ 5,818	\$ 6,223
Operating income from mineral resources	\$ 4,322	\$ 3,973	\$ 8,172

	2020	2019	2018
<b>Oil and gas</b>			
Oil production (barrels)	114,567	220,000	250,000
Average price per barrel	\$46.00	\$61.00	\$67.00
Blended royalty rate	11.7%	13.2%	13.4%
Natural gas production (millions of cubic feet)	207,000	312,000	241,000
Average price per thousand cubic feet	\$1.06	\$1.58	\$0.76
Blended royalty rate	11.7%	13.2%	13.4%

<b>Water</b>			
Water sold in acre-feet	5,022	4,482	9,442
Average price per acre-feet	\$1,177	\$750	\$968

<b>Cement</b>			
Tons sold	1,253,000	1,117,000	1,154,000
Average price per ton	\$1.77	\$1.71	\$1.47

<b>Rock/Aggregate</b>			
Tons sold	1,272,000	1,283,000	1,168,000
Average price per ton	\$1.11	\$1.03	\$0.98

Note: Differences between revenues calculated within this table and reported revenues within the previous table are attributed to rounding and the level of precision presented on production units shown.

**2020 Operational Highlights:**

- Revenues from our mineral resources segment increased \$945,000, or 10%, to \$10,736,000 in 2020 when compared to \$9,791,000 in 2019. The increase is attributed to a \$1,912,000 increase in water sales. During 2019, the Company had an unfavorable water sales adjustment of \$1,050,000 that was tied to an increase in SWP allocation levels, which adversely affected sales pricing. In 2020 however, SWP allocation levels were much lower, which in turn improved pricing, resulting in additional water sales revenues. Lastly, there were 540 additional acre-feet of water sold during 2020 when compared to 2019.
- There was an increase in cement royalties of \$306,000 resulting from increased demand from the Company's tenant, National Cement as a result of an increase in road infrastructure projects.
- Offsetting the favorable revenue increases was a \$1,188,000 decrease in oil and gas royalties resulting from lower prices for much of 2020 and lower demand driven by social distancing initiatives such as California's stay-at-home orders.
- Mineral resource expense increased \$596,000, or 10%, to \$6,414,000 in 2020 when compared to \$5,818,000 in 2019. Of the \$596,000 increase, \$469,000 is attributed to increased water cost of sales as a result of selling additional water. The remainder is attributed to an increase in property taxes that occurred because of higher mineral assessments on the Company's land.

**2019 Operational Highlights:**

- Revenues from our mineral resources segment decreased \$4,604,000, or 32%, to \$9,791,000 in 2019 when compared to \$14,395,000 in 2018. This decrease was primarily attributed to fewer water sale opportunities after the wet 2019 winter rain season which reduced revenues by \$5,145,000 in 2019.
- Oil and gas royalties decreased \$436,000 as a result of lower production driven by a lower price per barrel of oil overall for the year.
- Offsetting the revenue declines were increases in rock aggregate and cement royalties of \$324,000 and \$213,000, respectively, as a result of an increase in regional construction.
- Mineral resource expense decreased \$405,000, or 7%, to \$5,818,000 in 2019 when compared to \$6,223,000 in 2018, which is a direct result of the reduced water sales previously discussed.

For further discussion of mineral resources operations, refer to Item 1 "Business—Mineral Resources."

## Farming

(\$ in thousands)	2020	2019	2018
Farming revenues			
Almonds	\$ 5,021	\$ 7,310	\$ 5,744
Pistachios	5,636	7,466	7,880
Wine grapes	2,589	3,740	3,683
Hay	419	468	297
Other	201	347	959
Total farming revenues	\$ 13,866	\$ 19,331	\$ 18,563
Total farming expenses	\$ 15,103	\$ 15,251	\$ 16,028
Operating Income from farming	\$ (1,237)	\$ 4,080	\$ 2,535

(\$ in thousands)	December 31, 2020			December 31, 2019			Change		
	Revenue	Quantity Sold <sup>2</sup>	Average Price	Revenue	Quantity Sold <sup>2</sup>	Average Price	Revenue	Quantity Sold <sup>2</sup>	Average Price
<b>ALMONDS (lbs.)</b>									
Current year crop	\$ 4,207	2,078	\$ 2.02	\$ 6,359	2,252	\$ 2.82	\$ (2,152)	(174)	\$ (0.80)
Prior crop years	783	405	\$ 1.93	568	227	2.50	215	178	(0.57)
Prior crop price adjustment	—			(61)			61		
Signing bonus	31			28			3		
Crop Insurance	—			416			(416)		
Subtotal Almonds <sup>1</sup>	\$ 5,021	2,483	\$ 2.01	\$ 7,310	2,479	\$ 2.79	\$ (2,289)	4	\$ (0.78)
<b>PISTACHIOS (lbs.)</b>									
Current year crop	\$ 932	456	\$ 2.04	\$ 1,624	819	\$ 1.98	\$ (692)	(363)	\$ 0.06
Prior crop years	25	13	1.92	976	558	1.75	(951)	(545)	0.17
Prior crop price adjustment	890			3,807			(2,917)		
Crop Insurance	3,789			1,059			2,730		
Subtotal Pistachios <sup>1</sup>	\$ 5,636	469	\$ 2.04	\$ 7,466	1,377	\$ 1.89	\$ (1,830)	(908)	\$ 0.15
<b>WINE GRAPES (tons)</b>									
Current year crop	\$ 2,589	9	\$ 287.67	\$ 3,730	14	\$ 266.43	\$ (1,141)	(5)	\$ 21.24
Crop Insurance	—			10			(10)		
Subtotal Wine Grapes	\$ 2,589	9	\$ 287.67	\$ 3,740	14	\$ 266.43	\$ (1,151)	(5)	\$ 21.24
<b>Other</b>									
Hay	\$ 419			\$ 468			\$ (49)		
Other farming revenues	201			347			(146)		
Total farming revenues	\$ 13,866			\$ 19,331			\$ (5,465)		

<sup>1</sup> Average price calculation reflects sale of almond and pistachio crops during the calendar reported year exclusive of any price adjustments.

<sup>2</sup> Almond and pistachio units are presented in thousands of pounds while wine grapes are presented in thousands of tons.

## 2020 Operational Highlights:

- During 2020, farming segment revenues decreased \$5,465,000, or 28%, from \$19,331,000 in 2019 to \$13,866,000 in 2020. The factors contributing to this decrease is as follow:
  - Almond revenues decreased \$2,289,000 as a result of lower pricing. California's 2020 almond crop yielded in excess of 3 billion pounds, surpassing all previous production records. The increased yields were driven by favorable blooms along with new almond plantings coming into production throughout California in recent years. The mix of demand has been changed in the near term as a result of COVID-19 as more product is moving through wholesale markets and less through high end users such as restaurants. The global demand for almonds remains as strong as it was prior to the pandemic, with India and China being the largest importer of California almonds. Although COVID-19 disrupted international trade during its early onset, it ultimately had a sparing effect on the Company's sales volumes. The aforementioned factors discussed are the primary drivers of the overall decline in pricing.
  - Pistachio revenues decreased \$1,830,000. Although 2020 was not a down bearing year for pistachios, the crop did not receive adequate chilling hours as a result of the warm 2020 winter. Crops with inadequate chilling hours will have depressed yields and blooms. As a hedge against below average production for its almond and pistachio crops, the Company purchases crop production insurance annually. This insurance will pay for reduced production if crop production in the year falls below the insured levels. The Company filed a claim with its insurance provider in order to recuperate a portion of the reduced production revenues as a result of lost production. The insurance claim in the amount of \$3,789,000 was collected during the fourth quarter.
  - Wine grape revenues decreased \$1,151,000 due to less production, which was the result of removing a 313 acre vineyard. The vineyard was removed in 2020 as there was no longer interest for its fruit. The Company in late 2020 acquired a new sales contract for a different variety of grapes, resulting in the development of a new vineyard, which will ultimately replace this lost revenue stream.

(\$ in thousands)	December 31, 2019			December 31, 2018			Change		
	Revenue	Quantity Sold <sup>2</sup>	Average Price	Revenue	Quantity Sold <sup>2</sup>	Average Price	Revenue	Quantity Sold <sup>2</sup>	Average Price
<b>ALMONDS (lbs.)</b>									
Current year crop	\$ 6,359	2,252	\$ 2.82	\$ 4,476	1,717	\$ 2.61	\$ 1,883	535	\$ 0.21
Prior crop years	568	227	2.50	1,234	412	\$ 3.00	(666)	(185)	(0.50)
Prior crop price adjustment	(61)			—			(61)		
Signing bonus	28			34			(6)		
Crop Insurance	416			\$ —			\$ 416		
Subtotal Almonds <sup>1</sup>	\$ 7,310	2,479	\$ 2.79	\$ 5,744	2,129	\$ 2.68	\$ 1,566	350	\$ 0.11
<b>PISTACHIOS (lbs.)</b>									
Current year crop	\$ 1,624	819	\$ 1.98	\$ 7,251	3,615	\$ 2.01	\$ (5,627)	(2,796)	\$ (0.03)
Prior crop years	976	558	1.75	518	120	4.32	458	438	(2.57)
Prior crop price adjustment	3,807			111			3,696		
Insurance	1,059			—			1,059		
Subtotal Pistachios <sup>1</sup>	\$ 7,466	1,377	\$ 1.89	\$ 7,880	3,735	\$ 2.08	\$ (414)	(2,358)	\$ (0.19)
<b>WINE GRAPES (tons)</b>									
Current year crop	\$ 3,730	14	\$ 266.43	\$ 3,683	14	\$ 263.07	\$ 47	—	\$ 3.36
Insurance	10			—			10		
Subtotal Wine Grapes	\$ 3,740	14	\$ 266.43	\$ 3,683	14	\$ 263.07	\$ 57	—	\$ 3.36
<b>Other</b>									
Hay	\$ 468			\$ 297			\$ 171		
Other farming revenues	347			959			(612)		
Total farming revenues	\$ 19,331			\$ 18,563			\$ 768		

<sup>1</sup> Average price calculation reflects sale of almond and pistachio crops during the calendar reported year exclusive of any price adjustments.

<sup>2</sup> Almond and pistachio units are presented in thousands of pounds while wine grapes are presented in thousands of tons.

#### 2019 Operational Highlights:

- During 2019, farming revenues increased \$768,000, or 4%, from \$18,563,000 in 2018 to \$19,331,000 in 2019. When compared to 2018, almond revenues increased by \$1,566,000 primarily from improved 2019 almond crop yields, which increased the amount of inventory available for sale.
- Offsetting the increased almond sales were reductions in pistachio revenues of \$414,000, which is a result of having lower yields during the 2019 down bearing cycle. Although the Company received insurance proceeds for the loss and a one-time price adjustment on the 2018 pistachio crop, they were not enough to recuperate lost revenues. Also contributing to the decline in farming revenues were declines in other farming revenues of \$612,000 which were primarily a result of having fewer water use reimbursements from a farm land lease as a result of having fewer acres leased.
- Farming expenses decreased \$777,000, or 5%, to \$15,251,000 when compared to \$16,028,000 in 2018. The decrease was primarily attributed to reductions in WRMWSD water holding costs of \$1,642,000 as a result of the wet 2019 rain season offset by an increase in pruning costs of \$460,000, harvest costs of \$313,000, and hulling costs of \$281,000.

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

## Ranch Operations

(\$ in thousands)	2020	2019	2018
Ranch operations revenue			
Game management and other <sup>1</sup>	\$ 2,097	\$ 2,020	\$ 2,171
Grazing	1,595	1,589	1,520
Total ranch operations revenues	\$ 3,692	\$ 3,609	\$ 3,691
Total ranch operations expenses	\$ 4,896	\$ 5,316	\$ 5,451
Operating loss from ranch operations	\$ (1,204)	\$ (1,707)	\$ (1,760)

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

### 2020 Operational Highlights:

- Revenues from ranch operations increased \$83,000, or 2%, from \$3,609,000 in 2019 to \$3,692,000 in 2020, which is primarily attributed to an increase in guided hunts of \$121,000.
- Ranch operations expenses decreased \$420,000, or 8%, to \$4,896,000 in 2020 from \$5,316,000 in 2019. The decrease is primarily attributed to reduced payroll and overhead expenses of \$332,000 as a result of the Company's right sizing efforts. This segment also had notable decreases in fuel costs and fees of \$56,000 and \$60,000, respectively.

### 2019 Operational Highlights:

- Revenues from ranch operations decreased \$82,000, or 2%, from \$3,691,000 in 2018 to \$3,609,000 in 2019. The decrease is primarily attributed to reduced membership revenues of \$143,000, partially offset by an increase in grazing lease revenues of \$69,000.
- Ranch operations expenses decreased \$135,000, or 2%, to \$5,316,000 in 2019 from \$5,451,000 in 2018. The decrease was mainly attributed to reduced payroll expense of \$183,000, partially offset by an increase in repair and maintenance expense of \$49,000.

## Other Income

Total other income increased \$2,910,000, or 497%, from a loss of \$585,000 in 2019 to income of \$2,325,000 in 2020. In 2019, the Company recognized asset abandonment costs of \$1,604,000, that was primarily related to a wine grape vineyard consisting of 313 acres. There were no similar abandonment costs recorded in 2020. Also in 2020, the Company sold building and land that was previously operated by a fast food tenant to its joint venture, Petro Travel Plaza LLC. The Company received a cash distribution of \$2,000,000 from the joint venture, and realized a Gain on Sale of Real Estate of \$1,331,000. Offsetting these favorable variances in other income was a \$355,000 decrease in investment income that resulted from not reinvesting maturing securities in order to fund the Company's major development projects.

Total other income decreased \$1,870,000, or 146%, from \$1,285,000 in 2018 to a loss of \$585,000 in 2019. This was mainly attributable to asset abandonment costs of \$1,604,000 that were overwhelmingly related to the abandonment of a wine grape vineyard, consisting of 313 acres, that will no longer be farmed.

## Corporate Expenses

Corporate general and administrative costs increased \$69,000, or 0.7%, to \$9,430,000 during 2020 when compared to \$9,361,000 in 2019. The increase is attributed to an \$1,182,000 increase in stock compensation as a result of implementing a new performance stock compensation plan. This increase was offset by a \$546,000 decrease in payroll as a result of temporary cost cutting measures resulting from the COVID-19 pandemic, a \$426,000 decrease in professional services, and a \$139,000 decrease in depreciation.

Corporate general and administrative costs decreased \$344,000, or 3.5%, to \$9,361,000 during 2019 when compared to \$9,705,000 in 2018. The decrease was primarily attributable to a decrease in depreciation and amortization of \$231,000 and software licenses of \$149,000.

## 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 can become a significant part of our operations 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.

(\$ in thousands)	2020	2019	2018
Equity in earnings (loss)			
Petro Travel Plaza Holdings LLC	\$ 5,722	\$ 8,810	\$ 5,803
Five West Parcel, LLC	(2)	9,119	389
18-19 West, LLC	(68)	(53)	(51)
TRCC/Rock Outlet Center, LLC	(2,090)	(1,921)	(2,323)
TRC-MRC 1, LLC	64	46	(249)
TRC-MRC 2, LLC	678	575	265
TRC-MRC 3, LLC	200	(1)	—
Equity in earnings of unconsolidated joint ventures, net	<u>\$ 4,504</u>	<u>\$ 16,575</u>	<u>\$ 3,834</u>

### 2020 Operational Highlights:

During 2020, equity in earnings from unconsolidated joint ventures decreased \$12,071,000, or 73%, to \$4,504,000 when compared to \$16,575,000 in 2019.

- Five West Parcel, LLC's operating results declined \$9,121,000 when compared to 2019 because the joint venture in 2020 was focused on dissolution, which was completed in 2020. In 2019, the joint venture sold its building and land for \$29,088,000, and recognized a gain of \$17,537,000. The Company was entitled to 50% of the gain in 2019, explaining the year-over-year variance.
- There was a \$3,088,000 decrease in our share of earnings from our TA/Petro joint venture. This joint venture was impacted by California's stay-at home orders for most of 2020. As travelers were discouraged from travelling during the holidays, fuel sales volumes saw a 10% decline, causing a 22% decline in fuel margins. In addition, indoor dining restrictions forced the joint venture's full service restaurants to close which resulted in a 77% decline in revenues and a 78% decline in restaurant operating margins.

### 2019 Operational Highlights:

During 2019, equity in earnings from unconsolidated joint ventures increased \$12,741,000 to \$16,575,000 when compared to \$3,834,000 in 2018.

- Five West Parcel, LLC had the most significant increase in equity in earnings at \$9,118,611, resulting from the gain on sale of a building and land previously held by the joint venture. The joint venture had owned and leased a 606,000 square foot building, the joint venture's primary asset, to Dollar General, and the building was sold to a third party in November 2019 for a purchase price of \$29,088,000, realizing a gain of \$17,537,000 at the joint venture level.
- There was a \$8,804,197 increase in our share of earnings from our TA/Petro joint venture. The improvement was mainly driven by a 38% increase in fuel margins resulting from lower cost of fuel sales when compared to the prior year.
- Our share of the loss within the TRCC/Rock Outlet joint venture decreased \$402,000 due to the continuing improvement in average sales per vehicle. In addition, the joint venture also had less accelerated amortization on tenant allowances in 2019. The Outlets at Tejon is continually identifying new and desirable tenants to better serve a wider demographic. In 2019, the Outlets at Tejon attracted new tenants such as The Children's Place and Cosmetics Company Store.

## Income Taxes

For the twelve months ended December 31, 2020, the Company's net income tax expense was \$829,000 compared \$3,980,000 for the twelve months ended December 31, 2019. These represent effective income tax rates of approximately 1,011% and 27% for the twelve months ended December 31, 2020 and, 2019, respectively. Our effective income tax rate for the year ended December 31, 2020 was higher than the federal statutory rate in the United States, a result of permanent differences arising from stock compensation and non-deductible compensation under Section 162(m) of the Tax Cuts and Jobs Act of 2017. The discrete item associated with stock grants was triggered when stock grants were issued to participants at a price less than the original grant price, causing a deferred tax shortfall. The shortfall recognized during the year represents the reversal of excess deferred tax assets recognized in prior periods. The recognition of the shortfall is not anticipated to have an impact on the Company's current income tax payable. As of December 31, 2020 and 2019 we had an income tax receivable of \$1,497,000 and \$856,000, respectively.

As of December 31, 2020, we had net deferred tax liabilities of \$925,000. Our largest deferred tax assets were made up of temporary differences related to the capitalization of costs, pension adjustments, interest rate swap, and stock compensation. Deferred tax liabilities consist of depreciation, deferred gains, joint venture differences, cost of sales adjustments, 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 did not make any income tax payments in 2020 and \$4,645,000 in 2019. The Company received refunds of \$1,314,000 in 2020 and \$1,345,000 in 2019.

For more detail, see Note 12. (Income Taxes), of the Notes to Consolidated Financial Statements, included this Annual Report on Form 10-K.

## 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.

Our cash and cash equivalents and marketable securities totaled approximately \$58,091,000 at December 31, 2020, a decrease of \$8,099,000, or 12%, from the corresponding amount at the end of 2019.

The following table summarizes the cash flow activities for the following years ended December 31:

<i>(\$ in thousands)</i>	2020	2019	2018
Operating activities	\$ 15,481	\$ 16,045	\$ 14,354
Investing activities	\$ 19,778	\$ 828	\$ (13,246)
Financing activities	\$ (7,045)	\$ (5,675)	\$ (5,307)

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 2020, our operations generated \$15,481,000 in cash. A portion of these receipts came from distributions of \$6,222,000 from our Five West Parcel, TA/Petro and Majestic joint ventures, while another \$5,427,000 came in the form of farming receivable collections.

During 2019, our operations provided \$16,045,000 in cash primarily attributable to strong results from our commercial joint ventures. We received total distributions of \$15,381,000 from our Five West Parcel, TA/Petro and Majestic joint ventures.



During 2020, investing activities provided \$19,778,000, which was largely attributed to marketable securities maturities of \$41,843,000. The maturities were used to fund capital expenditures of \$22,259,000 that was primarily related to our real estate development. Of the \$22,259,000, we spent \$4,132,000 on general planning and final map preparation for Phase 1 of MV, \$3,635,000 on litigation defense for Centennial, and \$1,997,000 on re-entitlement and litigation for Grapevine. At TRCC, we primarily used \$7,128,000 to expand water infrastructure at TRCC and early entitlement efforts for TRCC Residential. All real estate capital expenditures are inclusive of capitalized interest, payroll and overhead. Our mineral resources segment spent \$3,568,000 to acquire water for use as needed and for our future residential developments. Lastly, our farming segment had cash outlays of \$5,145,000 for developing new almond orchards and replacing old farm equipment.

During 2019, investing activities provided \$828,000 of cash, which was largely attributed to marketable securities maturities of \$53,418,000, reimbursements from the community financing district of \$4,180,000, and distributions from our unconsolidated joint ventures of \$3,457,000. Offsetting the increase were investments in marketable securities of \$28,219,000 and capital expenditures of \$25,222,000. Of the \$25,222,000, we spent \$4,691,000 on planning and permitting for MV, \$4,403,000 on the final approval of the specific plan for Centennial, and \$3,717,000 on re-entitlement and litigation for Grapevine. At TRCC, we used \$8,690,000 on continued expansion of water infrastructure at TRCC and construction of a new multi-tenant building that was subsequently contributed to our TA/Petro joint venture. All real estate capital expenditures are inclusive of capitalized interest, payroll and overhead. Our farming segment had cash outlays of \$3,362,000 for developing new almond orchards and replacing old farm equipment. Lastly, we purchased water through our annual water contracts, using \$3,686,000 and invested \$3,100,000 into our unconsolidated joint ventures.

Our estimated capital investment for 2021 is primarily related to our real estate projects as it was in 2020. These estimated investments include approximately \$7,163,000 of infrastructure development at TRCC-East to support continued commercial retail and industrial development and expanding water facilities to support future anticipated absorption. We are also investing approximately \$4,465,000 to continue developing new almond orchards, wine grape vineyards, and replacing old farming equipment. The farm investments are part of a long-term farm management program to redevelop declining orchards and vineyards allowing the Company to maintain and improve future farm revenues. We expect to possibly invest up to \$10,174,000 for permitting activities, litigation defense, predevelopment activities and land planning design at MV, Centennial, and Grapevine during 2020. The timing of these investments is dependent on our coordination efforts with Los Angeles County regarding litigation efforts for Centennial, finalizing litigation and limited permitting activities for Grapevine, and final maps, civil engineering, land planning and design, for MV. Our plans also include \$4,544,000 for payment of annual water inventory and water related investments. We are also planning to potentially invest up to \$386,000 in the normal replacement of operating equipment, such as ranch equipment, and vehicles.

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, 2020 and 2019, of \$2,713,000 and \$2,818,000, respectively, is classified in real estate development. We also capitalized payroll costs related to development, pre-construction, and construction projects which aggregated \$3,520,000 and \$3,706,000 for the years ended December 31, 2020 and 2019, respectively. Expenditures for repairs and maintenance are expensed as incurred.

During 2020, financing activities used \$7,045,000, which is comprised of long-term debt repayments of \$4,819,000 and tax payments on vested stock grants of \$2,226,000.

During 2019, financing activities used \$5,675,000 primarily through repayments of long-term debt of \$4,004,000 and tax payments on vested stock grants of \$1,671,000.

It is difficult to accurately predict cash flows due to the nature of our businesses and fluctuating economic conditions. Our earnings and cash flows will be affected from period to period by the commodity nature of our farming and mineral operations, the timing of sales and leases of property within our development projects, and the beginning of development within our residential projects. The timing of sales and leases within our development projects is difficult to predict due to the time necessary to complete the development process and negotiate sales or lease contracts. Often, the timing aspect of land development can lead to particular years or periods having more or less earnings than comparable periods. 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 litigation, permitting and engineering design for our master planned communities and prepare to move into the development stage, we will need to secure additional funding through the issuance of equity and secure other forms of financing such as joint ventures and possibly debt financing.

## Capital Structure and Financial Condition

At December 31, 2020, total capitalization at book value was \$502,213,000 consisting of \$56,882,000 of debt, net of deferred financing costs, and \$445,331,000 of equity, resulting in a debt-to-total-capitalization ratio of approximately 11.3%, representing a decrease when compared to the debt-to-total-capitalization ratio of 13.1% at December 31, 2019.

On October 13, 2014, the Company as borrower, entered into an Amended and Restated Credit Agreement, a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. The Credit Facility added a \$70,000,000 term loan, or Term Loan, to the then existing \$30,000,000 revolving line of credit, or RLC. In August 2019, the Company amended the Term Note (Amended Term Note) and extended its maturity to June 2029 and amended the RLC to expand the capacity from \$30,000,000 to \$35,000,000 and extend the maturity to October 2024.

The Amended Term Loan had an outstanding balance of \$54,887,000 as of December 31, 2020 and an outstanding balance of \$58,768,000 as of December 31, 2019. The interest rate per annum applicable to the Amended Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the Amended Term Note has been fixed at 4.16% through the use of an interest rate swap agreement. The Amended Term Note requires monthly amortization payments, with the outstanding principal amount due June 5, 2029. The Amended Term Note is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables; the PEF power plant lease and lease site; and related accounts and other rights to payment and inventory.

The RLC had no outstanding balance at December 31, 2020 and December 31, 2019. At the Company's option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR rate or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of this RLC, the Company can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary.

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

The Amended Note and RLC, collectively the Amended Credit Facility, requires compliance with three financial covenants: (i) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (ii) 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 (iii) maintain liquid assets equal to or greater than \$20,000,000, including availability on the RLC. At December 31, 2020 and December 31, 2019, the Company was in compliance with all financial covenants.

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

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

We also have a \$4,750,000 promissory note agreement with principal and interest due monthly. The interest rate on this promissory note is 4.25% per annum, with principal and interest payments ending on September 1, 2028. The 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. In March 2020, the Company made an additional payment of \$687,000 that was applied to the principal of the note. Subsequent principal and interest payments were reduced to \$28,000 per month. The additional principal payment was tied to the release of collateral, which in April 2020 was contributed to Petro Travel Plaza LLC. The balance of this long-term debt instrument included in "Notes payable" above approximates the fair value of the instrument. The balance as of December 31, 2020 is \$2,191,000.

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 or drawdowns against our line-of-credit, proceeds from the reimbursement of public infrastructure costs through CFD bond debt (described below under "Off-Balance Sheet Arrangements"), and the issuance of common stock. In May 2019, we filed an updated shelf registration statement on Form S-3 that went effective in May 2019. 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 needs of the Company.

As noted above, at December 31, 2020, we had \$58,091,000 in cash and securities and as of the filing date of this Form 10-K, we had \$35,000,000 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. As we move into 2021, we will be evaluating various options for funding the potential start of development projects. 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, 2020, to be paid over the next five years:

(\$ in thousands)	Payments Due by Period				
	Total	Less than a year	1-3 years	3-5 years	More than 5 years
<b>Contractual Obligations:</b>					
Estimated water payments	\$ 276,146	\$ 10,194	\$ 21,314	\$ 22,613	\$ 222,025
Long-term debt	57,078	4,295	9,170	10,016	33,597
Interest on long-term debt	12,905	2,281	4,005	3,204	3,415
Cash contract commitments	4,866	2,657	1,138	—	1,071
Defined Benefit Plan	4,378	299	666	843	2,570
SERP	5,233	527	1,038	1,040	2,628
Tejon Ranch Conservancy	800	800	—	—	—
Financing fees	163	163	—	—	—
Operating lease	32	21	11	—	—
<b>Total contractual obligations</b>	<b>\$ 361,601</b>	<b>\$ 21,237</b>	<b>\$ 37,342</b>	<b>\$ 37,716</b>	<b>\$ 265,306</b>

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 2020, we made pension contributions of \$165,000 and it is projected that we will make a similar contribution in 2021.

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.

## 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	\$ 4,468	\$ 4,468	\$ —	\$ —	\$ —
Total other commercial commitments	\$ 4,468	\$ 4,468	\$ —	\$ —	\$ —

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company's Kern County developments. TRPFFA created two CFD's, 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 \$75,965,000 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 \$44,035,000 of additional bond debt authorized by TRPFFA.

In connection with the sale of bonds there is a standby letter of credit for \$4,468,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years' worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. As development occurs within TRCC-East there is a mechanism in the bond documents to reduce the amount of the letter of credit. The Company believes that the letter of credit will never be drawn upon. This letter of credit is for a two-year period of time and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately \$68,000. The assessment of each individual property sold or leased within each CFD is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at December 31, 2020.

At December 31, 2020, aggregate outstanding debt of unconsolidated joint ventures was \$133,775,000. We guarantee \$118,484,000 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 \$15,291,000 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 and asset abandonment charges. 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, stock compensation expense, and abandonment charges. By excluding interest expense and income, EBITDA and Adjusted EBITDA allow investors to measure our performance independent of our capital structure and indebtedness and, therefore, allow for a more meaningful comparison of our performance to that of other companies, both in the real estate industry and in other industries. We believe that excluding charges related to share-based compensation facilitates a comparison of our operations across periods and among other companies without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. EBITDA and Adjusted EBITDA have limitations as measures of our performance. EBITDA and Adjusted EBITDA do not reflect our historical cash expenditures or future cash requirements for capital expenditures or contractual commitments. While EBITDA and Adjusted EBITDA are relevant and widely used measures of performance, they do not represent net income or cash flows from operations as defined by GAAP. Further, our computation of EBITDA and Adjusted EBITDA may not be comparable to similar measures reported by other companies.

(\$ in thousands)	Year-Ended December 31,		
	2020	2019	2018
Net (loss) income	\$ (747)	\$ 10,579	\$ 4,235
Net loss attributed to non-controlling interest	(7)	(1)	(20)
Interest, net			
Consolidated interest income	(884)	(1,239)	(1,344)
Our share of interest expense from unconsolidated joint ventures	1,902	2,785	2,519
Total interest, net	1,018	1,546	1,175
Income tax expense	829	3,980	1,320
Depreciation and amortization			
Consolidated	4,938	5,036	5,424
Our share of depreciation and amortization from unconsolidated joint ventures	4,419	4,135	4,328
Total depreciation and amortization	9,357	9,171	9,752
EBITDA	10,464	25,277	16,502
Stock compensation expense	4,494	3,198	3,248
Asset abandonment charges	—	1,604	—
<b>Adjusted EBITDA</b>	<b>\$ 14,958</b>	<b>\$ 30,079</b>	<b>\$ 19,750</b>

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,		
	2020	2019	2018
Net operating income			
Pastoria Energy Facility	\$ 4,576	\$ 4,573	\$ 4,056
TRCC	1,290	1,488	1,439
Communication leases	911	912	894
Other commercial leases	557	650	670
<b>Total Commercial/Industrial net operating income</b>	<b>\$ 7,334</b>	<b>\$ 7,623</b>	<b>\$ 7,059</b>

(\$ in thousands)	Year-Ended December 31,		
	2020	2019	2018
Commercial/Industrial operating income	\$ 2,414	\$ 3,831	\$ 2,724
Plus: Commercial/Industrial depreciation and amortization	486	517	651
Plus: General, administrative and other expenses	6,137	11,907	5,241
Less: Other revenues including land sales	(1,703)	(8,632)	(1,557)
<b>Total Commercial/Industrial net operating income</b>	<b>\$ 7,334</b>	<b>\$ 7,623</b>	<b>\$ 7,059</b>

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

The following schedule reconciles net income from unconsolidated joint ventures to NOI of unconsolidated joint ventures.

(\$ in thousands)	Year-Ended December 31,		
	2020	2019	2018
Net income of unconsolidated joint ventures	\$ 7,099	\$ 30,213	\$ 5,734
Plus: Interest expense of unconsolidated joint ventures	5,154	5,438	4,912
Operating income of unconsolidated joint ventures	12,253	35,651	10,646
Plus: Depreciation and amortization of unconsolidated joint ventures	8,323	7,773	8,125
Less: Gain on sale of asset	—	(17,537)	—
<b>Net operating income of unconsolidated joint ventures</b>	<b>\$ 20,576</b>	<b>\$ 25,887</b>	<b>\$ 18,771</b>

## 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 \$54,887,000 and is tied to LIBOR plus a margin of 1.70%. The interest rate for the term of this loan has been fixed through the use of an interest rate swap that fixed the rate at 4.16%. The outstanding balance on the second term loan is \$2,191,000 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 Term 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, 2020  
(In thousands except percentage data)

	2021	2022	2023	2024	2025	Thereafter	Total	Fair Value
<b>Assets:</b>								
Marketable securities	\$2,766	\$—	\$—	\$—	\$—	\$—	\$2,766	\$2,771
Weighted average interest rate	0.99%	—%	—%	—%	—%	—%	0.99%	
<b>Liabilities:</b>								
Long-term debt (\$4.75M note)	\$244	\$254	\$265	\$277	\$289	\$862	\$2,191	\$2,191
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (\$70.0M note)	\$4,051	\$4,221	\$4,429	\$4,624	\$4,825	\$32,737	\$54,887	\$54,887
Weighted average interest rate	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	

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

	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
<b>Assets:</b>								
Marketable securities	\$38,133	\$900	\$—	\$—	\$—	\$—	\$39,033	\$39,084
Weighted average interest rate	2.03%	2.06%	—%	—%	—%	—%	2.03%	
<b>Liabilities:</b>								
Long-term debt (\$4.75M note)	\$302	\$315	\$328	\$343	\$357	\$1,484	\$3,129	\$3,129
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt (\$70.0M note)	\$3,881	\$4,051	\$4,221	\$4,429	\$4,624	\$37,562	\$58,768	\$58,768
Weighted average interest rate	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	4.16%	

Our risk with regard to fluctuations in interest rates has decreased slightly related to marketable securities since these balances have decreased compared to the prior year.

#### Commodity Price Exposure

As of December 31, 2020, we have exposure to adverse price fluctuations associated with certain inventories and accounts receivable. Farming inventories consist of farming cultural and processing costs related to 2020 and 2019 crop production. The farming costs inventoried are recorded at actual costs incurred. Historically, these costs have been recovered each year when that year's crop harvest has been sold.

With respect to accounts receivable, the amount at risk relates primarily to farm crops. These receivables are recorded based on estimated final pricing. The final price is generally not known for several months following the close of our fiscal year. Of the \$4,592,000 in outstanding accounts receivable at December 31, 2020, \$646,000 or 14%, is at risk for changing prices. Of the amount at risk, \$646,000 is attributable to pistachios.

The price estimated for recording accounts receivable for pistachios recorded at December 31, 2020 was \$2.04 per pound, as compared to \$1.98 per pound at December 31, 2019. For each \$0.01 change in the price per pound of pistachios, our receivable for pistachios increases or decreases by \$3,200. Although the final price per pound of pistachios (and therefore the extent of the risk) is not presently known, over the last three years prices have ranged from \$1.98 to \$2.04.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this Item is submitted in a separate section of this Form 10-K.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

##### **(a) Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Controller, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of December 31, 2020 in ensuring that all information required in the reports we file or submit under the Exchange Act was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and was recorded, processed, summarized and reported within the time period required by the rules and regulations of the SEC.

##### **(b) Changes in Internal Control Over Financial Reporting**

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

See Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm On Internal Control over Financial Reporting following ITEM 15(a)(2) - FINANCIAL STATEMENT SCHEDULES of this Form 10-K.

#### **ITEM 9B. OTHER INFORMATION**

TRC issued a press release on March 3, 2021 for the fourth-quarter and year-ended December 31, 2020 financial results.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information as to our Executive Officers is set forth in Part I, Item 1 of this Form 10-K under "Information about our Executive Officers." The other information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the SEC with respect to our 2021 Annual Meeting of Stockholders and will be found under the captions "The Election of Directors," "Code of Business Conduct and Ethics and Corporate Governance Guidelines," "Corporate Governance Matters" and, if applicable, "Delinquent Section 16(a) Reports."

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the SEC with respect to our 2021 Annual Meeting of Stockholders and will be found under the captions "Compensation Discussion and Analysis," and "Compensation Committee Report."

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

##### **(a) Security Ownership of Certain Beneficial Owners and Management.**

Information required by this Item with respect to security ownership of certain beneficial owners and management is incorporated by reference from the definitive proxy statement to be filed by us with the SEC with respect to our 2021 Annual Meeting of Stockholders and will be found under the caption "Stock Ownership of Certain Beneficial Owners and Management."

(b) Securities Authorized for Issuance under Equity Compensation Plans.

The following table shows aggregated information as of December 31, 2020 with respect to all of our compensation plans under which our equity securities were authorized for issuance. At December 31, 2020, we had, and we presently have, no other compensation contracts or arrangements for the issuance of any such equity securities and there were then, and continue to be, no compensation plans, contracts or arrangements which were not approved by our stockholders. More detailed information with respect to our compensation plans is included in Note 11 (Stock Compensation - Restricted Stock and Performance Share Grants) of the Notes to Consolidated Financial Statements.

**Equity Compensation Plans Approved by Security Holders**

Equity compensation plans approved by security holders *	Number of securities to be issued upon exercise of outstanding grants	Weighted-average exercise price of outstanding grants	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Restricted stock grants and restricted stock units at target goal achievement	840,307	Final price determined at time of vesting	513,214

\* The Company does not use equity compensation plans that have not been approved by the security holders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the SEC with respect to our 2021 Annual Meeting of Stockholders and will be found under the captions "Related Person Transactions" and "Corporate Governance Matters."

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the SEC with respect to our 2021 Annual Meeting of Stockholders and will be found under the caption "Independent Registered Public Accounting Firm."

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

<u>(a) Documents filed as part of this report:</u>		<u>Page Number</u>
1	<u>Consolidated Financial Statements:</u>	
1.1	Management's Report on Internal Control Over Financial Reporting	71
	Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	72
	Report of Independent Registered Public Accounting Firm	73
1.2	Consolidated Balance Sheets – Years Ended December 31, 2020 and 2019	76
1.3	Consolidated Statements of Operations - Years Ended December 31, 2020, 2019 and 2018	77
1.4	Consolidated Statements of Comprehensive Income (Loss) - Years Ended December 31, 2020, 2019 and 2018	78
1.5	Consolidated Statements of Equity - Years Ended December 31, 2020, 2019 and 2018	79
1.6	Consolidated Statements of Cash Flows - Years Ended December 31, 2020, 2019 and 2018	80
1.7	Notes to Consolidated Financial Statements	82
2	<u>Supplemental Financial Statement Schedules:</u>	
	None.	
3	<u>Exhibits:</u>	
3.1	Restated Certificate of Incorporation	FN 1
3.2	Amended and Restated Bylaws	FN 2
4.3	Registration and Reimbursement Agreement	FN 5
4.4	Description of Securities	Filed herewith
4.5	Form of Indenture for Debt	FN 36
	Water Service Contract with Wheeler Ridge-Maricopa Water Storage District (without exhibits), amendments originally filed under Item 11 to Registrant's Annual Report on Form 10-K	FN 6
10.7	*Severance Agreement	FN 7
10.8	*Director Compensation Plan	FN 7
10.9	*Amended and Restated Non-Employee Director Stock Incentive Plan	FN 8
10.9(1)	*Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan	FN 7
10.10	*Amended and Restated 1998 Stock Incentive Plan	FN 9
10.10(1)	*Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan	FN 7
10.12	Ground Lease with Pastoria Energy Facility L.L.C.	FN 10
10.15	Form of Securities Purchase Agreement	FN 11
10.16	Form of Registration Rights Agreement	FN 12
10.17	*2004 Stock Incentive Program	FN 13
10.18	*Form of Restricted Stock Agreement for Directors	FN 13
10.19	*Form of Restricted Stock Unit Agreement	FN 13
10.23	Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 14
10.24	Tejon Ranch Conservation and Land Use Agreement	FN 15
10.25	Second Amended and Restated Limited Liability Agreement of Centennial Founders, LLC	FN 16
10.26	*Executive Employment Agreement - Allen E. Lyda	FN 17

10.27	Limited Liability Company Agreement of TRCC/Rock Outlet Center LLC	FN 18
10.28	Warrant Agreement	FN 19
10.29	Amendments to Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 20
10.30	Membership Interest Purchase Agreement - Tejon Mountain Village LLC	FN 21
10.31	Amended and Restated Credit Agreement	FN 22
10.32	Term Note	FN 22
10.33	Revolving Line of Credit	FN 22
10.34	Amendments to Lease Agreement with Pastoria Energy Facility L.L.C.	FN 23
10.35	Water Supply Agreement with Pastoria Energy Facility L.L.C.	FN 24
10.37	Limited Liability Company Agreement of TRC-MRC 2, LLC	FN 26
10.38	Limited Liability Company Agreement of TRC-MRC 1, LLC	FN 27
10.39	Centennial Founders, LLC Redemption and Withdrawal Agreement - Lewis Tejon Member	FN 28
10.40	First Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 29
10.41	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 30
10.42	Limited Liability Company Agreement of TRC-MRC 3, LLC	FN 31
10.43	Fourth Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 32
10.44	Centennial Founders, LLC Redemption and Withdrawal Agreement - CalAtlantic	FN 33
10.45	Amended Revolving Line of Credit	FN 34
10.46	Amended Term Note	FN 35
10.47	Executive Severance Agreement - Executive Severance Agreement - Gregory S. Bielli S. Bielli	FN 37
21	List of Subsidiaries of Registrant	Filed herewith
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm (Los Angeles, CA)	Filed herewith
23.2	Consent of Ernst & Young Consent of Ernst & Young LLP, independent registered public accounting firm (Los Angeles, CA), independent registered public accounting firm (Los Angeles, CA)	Filed herewith
23.3	Consent of RSM US LLP, independent registered public accounting firm	Filed herewith
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.1	Financial Statements of Petro Travel Plaza Holdings LLC	Filed herewith
101.INS	XBRL Instance Document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith
*	Management contract, compensatory plan or arrangement.	
FN 1	This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 333-231032) as Exhibit 99.1 to our Current Report on Form 8-K filed on May 26, 2020, is incorporated herein by reference.	
FN 2	This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 99.1 to our Current Report on Form 8-K filed on May 26, 2020, is incorporated herein by reference.	

- FN 5 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on December 20, 2005, is incorporated herein by reference.
- FN 6 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1994, is incorporated herein by reference. This Exhibit was not filed with the Securities and Exchange Commission in an electronic format.
- FN 7 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K, for the period ending December 31, 1997, is incorporated herein by reference.
- FN 8 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.9 to our Annual Report on Form 10-K for the year ended December 31, 2008, is incorporated herein by reference.
- FN 9 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.10 to our Annual Report on Form 10-K for the year ended December 31, 2008, is incorporated herein by reference
- FN 10 This document filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.16 to our Annual Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by reference.
- FN 11 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 12 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.2 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.
- FN 13 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibits 10.21-10.23 to our Annual Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by reference.
- FN 14 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.24 to our Current Report on Form 8-K filed on May 24, 2006, is incorporated herein by reference.
- FN 15 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.28 to our Current Report on Form 8-K filed on June 23, 2008, is incorporated herein by reference.
- FN 16 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.25 to our Quarterly Report on Form 10-Q for the period ending June 30, 2009, is incorporated herein by reference.
- FN 17 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.26 to our Quarterly Report on Form 10-Q for the period ending March 31, 2013, is incorporated herein by reference.
- FN 18 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.27 to our Current Report on Form 8-K filed on June 4, 2013, is incorporated herein by reference.
- FN 19 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.1 to our Current Report on Form 8-K filed on August 8, 2013, is incorporated herein by reference.
- FN 20 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.29 to our Amended Annual Report on Form 10-K/A for the year ended December 31, 2013, is incorporated herein by reference.
- FN 21 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.30 to our Current Report on Form 8-K filed on July 16, 2014, is incorporated herein by reference.
- FN 22 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibits 10.31-10.33 to our Current Report on Form 8-K filed on October 17, 2014, is incorporated herein by reference.
- FN 23 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.34 to our Annual Report on Form 10-K for the year ended December 31, 2014, is incorporated herein by reference.
- FN 24 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.35 to our Quarterly Report on Form 10-Q for the period ending June 30, 2015, is incorporated herein by reference.

- FN 26 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.37 to our Quarterly Report on Form 10-Q for the period ending June 30, 2016, is incorporated herein by reference.
- FN 27 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.38 to our Quarterly Report on Form 10-Q for the period ending September 30, 2016, is incorporated herein by reference.
- FN 28 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.39 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 29 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.40 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 30 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.41 to our Annual Report on Form 10-K for the year ended December 31, 2016, is incorporated herein by reference.
- FN 31 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.42 to our Quarterly Report on Form 10-Q for the period ending September 30, 2018, is incorporated herein by reference.
- FN 32 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.43 to our Annual Report on Form 10-K for the year ended December 31, 2018, is incorporated herein by reference.
- FN 33 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.44 to our Annual Report on Form 10-K for the year ended December 31, 2018, is incorporated herein by reference.
- FN 34 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.45 to our Quarterly Report on Form 10-Q for the period ending September 30, 2019, is incorporated herein by reference.
- FN 35 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.46 to our Quarterly Report on Form 10-Q for the period ending September 30, 2019, is incorporated herein by reference.
- FN 36 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 333-231032) as Exhibit 4.6 to our Registration Statement on Form S-3 filed on April 25, 2019, is incorporated herein by reference.
- FN 37 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.47 to our Annual Report on Form 10-K for the year ended December 31, 2019, is incorporated herein by reference.

(b) Exhibits. The exhibits being filed with this report are attached at the end of this report.

(c) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

#### **ITEM 16. FORM 10-K SUMMARY**

Not applicable.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TEJON RANCH CO.**

March 3, 2021  
Date

By: /s/ Gregory S. Bielli  
Gregory S. Bielli  
President and Chief Executive Officer  
(Principal Executive Officer)

March 3, 2021  
Date

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

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Name	Capacity	Date
<u>/s/ Steven A. Betts</u> Steven A. Betts	Director	March 3, 2021
<u>/s/ Gregory S. Bielli</u> Gregory S. Bielli	Director	March 3, 2021
<u>/s/ Jean Fuller</u> Jean Fuller	Director	March 3, 2021
<u>/s/ Anthony L. Leggio</u> Anthony L. Leggio	Director	March 3, 2021
<u>/s/ Norman Metcalfe</u> Norman Metcalfe	Director	March 3, 2021
<u>/s/ Frawn Morgan</u> Frawn Morgan	Director	March 3, 2021
<u>/s/ Geoffrey Stack</u> Geoffrey Stack	Director	March 3, 2021
<u>/s/ Daniel R. Tisch</u> Daniel R. Tisch	Director	March 3, 2021
<u>/s/ Michael H. Winer</u> Michael H. Winer	Director	March 3, 2021

**Annual Report on Form 10-K**  
**Item 8, Item 15(a) (1) and (2), (b) and (c)**  
**List of Financial Statements and Financial Statement Schedules**  
**Financial Statements**  
**Certain Exhibits**  
**Year Ended December 31, 2020**  
**Tejon Ranch Co.**  
**Tejon Ranch, California**

**Form 10-K - Item 15(a)(1) and (2)**

**Tejon Ranch Co. and Subsidiaries**

**Index to Financial Statements and Financial Statement Schedules**

**ITEM 15(a)(1) - FINANCIAL STATEMENTS**

The following consolidated financial statements of Tejon Ranch Co. and subsidiaries are included in Item 8:

	<u>Page</u>
Management's Report on Internal Control Over Financial Reporting	71
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	72
Report of Independent Registered Public Accounting Firm	73
Consolidated Balance Sheets - Years Ended December 31, 2020 and 2019	76
Consolidated Statements of Operations - Years Ended December 31, 2020, 2019, and 2018	77
Consolidated Statements of Comprehensive (Loss) Income - Years Ended December 31, 2020, 2019 and 2018	78
Consolidated Statements of Equity - Years Ended December 31, 2020, 2019 and 2018	79
Consolidated Statements of Cash Flows - Years Ended December 31, 2020, 2019 and 2018	80
Notes to Consolidated Financial Statements	82

**ITEM 15(a)(2) - FINANCIAL STATEMENT SCHEDULES**

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

## Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined in Rule 13a-15(f) of the Exchange Act, internal control over financial reporting is a process designed by, or supervised by, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting is supported by written policies and procedures, that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of the Company's annual financial statements, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, management of the Company has undertaken an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2020 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), or COSO. Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of the Company's internal control over financial reporting.

Based on this assessment, management did not identify any material weakness in the Company's internal control, and management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2020.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's financial statements included in this report, has issued a report on the effectiveness of internal control over financial reporting, a copy of which follows.

## Report of Independent Registered Public Accounting Firm

To the stockholders and the Board of Directors of Tejon Ranch Co.

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Tejon Ranch Co. and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated March 3, 2021, expressed an unqualified opinion on those financial statements based on our audit and the report of the other auditors.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

March 3, 2021

## Report of Independent Registered Public Accounting Firm

To the stockholders and the Board of Directors of Tejon Ranch Co.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tejon Ranch Co. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive (loss) income, equity, and cash flows, for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, based on our audits and the report of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Petro Travel Plaza Holdings LLC ("Petro"), the Company's investment in which is accounted for by use of the equity method. The accompanying financial statements of the Company include its equity investment in Petro of \$23,358,000 and \$23,636,000 as of December 31, 2020 and 2019, respectively, and its equity earnings in Petro of \$5,722,000 and \$8,810,000, for the years ended December 31, 2020 and 2019, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Petro, is based solely on the report of the other auditors.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting based on our audit.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Real Estate— Real Estate Development - Refer to Notes 1, 5, 14, and 16 to the financial statements**

**Critical Audit Matter Description**

The Company's evaluation of real estate development for impairment involves an initial assessment of each real estate development to determine whether events or changes in circumstances exist that may indicate that the carrying amounts of a real estate development are no longer recoverable. Possible indications of impairment may include events or changes in circumstances affecting the entitlement process, government regulation, litigation, geographical demand for new housing, and market conditions related to pricing of new homes. When events or changes in circumstances exist, the Company evaluates the real estate development for impairment by comparing undiscounted future cash flows expected to be generated over the life of the real estate development to the respective carrying amount. If the carrying amount of the real estate development exceeds the undiscounted future cash flows, an analysis is performed to determine the fair value of the asset.

The Company makes significant assumptions to evaluate each real estate development for possible indications of impairment. These assumptions include the identification of appropriate and comparable market prices, the consideration of changes to legal factors or the business climate, and assumptions surrounding continued positive cash flows and development costs. Considering that the planned development communities will be in a location that does not currently have many comparable homes, the Company must make assumptions surrounding the expected ability to sell the real estate assets at a price that is in excess of current accumulated costs. In addition, the Company is currently involved in numerous litigation matters related to the entitlement of the property and must continue to use judgment when evaluating the likelihood that these legal matters will be resolved and that the necessary entitlements will be obtained. Changes in these assumptions could have a significant impact on the real estate development identified for further analysis and any impairments identified could be material to the Company's earnings. Further, the facts and circumstances utilized to make these assumptions may change from period to period. For the year ended December 31, 2020, no impairment loss has been recognized on any real estate development.

We identified the determination of impairment indicators for real estate development as a critical audit matter due to the quantitative significance of real estate development and because of the assumptions management makes when determining whether events or changes in circumstances have occurred indicating that the carrying amounts of any real estate development may not be recoverable. This required a high degree of auditor judgment when performing audit procedures to evaluate whether management appropriately identified impairment indicators.

**How the Critical Audit Matter Was Addressed in the Audit**

Our audit procedures related to the evaluation of real estate development for possible indications of impairment included the following, among others:

- We tested the effectiveness of the controls over management's identification of possible circumstances that may indicate that the carrying amounts of any real estate development is no longer recoverable, including controls over management's evaluation of the entitlement process, government regulation, litigation, geographical demand for new housing and market conditions related to pricing of new homes.
- We read and evaluated management's documentation, including relevant accounting policies and information obtained by management from outside sources.
- We evaluated management's impairment analysis by:
  - Testing the real estate development for possible indications of impairment, including searching for adverse asset-specific and/or market conditions by reviewing publicly available information on home values and land values in the surrounding regions of the development, periodicals and news information relating to the Southern California housing market, other independent market data, including considerations of the demand for housing in the market and changes to comparable home prices
  - We obtained letters from legal counsel and performed inquiries with the Company's in-house legal counsel in order to evaluate any changes in the status of the litigation matters affecting the development properties and the potential impact on the ability to recover the accumulated costs, including any relevant government regulations and/or other matters impacting the entitlement process.
  - Developing an independent expectation of impairment indicators and comparing such expectation to management's analysis.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

March 3, 2021

We have served as the Company's auditor since 2019.



## Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Tejon Ranch Co.

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income, equity, and cash flows of Tejon Ranch Co. and subsidiaries (the Company) for the year ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We served as the Company’s auditor from 1953 to 2019.

Los Angeles, California

March 1, 2019

**Tejon Ranch Co. and Subsidiaries**  
**Consolidated Balance Sheets**  
(\$ in thousands)

	December 31	
	2020	2019
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 55,320	\$ 27,106
Marketable securities - available-for-sale	2,771	39,084
Accounts receivable	4,592	9,950
Inventories	2,990	2,792
Prepaid expenses and other current assets	2,842	3,252
Total current assets	68,515	82,184
Real estate and improvements - held for lease, net	17,660	18,674
Real estate development (includes \$108,600 at December 31, 2020 and \$104,491 at December 31, 2019, attributable to Centennial Founders, LLC, Note 17)	310,439	297,581
Property and equipment, net	46,246	45,072
Investments in unconsolidated joint ventures	33,524	38,240
Net investment in water assets	56,698	54,155
Deferred tax assets	—	713
Other assets	3,267	2,803
<b>TOTAL ASSETS</b>	<b>\$ 536,349</b>	<b>\$ 539,422</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$ 3,367	\$ 6,145
Accrued liabilities and other	3,305	3,463
Deferred income	1,972	1,346
Current maturities of long-term debt	4,295	4,182
Total current liabilities	12,939	15,136
Long-term debt, less current portion	52,587	57,476
Long-term deferred gains	5,550	5,731
Deferred tax liability	925	—
Other liabilities	19,017	15,455
Total liabilities	91,018	93,798
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, \$0.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 26,276,830 at December 31, 2020 and 26,096,797 at December 31, 2019	13,137	13,048
Additional paid-in capital	342,059	338,745
Accumulated other comprehensive loss	(9,720)	(6,771)
Retained earnings	84,487	85,227
Total Tejon Ranch Co. Stockholders' Equity	429,963	430,249
Non-controlling interest	15,368	15,375
Total equity	445,331	445,624
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 536,349</b>	<b>\$ 539,422</b>

See accompanying notes.

**Tejon Ranch Co. and Subsidiaries**  
**Consolidated Statements of Operations**  
(\$ in thousands, except per share amounts)

	Year Ended December 31		
	2020	2019	2018
<b>Revenues:</b>			
Real estate - commercial/industrial	\$ 9,536	\$ 16,792	\$ 8,970
Mineral resources	10,736	9,791	14,395
Farming	13,866	19,331	18,563
Ranch operations	3,692	3,609	3,691
<b>Total revenues</b>	<b>37,830</b>	<b>49,523</b>	<b>45,619</b>
<b>Costs and expenses:</b>			
Real estate - commercial/industrial	7,122	12,961	6,246
Real estate - resort/residential	1,612	2,247	1,530
Mineral resources	6,414	5,818	6,223
Farming	15,103	15,251	16,028
Ranch operations	4,896	5,316	5,451
Corporate expenses	9,430	9,361	9,705
<b>Total expenses</b>	<b>44,577</b>	<b>50,954</b>	<b>45,183</b>
Operating (loss) income	(6,747)	(1,431)	436
<b>Other income (loss):</b>			
Investment income	884	1,239	1,344
Gain on sale of real estate	1,331	—	—
Other income (loss)	110	(1,824)	(59)
<b>Total other income (loss)</b>	<b>2,325</b>	<b>(585)</b>	<b>1,285</b>
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	(4,422)	(2,016)	1,721
Equity in earnings of unconsolidated joint ventures, net	4,504	16,575	3,834
Income before income taxes	82	14,559	5,555
Income tax expense	829	3,980	1,320
Net (loss) income	(747)	10,579	4,235
Net loss attributable to non-controlling interest	(7)	(1)	(20)
Net (loss) income attributable to common stockholders	\$ (740)	\$ 10,580	\$ 4,255
Net (loss) income per share attributable to common stockholders, basic	\$ (0.03)	\$ 0.41	\$ 0.16
Net (loss) income per share attributable to common stockholders, diluted	\$ (0.03)	\$ 0.40	\$ 0.16

See accompanying notes.

**Tejon Ranch Co. and Subsidiaries**  
**Consolidated Statements of Comprehensive (Loss) Income**  
**(\$ in thousands)**

	Year Ended December 31		
	2020	2019	2018
Net (loss) income	\$ (747)	\$ 10,579	\$ 4,235
Other comprehensive (loss) income:			
Unrealized (loss) gain on available-for-sale securities	(46)	440	(191)
Benefit plan adjustments	(215)	135	(189)
SERP liability adjustments	(622)	(424)	(43)
Unrealized interest rate swap (loss) gain	(3,213)	(2,809)	988
Other comprehensive (loss) income before taxes	(4,096)	(2,658)	565
Benefit (provision) for income taxes related to other comprehensive income items	1,147	744	(158)
Other comprehensive (loss) income	(2,949)	(1,914)	407
Comprehensive (loss) income	(3,696)	8,665	4,642
Comprehensive loss attributable to non-controlling interests	(7)	(1)	(20)
Comprehensive (loss) income attributable to common stockholders	<u>\$ (3,689)</u>	<u>\$ 8,666</u>	<u>\$ 4,662</u>

See accompanying notes.

**Tejon Ranch Co. and Subsidiaries**  
**Consolidated Statements of Equity**  
(\$ in thousands, except share information)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
<b>Balance, December 31, 2017</b>	25,894,773	\$ 12,947	\$320,167	\$ (5,264)	\$70,392	\$ 398,242	\$ 28,568	\$ 426,810
Net income (loss)	—	—	—	—	4,255	4,255	(20)	4,235
Other comprehensive income	—	—	—	407	—	407	—	407
Restricted stock issuance	124,597	63	(62)	—	—	1	—	1
Stock compensation	—	—	4,480	—	—	4,480	—	4,480
Shares withheld for taxes and tax benefit of vested shares	(47,290)	(24)	(1,071)	—	—	(1,095)	—	(1,095)
Rights offering, net	—	—	(166)	—	—	(166)	—	(166)
Centennial redemption of withdrawing member interest	—	—	13,172	—	—	13,172	(13,172)	—
<b>Balance, December 31, 2018</b>	25,972,080	\$ 12,986	\$336,520	\$ (4,857)	\$74,647	\$ 419,296	\$ 15,376	\$ 434,672
Net income (loss)	—	—	—	—	10,580	10,580	(1)	10,579
Other comprehensive loss	—	—	—	(1,914)	—	(1,914)	—	(1,914)
Restricted stock issuance	221,267	110	(110)	—	—	—	—	—
Stock compensation	—	—	3,958	—	—	3,958	—	3,958
Shares withheld for taxes and tax benefit of vested shares	(96,550)	(48)	(1,623)	—	—	(1,671)	—	(1,671)
<b>Balance, December 31, 2019</b>	26,096,797	\$ 13,048	\$338,745	\$ (6,771)	\$85,227	\$ 430,249	\$ 15,375	\$ 445,624
Net loss	—	—	—	—	(740)	(740)	(7)	(747)
Other comprehensive loss	—	—	—	(2,949)	—	(2,949)	—	(2,949)
Restricted stock issuance	338,074	169	(169)	—	—	—	—	—
Stock compensation	—	—	5,629	—	—	5,629	—	5,629
Shares withheld for taxes and tax benefit of vested shares	(158,041)	(80)	(2,146)	—	—	(2,226)	—	(2,226)
<b>Balance, December 31, 2020</b>	26,276,830	\$ 13,137	\$342,059	\$ (9,720)	\$84,487	\$ 429,963	\$ 15,368	\$ 445,331

See accompanying notes.

**Tejon Ranch Co. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Twelve Months Ended December 31,		
	2020	2019	2018
<b>Operating Activities</b>			
Net (loss) income	\$ (747)	\$ 10,579	\$ 4,235
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	4,938	5,036	5,424
Amortization of premium (discount) on marketable securities	34	(94)	101
Equity in earnings of unconsolidated joint ventures, net	(4,504)	(16,575)	(3,834)
Non-cash retirement plan expense	78	307	335
(Gain) loss on sale of real estate/assets	(1,339)	—	94
Non-cash profits recognized from land contribution	—	(2,146)	—
Deferred income taxes	2,253	1,259	175
Stock compensation expense	4,494	3,198	3,248
Excess tax benefit of stock-based compensation	519	57	18
Non-cash write-off of leasing assets	110	1,604	—
Distribution of earnings from unconsolidated joint ventures	6,222	15,381	4,800
Changes in operating assets and liabilities:			
Receivables, inventories, prepaids and other assets, net	5,427	154	(2,888)
Current liabilities, net	(2,004)	(2,715)	2,646
Net cash provided by operating activities	15,481	16,045	14,354
<b>Investing Activities</b>			
Maturities and sales of marketable securities	41,843	53,418	35,219
Purchase of marketable securities	(5,610)	(28,219)	(28,392)
Real estate and equipment expenditures	(22,259)	(25,222)	(22,580)
Reimbursement proceeds from Communities Facilities District	4,223	4,180	3,588
Proceeds from sale of real estate/assets	2,000	—	—
Investment in unconsolidated joint ventures	(2,160)	(3,100)	(52)
Distribution of equity from unconsolidated joint ventures	5,309	3,457	2,815
Investments in long-term water assets	(3,568)	(3,686)	(3,844)
Net cash provided by/(used) in investing activities	19,778	828	(13,246)
<b>Financing Activities</b>			
Borrowings on line of credit	—	5,000	—
Repayments of line of credit	—	(5,000)	—
Repayments of long-term debt	(4,819)	(4,004)	(4,046)
Net proceeds from rights offering	—	—	(166)
Taxes on vested stock grants	(2,226)	(1,671)	(1,095)
Net cash used in financing activities	(7,045)	(5,675)	(5,307)
Increase (decrease) in cash and cash equivalents	28,214	11,198	(4,199)
Cash and cash equivalents at beginning of year	27,106	15,908	20,107
<b>Cash and cash equivalents at end of year</b>	<b>\$ 55,320</b>	<b>\$ 27,106</b>	<b>\$ 15,908</b>

**Non-cash investing activities**

Accrued capital and water expenditures included in current liabilities	<u>\$ 910</u>	<u>\$ 785</u>	<u>\$ 2,390</u>
Contribution to unconsolidated joint venture <sup>1</sup>	<u>\$ —</u>	<u>\$ 8,658</u>	<u>1 \$ —</u>
Long term deferred profit on land contribution <sup>1</sup>	<u>\$ —</u>	<u>\$ 2,038</u>	<u>1 \$ —</u>

<sup>1</sup>In April 2019, the Company contributed land with a fair value of \$5.9 million to TRC-MRC 3, LLC, an unconsolidated joint venture formed to pursue the development, construction, leasing, and management of a 579,040 square foot industrial building on the Company's property at TRCC-East. The total cost of the land, inclusive of transaction costs was \$2.8 million. The Company recognized \$1.5 million in profit and deferred \$1.5 million after applying the five-step revenue recognition model in accordance with Accounting Standards Codification (ASC) Topic 606 — Revenue From Contracts With Customers and ASC Topic 323, Investments — Equity Method and Joint Ventures.

In December 2019, the Company contributed a newly constructed commercial multi-tenant building and underlying land with an aggregate fair value of \$2.8 million to TA/Petro, an unconsolidated joint venture. The total cost of the building construction and land was \$2.0 million. The Company recognized \$0.3 million in profit and deferred \$0.5 million after applying the five-step revenue recognition model in accordance with Accounting Standards Codification (ASC) Topic 606 — Revenue From Contracts With Customers and ASC Topic 323, Investments — Equity Method and Joint Ventures.

Historically, cash outflows related to land development expenditures were accounted for within investing activities. For consistency, the Company will continue to classify cash outflows and cash inflows related to land development as investing activities.

See accompanying notes.

**Tejon Ranch Co. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

Tejon Ranch Co. (the Company and Tejon) is a diversified real estate development and agribusiness company committed to responsibly using its land and resources to meet the housing, employment, and lifestyle needs of Californians. Current operations consist of land planning and entitlement, land development, commercial land sales and leasing, leasing of land for mineral royalties, water asset management and sales, grazing leases, and farming.

These activities are performed through five reporting segments:

- Real Estate - Commercial/Industrial
- Real Estate - Resort/Residential
- Mineral Resources
- Farming
- Ranch Operations

Tejon's prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of downtown Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield. The Company creates value by securing entitlements for its land, facilitating infrastructure development, strategic land planning, monetization of land through development and sales, and conservation, in order to maximize the highest and best use for its land.

The Company is involved in seven joint ventures that own, develop, and operate real estate properties. The Company enters into joint ventures as a means to facilitate the development of portions of its land. The Company is also actively engaged in land planning, land entitlement, and conservation projects.

Any references to the number of acres, number of buildings, square footage, number of leases, occupancy, and any amounts derived from these values in the notes to the consolidated financial statements are unaudited.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, and the accounts of all subsidiaries and investments in which a controlling interest is held by the Company. All intercompany transactions have been eliminated in consolidation. The Company has evaluated subsequent events through the date of issuance of the consolidated financial statements.

**Cash Equivalents**

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The carrying amount for cash equivalents approximates fair value.

**Marketable Securities**

The Company considers those investments not qualifying as cash equivalents, but which are readily marketable, to be marketable securities. The Company's investment portfolio is comprised of fixed income debt securities, which are classified as current assets on the consolidated balance sheets. The Company classifies all marketable securities as available-for-sale. These are stated at fair value with the unrealized gains (losses), net of tax, reported as a component of accumulated other comprehensive income (loss) in the consolidated statements of equity.



## Investments in Unconsolidated Joint Ventures

For joint ventures that the Company does not control, but over which it exercises significant influence, the Company uses the equity method of accounting. The Company's judgment with regard to its level of influence or control of an entity involves consideration of various factors, including the form of its ownership interest; its representation in the entity's governance; its ability to participate in policy-making decisions; and the rights of other investors to participate in the decision-making process, to replace the Company as manager, and/or to liquidate the venture. These ventures are recorded at cost and adjusted for equity in earnings (losses), contributions and distributions. Any difference between the carrying amount of these investments on the Company's balance sheet and the underlying equity in net assets on the joint venture's balance sheet is adjusted as the related underlying assets are depreciated, amortized, or sold. When the Company contributes land to a joint venture, it records the investment in the venture at fair value, regardless of whether the other investors in the venture contribute cash or property.

The Company generally allocates income and loss from an unconsolidated joint venture based on the venture's distribution priorities, which may be different from its stated ownership percentage.

The Company evaluates the recoverability of its investments in unconsolidated joint ventures in accordance with accounting standards for equity investments by first reviewing each investment for any indicators of impairment. If indicators are present, the Company estimates the fair value of the investment. If the carrying value of the investment is greater than the estimated fair value, management makes an assessment of whether the impairment is "temporary" or "other-than-temporary." In making this assessment, management considers the following: (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the entity, and (3) the Company's intent and ability to retain its interest long enough for a recovery in market value. If management concludes that the impairment is "other than temporary," the Company reduces the investment to its estimated fair value.

## Fair Values of Financial Instruments

The Company follows the Financial Accounting Standards Board's authoritative guidance for fair value measurements of certain financial instruments. The guidance 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 the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and nonperformance risk associated with counterparties when determining the fair value measurement. Fair value measurements are used on a recurring basis for marketable securities, investments within the pension plan and hedging instruments, if any.

## Interest Rate Swap Agreements

In October 2014, the Company entered into an interest rate swap agreement with Wells Fargo. In June, 2019, the Company amended the interest rate swap agreement to continue to hedge the Company's exposure to interest rate risk from the Term Note, and the subsequent Amended Term Note. See Note 8 (Line of Credit and Long-Term Debt) and Note 10 (Interest Rate Swap) of the Notes to Consolidated Financial Statements for further detail regarding this interest rate swap related to the Company's Credit Facility. The Company believes it is prudent at times to limit the variability of floating-rate interest payments and in the past have entered into interest rate swaps to manage those fluctuations.

The Company recognizes interest rate swap agreements as either an asset or liability on the balance sheet at fair value. The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based on the hedged exposure, as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation. The interest rate swap agreement is considered a cash flow hedge because it was designed to match the terms of the Term Loan, and the subsequent Amended Term Loan, as a hedge of the exposure to variability in expected future cash flows. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the earnings effect of the hedged transactions in a cash flow hedge. This interest rate swap agreement will be evaluated based on whether it is deemed highly effective in reducing exposure to variable interest rates. The Company formally documents all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. The Company makes an assessment at the inception of each interest rate swap agreement and on a quarterly basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. If swaps qualify as highly effective, the changes in the fair values of the derivatives used as hedges would be reflected in accumulated other comprehensive income, or AOCI. Amounts classified in AOCI will be reclassified into earnings in the period during which the hedged transactions affect earnings. If swaps do not qualify as highly effective, the changes in fair values of derivatives used as hedges would be reflected in earnings.

The fair value of each interest rate swap agreement is determined using widely accepted valuation techniques including discounted cash flow analyses on the expected cash flows of each derivative. These analyses reflect the contractual terms of the derivatives, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities (also referred to as “significant other observable inputs”). The fair value of interest rate swap agreements are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The fair value calculation also includes an amount for risk of non-performance using “significant unobservable inputs” such as estimates of current credit spreads to evaluate the likelihood of default, which the Company has determined to be insignificant to the overall fair value of its interest rate swap agreement.

### **Variable Interest Entity**

The Company evaluates all of its interests in VIEs for consolidation. When the Company's interests are determined to be variable interests, the Company assesses whether the Company is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. A primary beneficiary is defined as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could potentially be significant. The Company considers its variable interests as well as any variable interests of related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and does not consolidate the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

As of December 31, 2020 and 2019, the Company had two VIEs. One was consolidated in the financial statements while the other was not. See Note 17 (Investment in Unconsolidated and Consolidated Joint Ventures) to the Notes to Consolidated Financial Statements for further discussion.

## Credit Risk

The Company grants credit in the course of operations to co-ops, wineries, nut marketing companies, and lessees of the Company's facilities. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

Commercial revenues are derived primarily from lease rental payments and operating expense reimbursements. If client tenants fail to make rental payments under their lease, the Company's financial condition, and cash flows could be adversely affected. The Company records an allowance for doubtful accounts based on its judgment of a tenant's creditworthiness, ability to pay and probability of collection. Accounts are written off when they are deemed to be no longer collectible.

During both years ended December 31, 2020 and 2019, the Pastoria Energy Facility, L.L.C., or PEF power plant lease generated approximately 12% of total revenues. The Company had no other customers account for 5% or more of total revenues from operations.

The Company maintains its cash and cash equivalents in federally insured financial institutions. The account balances at these institutions periodically exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes that the risk is not significant.

## Farm Inventories

Costs of bringing crops to harvest are inventoried when incurred. Such costs are expensed when the crops are sold. Expenses are computed and recognized on an average cost per pound or per ton basis, as appropriate. Costs incurred during the current year related to the next year's crop are inventoried and carried in inventory until the matching crop is harvested and sold. Farm inventories held for sale are valued at the lower of cost (first-in, first-out method) or market.

## Property and Equipment

Property and equipment are stated on the basis of cost, except for land acquired upon organization in 1936, which is stated on the basis carried by the Company's predecessor. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. The Company's property and equipment and their respective estimated useful lives are as follow:

(\$ in thousands)	Useful Life	December 31, 2020	December 31, 2019
Vineyards and orchards	20	\$ 56,612	\$ 52,853
Machinery, furniture fixtures and other equipment	3 - 10	19,882	17,688
Buildings and improvements	10 - 27.5	8,819	8,819
Land and land improvements	15	7,807	7,731
Development in process		4,817	6,908
		\$ 97,937	\$ 93,999
Less: accumulated depreciation		(51,691)	(48,927)
		\$ 46,246	\$ 45,072

### **Long-Term Water Assets**

Long-term purchased water contracts are in place with the Tulare Lake Basin Water Storage District and the Dudley-Ridge Water Storage District. These contracts provide the Company with the right to receive water over the term of the contracts that expire in 2035. The Company also purchased a contract that allows and requires it to purchase 6,693 acre-feet of water each year from the Nickel Family LLC. The initial term of this contract runs through 2044. The purchase price of these contracts is being amortized under the straight-line basis over their contractual lives. Water contracts with the Wheeler Ridge Maricopa Water Storage District and the Tejon-Castac Water District are also in place, but were entered into with each district at inception and not purchased later from third parties, and therefore do not have a related financial value on the books of the Company. As a result, there is no amortization expense related to these contracts.

### **Vineyards and Orchards**

Costs of planting and developing vineyards and orchards are capitalized until the crops become commercially productive. Interest costs and depreciation of irrigation systems and trellis installations during the development stage are also capitalized. Revenues from crops earned during the development stage are netted against development costs. Depreciation commences when the crops become commercially productive.

During the fourth quarter of 2019, the Company abandoned 313 acres of vineyards. As a result, the Company wrote off the \$1,555,000 net book value related to these vineyards and other farming related assets which were previously included in the Property and equipment, net, line item within the Consolidated Balance Sheet. The \$1,555,000 charge was recorded within the Other Income (Loss) line item within the Consolidated Statement of Operations.

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 the Company's 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. Adjustments for differences between estimates and actual revenues received are recorded during the period in which such amounts become known. The net effect of these adjustments increased farming revenue by \$890,000 in 2020, \$3,746,000 in 2019, and \$111,000 in 2018. The adjustment for 2020 includes a \$890,000 increase for pistachio revenues and no change for almonds. The adjustment for 2019 includes a \$3,807,000 increase for pistachio revenues and a \$61,000 decrease for almonds. The adjustment for 2018 is entirely related to pistachios.

The Almond Board of California has the authority to require producers of almonds to withhold a portion of their annual production from the marketplace through a marketing order approved by the Secretary of Agriculture. At December 31, 2020, 2019, and 2018, no such withholding was mandated.

### **Common Stock Options and Grants**

The Company accounts for stock incentive plans using the fair value method of accounting. The estimated fair value of the restricted stock grants and restricted stock units are expensed over the expected vesting period. For performance-based grants the Company makes estimates of the number of shares that will actually be granted based upon estimated ranges of success in meeting defined performance measures. Periodically, the Company updates its estimates and reflects any changes to the estimate in the consolidated statements of operations.

### **Long-Lived Assets**

On a quarterly basis, the Company reviews current activities and changes in the business conditions of all of its operating properties prior to and subsequent to the end of each quarter to determine the existence of any triggering events requiring an impairment analysis. If triggering events are identified, the Company reviews an estimate of the future undiscounted cash flows for the properties, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration.

Long-lived assets to be held and used, including rental properties, CIP, real estate held for development and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators or triggering events for long-lived assets to be held and used, including rental properties, CIP, real estate held for development, and intangibles, are assessed by project and include significant fluctuations in estimated net operating income, occupancy changes, significant near-term lease expirations, current and historical operating and/or cash flow losses, rental rates, and other market factors. The Company assesses the expected undiscounted cash flows based upon numerous factors, including, but not limited to, available market information, current and historical operating results, known trends, current market/economic conditions that may affect the property, and assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon determination that an impairment has occurred, a write-down is recognized to reduce the carrying amount to its estimated fair value.

In addition, the Company accounts for long-lived assets to be disposed of at the lower of their carrying amounts or fair value less selling and disposal costs.

As of December 31, 2020, management of the Company believes that none of its long-lived assets were impaired.

### **Revenue Recognition**

The Company's revenue is primarily derived from lease revenue from its rental portfolio, royalty revenue from mineral leases, sales of farm crops, sales of water, and land sales. On January 1, 2018, the Company implemented ASU 2014-09 "Revenue with Contracts from Customers (Topic 606)" (ASC 606). ASU 2014-09 supersedes all previous revenue recognition guidance, including industry-specific guidance. The Company recognizes revenue by following the five-step model under ASC 606 to achieve the core principle that an entity recognizes revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model requires that the Company (i) identifies the contract with the customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocates the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) the Company satisfies the performance obligation.

### **Sales of Real Estate**

Upon adoption of ASC 606, the Company is required to allocate the transaction price, on land sales with multiple performance obligations, to the performance obligations in proportion to their standalone selling prices (i.e., on a relative standalone selling price basis) and not total costs.

### **Sales of Easements**

From time to time the Company sells easements over its land, and 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. The Company recognizes easement sales revenue by following the five-step model under ASC 606.

### **Allocation of Costs Related to Land Sales and Leases**

When the Company sells land within one of its real estate developments and has not completed all infrastructure development related to the total project, the Company estimates, at the time of sale, future costs of the development 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, the Company uses 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 change and costs of construction change.

### **Royalty Income**

Royalty revenues are contractually defined as to the percentage of royalty and are tied to production and market prices. The Company's royalty arrangements generally require payment on a monthly basis with the payment based on the previous month's activity. The Company accrues monthly royalty revenues based upon estimates and adjusts to actual as the Company receives payments. The accounting of royalty income remains largely unchanged upon implementation of ASC 606.

## **Rental Income**

Rental income from leases is recognized on a straight-line basis over the respective lease terms. The Company classifies amounts currently recognized as income, and amounts expected to be received in later years, as deferred rent in prepaid expenses and other current assets in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are classified in accrued liabilities and other, and deferred income in the accompanying consolidated balance sheets. The Company commences recognition of rental income at the date the property is ready for its intended use, and the client tenant takes possession of or controls the physical use of the property.

During the term of each lease, the Company monitors the credit quality of its tenants by (i) reviewing the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the tenants that are publicly available or that are required to be delivered to the Company pursuant to the applicable lease, (iii) monitoring news reports regarding its tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments. The Company has employees who are assigned the responsibility for assessing and monitoring the credit quality of its tenants and any material changes in credit quality.

## **Environmental Expenditures**

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company's commitment to a formal plan of action. No liabilities for environmental costs have been recorded at December 31, 2020 and 2019.

## **Use of Estimates**

The preparation of the Company's consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenue and expenses during the reporting period. Due to uncertainties inherent in the estimation process, it is reasonably possible that actual results could differ from these estimates.

## **Recent Accounting Pronouncements**

### *Lease Concessions Related to COVID-19 Pandemic*

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

The Company has elected to account for lease concessions outside of the modification framework based on the FASB Q&A. The COVID-19 pandemic has resulted in tenant requests for rent relief, with a majority of the requests occurring in the second quarter. As of December 31, 2020, the Company reached agreements with all of its commercial tenants on their respective rent deferral requests. For the twelve months ended December 31, 2020, the Company retained 91% of rent billings and agreed to defer 9% of rent billings, or \$174,000. Based on the terms of the agreements reached with the Company's tenants, all deferred rent will be fully repaid by the end of 2021. The Company will account for the rent receivables as if no changes to the lease contract were made, and the rent receivable for the deferral period will stay on the Company's Consolidated Balance Sheet until the rent is collected over the passage of time.

### *Reference Rate Reform*

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

### **New Accounting Pronouncements Adopted in 2020**

#### *Allowance for Credit Losses*

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

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

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

#### *Fair Value of Financial Instruments*

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

#### *Retirement Benefits*

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

## 2. EQUITY

### Earnings Per Share (EPS)

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

	Twelve Months Ended December 31,		
	2020	2019	2018
Weighted average number of shares outstanding:			
Common stock	26,205,923	26,031,391	25,948,189
Common stock equivalents: stock options, grants	140,527	117,724	27,715
Diluted shares outstanding	26,346,450	26,149,115	25,975,904

## 3. MARKETABLE SECURITIES

ASC 320 "Investments – Debt and Equity Securities" requires that an enterprise classify all debt securities as either held-to-maturity, trading or available-for-sale. The Company has elected to classify its securities as available-for-sale and therefore is required to adjust securities to fair value at each reporting date. All costs and both realized and unrealized gains and losses on securities are determined on a specific identification basis. The following is a summary of available-for-sale securities at December 31:

(\$ in thousands)

	Fair Value Hierarchy	2020		2019	
		Cost	Estimated Fair Value	Cost	Estimated Fair Value
<b>Marketable Securities:</b>					
<b>Certificates of deposit</b>					
with unrecognized losses for less than 12 months		\$ —	\$ —	\$ 251	\$ 250
with unrecognized gains		—	—	1,799	1,806
Total Certificates of deposit	Level 1	—	—	2,050	2,056
<b>U.S. Treasury and agency notes</b>					
with unrecognized losses for less than 12 months		—	—	6,485	6,479
with unrecognized gains		801	803	14,413	14,434
Total U.S. Treasury and agency notes	Level 2	801	803	20,898	20,913
<b>Corporate notes</b>					
with unrecognized losses for less than 12 months		708	707	1,004	1,002
with unrecognized gains		1,257	1,261	13,082	13,106
Total Corporate notes	Level 2	1,965	1,968	14,086	14,108
<b>Municipal notes</b>					
with unrecognized gains		—	—	1,999	2,007
Total Municipal notes	Level 2	—	—	1,999	2,007
		\$ 2,766	\$ 2,771	\$ 39,033	\$ 39,084

The Company adopted ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326)" on January 1, 2020 prospectively. Under ASC Topic 326-30, the Company is now required to use an allowance approach when recognizing credit loss for available-for-sale debt securities, measured as the difference between the security's amortized cost basis and the amount expected to be collected over the security's lifetime. Under this approach, at each reporting date, the Company records impairment related to credit losses through earnings offset with an allowance for credit losses, or ACL. At December 31, 2020 the Company has not recorded any credit losses.



At December 31, 2020, the fair market value of investment securities was \$5,000 above the cost basis of securities. The Company's gross unrealized holding gains equal \$6,000 and gross unrealized holding losses equal \$1,000. As of December 31, 2020, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflects an increase in the market value of available-for-sale securities of \$46,000, which includes estimated taxes of \$13,000.

The Company elected to exclude applicable accrued interest from both the fair value and the amortized cost basis of the available-for-sale debt securities, and separately present the accrued interest receivable balance per ASC Topic 326-30-50-3A. The accrued interest receivables balance totaled \$20,000 as of December 31, 2020, and was included within the Prepaid expenses and other current assets line item of the Consolidated Balance Sheets. The Company elected not to measure an allowance for credit losses on accrued interest receivable as an allowance on possible uncollectible accrued interest is not warranted.

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

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

#### Corporate notes

The contractual terms of those investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the investments. The unrealized losses on corporate notes are a function of changes in investment spreads and interest rate movements and not changes in credit quality. The Company expects to recover the entire amortized cost basis of these securities. As of December 31, 2020 and December 31, 2019, the Company did not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities before recovery of their cost basis. Therefore, these investments did not require an ACL as of December 31, 2020 and December 31, 2019.

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

December 31, 2020	2021	Total
U.S. Treasury and agency notes	\$ 801	\$ 801
Corporate notes	1,950	1,950
	<u>\$ 2,751</u>	<u>\$ 2,751</u>

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

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

#### **4. INVENTORIES**

Inventories consisted of the following at December 31:

(\$ in thousands)	2020	2019
Farming inventories	\$ 2,636	\$ 2,444
Other	354	348
	<u>\$ 2,990</u>	<u>\$ 2,792</u>

Farming inventories consist of costs incurred during the current year related to next year's crop along with unsold current year crop and farming chemicals.

## 5. REAL ESTATE

Real estate consisted of the following as of December 31:

(\$ in thousands)	2020	2019
Real estate development		
Mountain Village	\$ 146,662	\$ 142,567
Centennial	108,600	104,491
Grapevine	36,815	34,813
Tejon Ranch Commerce Center	18,362	15,710
Real estate development	<u>310,439</u>	<u>297,581</u>
Real estate and improvements - held for lease, net		
Tejon Ranch Commerce Center	20,595	21,435
Real estate and improvements - held for lease, net	20,595	21,435
Less accumulated depreciation	(2,935)	(2,761)
Real estate and improvements - held for lease, net	<u>\$ 17,660</u>	<u>\$ 18,674</u>

## 6. LONG-TERM WATER ASSETS

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

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

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

The water purchased above will ultimately be used in the development of the Company's land for commercial/industrial real estate development, resort/residential real estate development, and farming. Interim uses may include the sale of portions of this water to third party users on an annual basis until this water is fully allocated to Company uses, as just described.

Water revenues and cost of sales were as follows as of December 31:

(\$ in thousands)	2020		2019		2018	
Acre-Feet Sold		5,022		4,482		9,442
Revenues	\$	5,909	\$	3,997	\$	9,142
Cost of sales		3,663		3,194		3,864
Profit	\$	2,246	\$	803	\$	5,278

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

	December 31, 2020		December 31, 2019	
Banked water and water for future delivery	\$	28,136	\$	25,265
Transferable water		4,102		3,054
Total water held for future use at cost	\$	32,238	\$	28,319

### Intangible Water Assets

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

	December 31, 2020		December 31, 2019	
	Costs	Accumulated Depreciation	Costs	Accumulated Depreciation
Dudley-Ridge water rights	\$ 11,581	\$ (4,825)	\$ 11,581	\$ (4,342)
Nickel water rights	18,740	(4,605)	18,740	(3,962)
Tulare Lake Basin water rights	6,479	(2,910)	6,479	(2,660)
	\$ 36,800	\$ (12,340)	\$ 36,800	\$ (10,964)
Net cost of purchased water contracts	24,460		25,836	
Total cost water held for future use	32,238		28,319	
Net investments in water assets	\$ 56,698		\$ 54,155	

Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWS D, 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. Total water resources, including both recurring and one-time usage are:

(in acre feet, unaudited)	December 31, 2020	December 31, 2019
Water held for future use		
TCWD - Banked water owned by the Company	61,054	60,555
Company water bank	50,349	50,349
Transferable water	5,638	3,252
Total water held for future use	117,041	114,156
Purchased water contracts		
Water Contracts (Dudley-Ridge, Nickel and Tulare)	10,137	10,137
WRMWS D - Contracts with Company	15,547	15,547
TCWD - Contracts with Company	5,749	5,749
Total purchased water contracts	31,433	31,433
Total water held for future use and purchased water contracts	148,474	145,589

Tejon Ranchcorp, or Ranchcorp, a wholly-owned subsidiary of Tejon Ranch Co., entered into a Water Supply Agreement with PEF in 2015. PEF is the current lessee under the power plant lease. Pursuant to the Water Supply Agreement, PEF may purchase from Ranchcorp up to 3,500 acre-feet of water per year from January 1, 2017 through July 31, 2030, with an option to extend the term. PEF is under no obligation to purchase water from Ranchcorp in any year, but is required to pay Ranchcorp an annual option payment equal to 30% of the maximum annual payment. The price of the water under the Water Supply Agreement for 2020 was \$1,154 per acre-foot of annual water, subject to 3% annual increases over the life of the contract. The Water Supply Agreement contains other customary terms and conditions, including representations and warranties, which are typical for agreements of this type. The Company's commitments to sell water can be met through current water assets.

## 7. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consisted of the following as of December 31:

(\$ in thousands)	2020	2019
Accrued vacation	\$ 736	\$ 799
Accrued paid personal leave	399	419
Accrued bonus	1,658	1,700
Other	512	545
	\$ 3,305	\$ 3,463

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

Debt consisted of the following as of December 31:

(\$ in thousands)	2020	2019
Notes payable	\$ 57,078	\$ 61,897
Less: line-of-credit and current maturities of long-term debt	(4,295)	(4,182)
Less: deferred loan costs	(196)	(239)
Long-term debt, less current portion	\$ 52,587	\$ 57,476

The following table summarizes debt maturities, outstanding indebtedness, and respective principal maturities as of December 31,

(\$ in thousands)	Stated Rate	Effective Rate	Maturity	2021	2022	2023	2024	2025	Thereafter	Total
Term Loan <sup>1</sup>	L+1.70%	4.16%	6/5/2029	\$ 4,051	\$ 4,221	\$ 4,429	\$ 4,624	\$ 4,825	\$ 32,737	\$ 54,887
\$35 million RLOC	See below <sup>2</sup>	See below <sup>2</sup>	10/5/2024	—	—	—	—	—	—	—
Promissory note	4.25%	4.25%	9/1/2028	244	254	265	277	289	862	2,191
Total long-term debt				<u>\$ 4,295</u>	<u>\$ 4,475</u>	<u>\$ 4,694</u>	<u>\$ 4,901</u>	<u>\$ 5,114</u>	<u>\$ 33,599</u>	<u>\$ 57,078</u>

<sup>1</sup>The interest on the Term Loan is fixed by an interest rate swap agreement. Please see Footnote 10 for further discussion.

<sup>2</sup>At the Company's option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR rate or can be fixed at 1.50% above LIBOR for a fixed rate term.

## 9. OTHER LIABILITIES

Other liabilities consist of the following as of December 31:

(\$ in thousands)	2020	2019
Pension liability (See Note 15)	\$ 1,602	\$ 1,790
Interest rate swap liability (See Note 10)	5,929	2,716
Supplemental executive retirement plan liability (See Note 15)	8,419	8,011
Other <sup>1</sup>	3,067	2,938
	<u>\$ 19,017</u>	<u>\$ 15,455</u>

<sup>1</sup>For two of joint ventures with Majestic Realty Co., excess distributions were made and are classified as a liability. See further disclosure in Note 17 (Investment In Unconsolidated and Consolidated Joint Ventures).

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

## 10. INTEREST RATE SWAP

In October 2014, the Company entered into an interest rate swap agreement to hedge cash flows tied to changes in the underlying floating interest rate tied to LIBOR for the Term Loan as discussed in Note 8 (Line of Credit and Long-Term Debt) of the Notes to Consolidated Financial Statements. On June 21, 2019, the Company amended the interest rate swap agreement to continue to hedge a portion of its exposure to interest rate risk from the Term Note, and, subsequently, the Amended Term Note. The original hedging relationship was de-designated, and the amended interest rate swap was re-designated simultaneously. The amended interest rate swap qualified as an effective cash flow hedge at the initial assessment based upon a regression analysis and is recorded at fair value.

During the quarter ended December 31, 2020, the interest rate swap agreement was deemed highly effective. Changes in fair value, including accrued interest and adjustments for non-performance risk, that qualify as cash flow hedges are classified in AOCI. Amounts classified in AOCI are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings.

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

December 31, 2020					
Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Pay Rate	Fair Value	Notional Amount
July 5, 2019	June 5, 2029	Level 2	4.16%	\$(5,929)	\$54,887
December 31, 2019					
Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Pay Rate	Fair Value	Notional Amount
July 5, 2019	June 5, 2029	Level 2	4.16%	\$(2,716)	\$58,768

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

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

The following is a summary of the Company's performance share grants with performance conditions as of the year ended December 31, 2020:

### Performance Share Grants with Performance Conditions

Threshold performance	62,416
Target performance	575,596
Maximum performance	992,745

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

	December 31, 2020	December 31, 2019	December 31, 2018
Stock Grants Outstanding Beginning of the Year at Target Achievement	409,373	538,599	536,860
New Stock Grants/Additional shares due to achievement in excess of target	797,364	160,471	97,529
Vested Grants	(307,250)	(188,032)	(93,948)
Expired/Forfeited Grants	(59,180)	(101,665)	(1,842)
Stock Grants Outstanding at Target Achievement	840,307	409,373	538,599

The following is a summary of the assumptions used to determine the price for the Company's market-based Performance Condition Grants for the year ended December 31, 2020:

(\$ in thousands except for share prices)

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

The unamortized cost associated with unvested stock grants and the weighted-average period over which it is expected to be recognized as of December 31, 2020 was \$7,567,000 and 22 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 the Company determines, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, the Company determines the fair value of the award and 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, the Company estimates whether the performance condition will be met and over what period of time. Ultimately, the Company adjusts 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, during the years presented, received his or her annual compensation in stock.

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

Employee 1998 Plan (\$ in thousands):	December 31, 2020	December 31, 2019	December 31, 2018
Expensed	\$ 4,060	\$ 2,667	\$ 2,564
Capitalized	1,135	760	1,232
	5,195	3,427	3,796
NDSI Plan	434	531	684
	\$ 5,629	\$ 3,958	\$ 4,480

## 12. INCOME TAXES

The Company accounts for income taxes using ASC 740, "Income Taxes" which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized differently in the financial statements and the tax returns. The provision for income taxes consists of the following at December 31:

(\$ in thousands)	2020	2019	2018
Total (benefit) provision:	\$ 829	\$ 3,980	\$ 1,320
Federal:			
Current	(852)	1,798	862
Deferred	1,464	866	64
	612	2,664	926
State:			
Current	(21)	812	353
Deferred	238	504	41
	217	1,316	394
	\$ 829	\$ 3,980	\$ 1,320

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act was enacted, which includes a five year net operating loss carryback provision which will enable the Company to benefit from certain losses. This provision applies to net operating losses occurring between December 31, 2017 and January 1, 2021 and temporarily nullifies provisions within the Tax Cuts Jobs Act of 2017 that disallows net operating loss carrybacks. Under these guidelines, the Company expects to receive a Federal tax refund of \$1,021,000 once 2020 tax losses are carried back.

During 2018, the Company completed its analysis of the impacts of the U.S. Tax Reform and no additional expense was warranted. Other provisions of the U.S. Tax Reform did not have a material effect on the effective tax rate for 2018.

In 2020, income tax provision expense primarily consisted of permanent differences related to Section 162(m) limitations and discrete tax expense associated with stock compensation. The Section 162(m) compensation deduction limitations occurred as a result of changes in tax law arising from the 2017 Tax Cuts Jobs Act, which did not impact the Company until this year. The discrete item was triggered when stock grants were issued to participants at a price less than the original grant price, causing a deferred tax shortfall. The shortfall recognized during the quarter represents the reversal of excess deferred tax assets recognized in prior periods. The recognition of the shortfall is not anticipated to have an impact on the Company's current income tax payable. A reconciliation of the provision for income taxes, with the amount computed by applying the statutory Federal income tax rate of 21% in 2020, 2019 and 2018 is as follows for the years ended December 31:

(\$ in thousands)	2020	2019	2018
Income tax at statutory rate	\$ 17	\$ 3,058	\$ 1,171
State income taxes, net of Federal benefit	217	948	317
Excess stock compensation expense	365	(57)	(20)
Non-deductible compensation	357	—	—
Oil and mineral depletion	(101)	(131)	(134)
Refunds	(78)	—	—
Permanent differences	16	26	19
Other	36	136	(33)
Provision (benefit) for income taxes	\$ 829	\$ 3,980	\$ 1,320
Effective tax rate	1,011.0 %	27.3 %	23.8 %



Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities were as follows at December 31:

(\$ in thousands)	2020	2019
<b>Deferred income tax assets:</b>		
Accrued expenses	\$ 322	\$ 349
Deferred revenues	557	370
Capitalization of costs	1,661	1,843
Pension adjustment	2,921	2,883
Stock grant expense	2,211	2,500
State deferred taxes	—	116
Book deferred gains	1,034	1,176
Joint venture allocations	587	533
Provision for additional capitalized costs	699	699
Interest rate swap	1,769	810
Other	209	39
<b>Total deferred income tax assets</b>	<b>\$ 11,970</b>	<b>\$ 11,318</b>
<b>Deferred income tax liabilities:</b>		
Deferred gains	\$ 490	\$ 490
Depreciation	3,533	2,892
Cost of sales allocations	872	872
Joint venture allocations	6,592	5,070
Straight line rent	548	590
Prepaid expenses	340	333
State deferred taxes	383	208
Other	137	150
<b>Total deferred income tax liabilities</b>	<b>\$ 12,895</b>	<b>\$ 10,605</b>
<b>Net deferred income tax (liability) asset</b>	<b>\$ (925)</b>	<b>\$ 713</b>
Allowance for deferred tax assets	—	—
<b>Net deferred taxes</b>	<b>\$ (925)</b>	<b>\$ 713</b>

Due to the nature of the Company's deferred tax assets, the Company believes they will be used through operations in future years and a valuation allowance is not necessary.

The Company did not make any tax payments in 2020 and \$4,645,000 in 2019. The Company received tax refunds of \$1,314,000 and \$1,345,000 in 2020 and 2019, respectively.

The Company evaluates its tax positions for all income tax items based on their technical merits to determine whether each position satisfies the "more likely than not to be sustained upon examination" test. The tax benefits are then measured as the largest amount of benefit, determined on a cumulative basis, that is "more likely than not" to be realized upon ultimate settlement. As a result of this evaluation, the Company determined there were no uncertain tax positions that required recognition and measurement for the years ended December 31, 2020 and 2019 within the scope of ASC 740, "Income Taxes." Tax years from 2017 to 2019 and 2016 to 2019 remain available for examination by the Federal and California State taxing authorities, respectively.

### 13. LEASES

The Company is a lessor of certain property pursuant to various lease agreements having terms ranging up to 30 years. The Company generates rental income from right to use assets. The following is a summary of income from commercial rents included in commercial/industrial real estate revenues as of December 31:

(\$ in thousands)	2020		2019		2018	
Base rent	\$	6,471	\$	6,554	\$	6,444
Percentage rent	\$	949	\$	1,024	\$	621

Future minimum rental income on commercial, communication and right-of-way on non-cancelable leases as of December 31, 2020 (\$ in thousands):

	2021	2022	2023	2024	2025	Thereafter
\$	6,461	\$ 5,637	\$ 5,279	\$ 5,144	\$ 4,946	\$ 16,664

#### 14. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts of which \$10,194,000 is expected to be paid in 2021. These estimated water contract payments consist of SWP, contracts with Wheeler Ridge Maricopa Water Storage District, TCWD, Tulare Lake Basin Water Storage District, Dudley-Ridge Water Storage District and the Nickel water contract. The SWP contracts run through 2035 and the Nickel water contract runs through 2044, with an option to extend an additional 35 years. As discussed in Note 6 (Long-Term Water Assets), the Company purchased the assignment of a contract to purchase water in late 2013. The assigned water contract is with Nickel and obligates the Company to purchase 6,693 acre-feet of water annually through the term of the contract. The Company's contractual obligation for future water payments was \$276,146,000 as of December 31, 2020 .

The Company is obligated to make payments of approximately \$800,000 during 2021 to the Tejon Ranch Conservancy as prescribed in the Conservation Agreement that was entered into with five major environmental organizations in 2008. These advances to the Tejon Ranch Conservancy are dependent on the occurrence of certain events and their timing, and are therefore subject to change in amount and period. These amounts paid will be capitalized in real estate development for the Centennial, Grapevine and Mountain Village, or MV, projects.

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 litigated entitlements have been achieved for Grapevine. The final amount of the incentive fees will not be finalized until the future payment dates. The Company believes that net savings from exiting the contract over this future time period will more than offset the incentive payment costs.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company's Kern County developments. For the development of TRCC, TRPFFA has created two Community Facilities Districts, or CFDs: the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company's land to secure payment of special taxes related to \$28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company's land to secure payments of special taxes related to \$75,965,000 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 \$44,035,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of bonds, there is a standby letter of credit for \$4,468,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years' worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. The Company believes that the letter of credit will never be drawn upon. The letter of credit is for two years and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately \$68,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure costs related to the TRCC-West development. At December 31, 2020 there were no additional improvement funds remaining from both of the West CFD bonds and East CFD bonds for reimbursement of public infrastructure costs during future years. During 2020, the Company paid approximately \$2,550,000 in special taxes. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the assessed special tax. This amount could change in the future based on the amount of bonds outstanding and the amount of taxes paid by others. The assessment of each individual property sold or leased is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at December 31, 2020.

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

In July 2014, the Company received a copy of a Notice of Intent to Sue, dated July 17, 2014 indicating that the Center for Biological Diversity, or CBD, the Wishtoyo Foundation and Dee Dominguez (collectively the TUMSHCP Plaintiffs) intended to initiate a lawsuit against the U.S. Fish and Wildlife Service, or USFWS, challenging USFWS's approval of the Company's Tehachapi Uplands Multiple Species Habitat Conservation Plan, or TUMSHCP, and USFWS's issuance of an Incidental Take Permit, or ITP, for the take of federally listed species. The TUMSHCP approval and ITP issuance by the USFWS occurred in 2013. These approvals authorize, among other things, the removal of California condor habitat associated with the Company's potential future development of MV.

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

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

Management considers the allegations in the TUMSHCP Suit to be beyond the scope of the law and regulations referenced in the TUMSHCP Suit, and believes that the issues raised by the TUMSHCP Plaintiffs were adequately addressed by USFWS during the consultation process with Native American tribes. The Company has supported USFWS's efforts to vigorously defend this matter during the course of this litigation.

In a December 18, 2019 ruling, the court ordered that the parties proceed to bring motions for summary judgment on the question of whether the USFWS correctly determined that the California condor is not a "Traditional Cultural Property" under the NHPA. In response to this order, both the TUMSHCP Plaintiffs and the USFWS and the Company filed cross-motions for summary judgment.

On December 4, 2020 the court issued an order denying, in its entirety, the TUMSHCP Plaintiffs' motions for summary judgment and granted, in their entirety, USFWS and the Company's motions for summary judgment. On December 18, 2020, the Company brought a motion to recover attorneys' fees and costs, as the prevailing party, against the TUMSHCP Plaintiffs. On February 2, 2021, the court denied the fee motion. Following the court's ruling on the fee motion, on February 2, 2021, Plaintiff's notified the court of its intent to appeal the court's ruling on its claims. The Ninth Circuit Court of Appeal has issued a preliminary briefing schedule that requires opening and responsive briefs to be filed in April and May 2021. The appeal will be heard by the court following briefing, and the court will rule following the hearing.

### *National Cement*

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

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

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

### *Antelope Valley Groundwater Cases*

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

On November 9, 2020, the court heard oral argument on the Phelan appeal. On December 9, 2020, the Fifth District Court of Appeal affirmed the Judgment as to the Phelan Appeal. The decision became final in January.

The Willis Class appeal is scheduled for oral argument in February 2021, and decision will be made within 90 days thereafter. Oral argument on the Tapia appeal is scheduled for March 10, 2021. Following oral argument, the court will likely take the matters under submission and issue one or more opinions within 90 days thereafter. Notwithstanding the appeals, the parties, with assistance from the court, have established the Watermaster Board, hired the Watermaster Engineer and Watermaster Legal Counsel, and begun administering the physical solution consistent with the Judgment.

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

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including CBD, collectively, the Central Delta Petitioners, filed a complaint in the Sacramento County Superior Court, or the Central Delta Action, against the California Department of Water Resources, or DWR, Kern County Water Agency, or KCWA, and a number of "real parties in interest," including the Company and TCWD. The lawsuit challenges certain amendments to the SWP contracts that were originally approved in 1995, known as the Monterey Amendments. The Central Delta Petitioners sought to invalidate the DWR's approval of the Monterey Amendments and also the 2010 environmental impact report, or 2010 EIR, regarding the Monterey Amendments prepared pursuant to the California Environmental Quality Act, or CEQA, pertaining to the Kern Water Bank, or KWB. Pursuant to the Monterey Amendments, DWR transferred approximately 20,000 acres in Kern County owned by DWR, or KWB property, to the KCWA.

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

In addition, another lawsuit was filed in Kern County Superior Court on June 3, 2010, by two districts adjacent to the KWB, namely Rosedale Rio Bravo and Buena Vista Water Storage Districts (collectively, the Rosedale Petitioners), asserting that the 2010 EIR did not adequately evaluate potential impacts arising from operations of the KWB, or Rosedale Action, but this lawsuit did not name the Company: it only named TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit was later moved to the Sacramento County Superior Court.

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

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

On October 21, 2016, the Central Delta Petitioners and a new party, the Center for Food Safety (CFS) (collectively, the CFS Petitioners), filed a new lawsuit in Sacramento County Superior Court, (the CFS Action), against DWR and naming a number of real parties in interest, including KWBA and TCWD (but not including the Company). The CFS Action challenges DWR's (i) certification of the 2016 EIR, (ii) compliance with the 2014 Writ and CEQA, and (iii) finding concerning the continued use and operation of the KWB by KWBA. On October 2, 2017, the Sacramento County Superior Court issued a ruling that the court shall deny the CFS petition and shall discharge the 2014 Writ. The CFS Petitioners appealed the Sacramento County Superior Court judgment denying the CFS petition. The Third Appellate District of the Court of Appeal granted DWR's motion to consolidate the CFS Action appeal for hearing with the pending appeals in the Central Delta Action. Briefing on all of the appeals and cross-appeals is now complete. At this time, the Company anticipates having a ruling from the Court of Appeal on these consolidated appeals of the CFS Action and the Central Delta Action sometime in 2021, but there is a possibility that the court's hearing and disposition of the pending appeals could be delayed by the closure of the courts in response to the COVID-19 pandemic. To the extent there may be an adverse outcome of the claims still pending as described above, the monetary value cannot be estimated at this time

#### *Grapevine*

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

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

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

Following the County's rescission of the Grapevine project approvals, the Company filed new applications to re-entitle the Grapevine project (the re-entitlement). The re-entitlement application involved processing project approvals that were substantively similar to the Grapevine project that was unanimously approved by the Kern County Board of Supervisors in December 2016. As part of the re-entitlement, supplemental environmental analysis was prepared to address the court's ruling in the 2017 Action. Following a public comment and review period, the Kern County Planning Commission held a hearing on November 14, 2019 and unanimously recommended to the Kern County Board of Supervisors that it approve the re-entitlement of the Grapevine project. On December 10, 2019, the Kern County Board of Supervisors held a hearing and after considering the supplemental environmental analysis and material presented at the hearing unanimously voted to approve the re-entitlement

of the Grapevine project. On January 9, 2020, the County filed a Supplemental and Final Return to Preemptory Writ of Mandate to inform the court of the re-entitlement in a manner that the County and the Company believes is compliant with the court's February 15, 2019 final judgment in the 2017 Action. Concurrently, the County and the Company filed a Motion for Order Discharging Writ of Mandate, which requests that the court determine that the re-entitlement complies with the court's February 15, 2019 final judgment in the 2017 Action (the Motion for Order to Discharge 2017 Writ of Mandate). A hearing was held on February 14, 2020 for this motion and is further summarized below.

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

On January 22, 2021 the court conducted a hearing on the 2020 Action and the Motion for Order to Discharge 2017 Writ of Mandate. At the January 22nd hearing, the court ruled in favor of the Company and the County on all issues: (1) granting the County's Motion for Order to Discharge the 2017 Writ of Mandate and (2) rejecting each and every claim made by CDB in the 2020 Action. The court has directed the County and Company to prepare a final judgment reflecting its ruling in favor of the Company. Following the entry of a final judgment, any party may appeal the court's decision.

#### *Centennial*

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

The Climate Resolve Action and the CBD/CNPS Action collectively allege that LA County failed to properly follow the procedures and requirements of CEQA and the California Planning and Zoning Law. The Climate Resolve Action and the CBD/CNPS Action have been deemed "related" and have been consolidated for adjudication before the judge presiding over the Climate Resolve Action. The Climate Resolve Action and CBD/CNPS Action seek to invalidate the Centennial Approvals and require LA County to revise the environmental documentation related to the Centennial project. The court held three consolidated hearings for the CBD/CNPS Action and Climate Resolve Action on September 30, 2020, November 13, 2020 and January 8, 2021, but has not yet issued a ruling or judgment.

#### *Conservancy Litigation*

On December 2, 2020, conservation groups filed an action against the Company in Kern County Superior Court, alleging that, beginning October 1, 2020, the Company breached its obligation under the Tejon Ranch Conservation and Land Use Agreement ("RWA") by failing to make advance payments for Q4 2020 to the Tejon Ranch Conservancy ("Conservancy") – a non-profit organization created under the RWA to oversee conservation of the protected lands at Tejon Ranch.

As permitted by the RWA, the Company deposited the advance payments to the Conservancy into a third-party escrow pending a determination of the Company's rights under the RWA.

At December 31, 2020 the Company believes it has performed all its obligations under the RWA and has withheld the escrowed payments based on the self-dealing, conflicts of interest and violations of the terms of the RWA performed by the non-Company members of the board of directors of the Conservancy and representatives of signatories to the RWA. The Company will vigorously defend the action and does not believe that the resolution of this proceeding will result in a liability to the Company beyond the costs of suit and the Company's escrow deposits which are included in the Company's annual budgets.

#### *Proceedings Incidental to Business*

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

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

## 15. RETIREMENT PLANS

The Company sponsors a defined benefit retirement plan, or Benefit Plan, that covers eligible employees hired prior to February 1, 2007. The benefits are based on years of service and the employee's five-year final average salary. The accounting for the defined benefit plan requires the use of assumptions and estimates in order to calculate periodic benefit cost and the value of the plan's assets and benefit obligation. These assumptions include discount rates, investment returns, and projected salary increases, amongst others. The discount rates used in valuing the plan's benefits obligations were determined with reference to high quality corporate and government bonds that are appropriately matched to the duration of the plan's obligation.

Contributions are intended to provide for benefits attributable to service both to date and expected to be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974, or ERISA.

The following table sets forth changes in the plan's net benefit obligation and accumulated benefit information as of December 31:

(\$ in thousands)	2020	2019
<b>Change in benefit obligation - Pension</b>		
Benefit obligation at beginning of year	\$ 10,710	\$ 9,406
Interest cost	338	389
Actuarial (gain)/assumption changes	1,248	1,161
Benefits paid	(259)	(246)
Benefit obligation and accumulated benefit obligation at end of year	<u>\$ 12,037</u>	<u>\$ 10,710</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	\$ 8,920	\$ 7,258
Actual return on plan assets	1,609	1,744
Employer contribution	165	165
Benefits/expenses paid	(259)	(247)
Fair value of plan assets at end of year	<u>\$ 10,435</u>	<u>\$ 8,920</u>
<b>Funded status - liability</b>	<u>\$ (1,602)</u>	<u>\$ (1,790)</u>
<b>Amounts recorded in equity</b>		
Net actuarial loss	\$ 3,242	\$ 3,027
Total amount recorded	<u>\$ 3,242</u>	<u>\$ 3,027</u>
Amount recorded, net taxes	<u>\$ 2,335</u>	<u>\$ 2,180</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income include the following as of December 31:

(\$ in thousands)	2020		2019	
Net loss (gain)	\$	282	\$	(60)
Recognition of net actuarial loss		(67)		(75)
Total changes	\$	215	\$	(135)
Changes, net of taxes	\$	155	\$	(97)

The Company expects to recognize the following amounts as a component of net periodic pension costs during the next fiscal year:

Expected return on plan assets	\$	752
Interest cost		(291)
Amortization of net gain/(loss)		(73)
Net periodic pension benefit/(cost)	\$	388

At December 31, 2020 and 2019, the Company had a long-term pension liability. For 2021, the Company is estimating that contributions to the pension plan will be approximately \$165,000.

Based on actuarial estimates, it is expected that annual benefit payments from the pension trust will be as follows:

2021	2022	2023	2024	2025	Thereafter
\$ 299	\$ 304	\$ 362	\$ 372	\$ 471	\$ 2,570

Plan assets consist of equity, debt and short-term money market investment funds. The Benefit Plan's current investment policy changed during the third quarter of 2018. The new policy is an investment strategy in which the primary focus is to minimize the volatility of the funding ratio. This objective will result in a prescribed asset mix between "return seeking" assets (e.g. stocks) and a bond portfolio (e.g., long duration bonds) according to a pre-determined customized investment strategy based on the Plan's Funded Status as the primary input. This path will be used as a reference point as to the mix of assets, which by design will de-emphasize the return seeking portion as funded status improves. At December 31, 2020, the investment mix was approximately 65% equity, 34% debt, and 1% money market funds. At December 31, 2019, the investment mix was approximately 66% equity, 33% debt and 1% money market funds. Equity investments consist of a combination of individual equity securities plus value funds, growth funds, large cap funds and international stock funds. Debt investments consist of U.S. Treasury securities and investment grade corporate debt. The weighted-average discount rate used in determining the periodic pension cost is 2.45% in 2020 and 3.20% in 2019. The expected long-term rate of return on plan assets is 7.3% in 2020 and 7.3% in 2019. The long-term rate of return on plan assets is based on the historical returns within the plan and expectations for future returns. See the following table for fair value hierarchy by investment type at December 31:

(\$ in thousands)	Fair Value Hierarchy	2020	2019
<b>Pension Plan Assets:</b>			
Cash and Cash Equivalents	Level 1	\$ 70	\$ 48
Collective Funds	Level 2	10,365	8,872
Fair value of plan assets		\$ 10,435	\$ 8,920

Total pension and retirement expense was as follows for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
<b>Cost components:</b>			
Service cost	\$ —	\$ —	\$ —
Interest cost	(338)	(389)	(365)
Expected return on plan assets	643	522	585
Net amortization and deferral	(68)	(75)	(64)
Settlement recognition	—	—	—
Total net periodic pension earnings/(cost)	\$ 237	\$ 58	\$ 156



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

The following SERP benefit information is as of December 31:

(\$ in thousands)	2020	2019
<b>Change in benefit obligation - SERP</b>		
Benefit obligation at beginning of year	\$ 8,011	\$ 7,750
Interest cost	229	303
Actuarial gain/assumption changes	708	486
Benefits paid	(529)	(528)
Curtailments	—	—
Benefit obligation and accumulated benefit obligation at end of year	\$ 8,419	\$ 8,011
<b>Funded status - liability</b>	<b>\$ (8,419)</b>	<b>\$ (8,011)</b>

(\$ in thousands)	2020	2019
<b>Amounts recorded in stockholders' equity</b>		
Net actuarial loss (gain)	\$ 3,024	\$ 2,402
Total amount recorded	\$ 3,024	\$ 2,402
Amount recorded, net taxes	\$ 2,178	\$ 1,730

Other changes in benefit obligations recognized in other comprehensive income for 2020 and 2019 included the following components:

(\$ in thousands)	2020	2019
Net (gain) loss	\$ 708	\$ 486
Recognition of net actuarial gain or (loss)	(86)	(62)
Total changes	\$ 622	\$ 424
Changes, net of taxes	\$ 448	\$ 305

The Company expects to recognize the following amounts as a component of net periodic pension costs during the next fiscal year (\$ in thousands):

Interest cost	\$ (163)
Amortization of net (gain)/loss	(125)
Net periodic pension earnings/(cost)	<u>\$ (288)</u>

Based on actuarial estimates, it is expected that annual SERP benefit payments will be as follows (\$ in thousands):

2021	2022	2023	2024	2025	Thereafter
\$ 527	\$ 522	\$ 516	\$ 483	\$ 557	\$ 2,628

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of projected benefits obligation was 2.00% and 0.0% for 2020, 2.95% and 0.0% for 2019, and 4.05% and 0.00% for 2018. Total pension and retirement expense was as follows for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
<b>Cost components:</b>			
Interest cost	\$ (229)	\$ (303)	\$ (268)
Net amortization and other	(86)	(62)	(223)
Total net periodic pension earnings/(cost)	<u>\$ (315)</u>	<u>\$ (365)</u>	<u>\$ (491)</u>

## 16. REPORTING SEGMENTS AND RELATED INFORMATION

The Company currently operates five reporting segments: commercial/industrial real estate development, resort/residential real estate development, mineral resources, farming, and ranch operations. For further details of the revenue components within each reporting segment, see Results of Operations by Segment in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Information pertaining to operating results of the Company's reporting segments are as follows for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
<b>Revenues</b>			
Real estate—commercial/industrial	\$ 9,536	\$ 16,792	\$ 8,970
Mineral resources	10,736	9,791	14,395
Farming	13,866	19,331	18,563
Ranch operations	3,692	3,609	3,691
Segment revenues	<u>37,830</u>	<u>49,523</u>	<u>45,619</u>
Equity in unconsolidated joint ventures, net	4,504	16,575	3,834
Gain on sale of real estate	1,331	—	—
Investment income	884	1,239	1,344
Total revenues and other income	<u>44,549</u>	<u>67,337</u>	<u>50,738</u>
<b>Segment Profits (Losses)</b>			
Real estate—commercial/industrial	2,414	3,831	2,724
Real estate—resort/residential	(1,612)	(2,247)	(1,530)
Mineral resources	4,322	3,973	8,172
Farming	(1,237)	4,080	2,535
Ranch operations	(1,204)	(1,707)	(1,760)
Segment profits <sup>(1)</sup>	<u>2,683</u>	<u>7,930</u>	<u>10,141</u>
Equity in unconsolidated joint ventures, net	4,504	16,575	3,834
Gain on sale of real estate	1,331	—	—
Investment income	884	1,239	1,344
Other income	110	(1,824)	(59)
Corporate expenses	(9,430)	(9,361)	(9,705)
Income from operations before income taxes	<u>\$ 82</u>	<u>\$ 14,559</u>	<u>\$ 5,555</u>

<sup>(1)</sup> Segment profits are revenues less operating expenses, excluding investment income and expense, corporate expenses, equity in earnings of unconsolidated joint ventures, and income taxes.

### *Real estate - Commercial/Industrial*

Commercial revenue consists of land and building leases to tenants at the Company's commercial retail and industrial developments, base and percentage rents from the PEF power plant lease, communication tower rents, land sales, and payments from easement leases. In 2020, the Company sold building and land, previously belonging to this segment, that was previously operated by a fast food tenant to its joint venture, Petro Travel Plaza LLC. The Company received a cash distribution of \$2,000,000 from the joint venture, and realized a Gain on Sale of Real Estate of \$1,331,000.

The following table summarizes revenues, expenses and operating income from this segment for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
Commercial revenues	\$ 9,536	\$ 16,792	\$ 8,970
Equity in earnings of unconsolidated joint ventures	4,504	16,575	3,834
Commercial revenues and equity in earnings of unconsolidated joint ventures	\$ 14,040	\$ 33,367	\$ 12,804
Commercial expenses	7,122	12,961	6,246
Operating results from commercial and unconsolidated joint ventures	\$ 6,918	\$ 20,406	\$ 6,558

The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through joint venture entities. The segment produced losses of \$1,612,000, \$2,247,000, and \$1,530,000 during the years ended December 31, 2020, 2019, and 2018, respectively.

The mineral resources segment receives oil and mineral royalties from the exploration and development companies that extract or mine the natural resources from the Company's land along with revenue from water sales. The following table summarizes revenues, expenses and operating results from this segment for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
Mineral resources revenues	\$ 10,736	\$ 9,791	\$ 14,395
Mineral resources expenses	\$ 6,414	\$ 5,818	\$ 6,223
Operating results from mineral resources	\$ 4,322	\$ 3,973	\$ 8,172

The farming segment produces revenues from the sale of wine grapes, almonds, pistachios and hay. The following table summarizes revenues, expenses and operating results from this segment for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
Farming revenues	\$ 13,866	\$ 19,331	\$ 18,563
Farming expenses	\$ 15,103	\$ 15,251	\$ 16,028
Operating results from farming	\$ (1,237)	\$ 4,080	\$ 2,535

Ranch operations consists of game management revenues and ancillary land uses such as grazing leases and filming. The following table summarizes revenues, expenses and operating results from this segment for each of the years ended December 31:

(\$ in thousands)	2020	2019	2018
Ranch operations revenues	\$ 3,692	\$ 3,609	\$ 3,691
Ranch operations expenses	\$ 4,896	\$ 5,316	\$ 5,451
Operating results from ranch operations	\$ (1,204)	\$ (1,707)	\$ (1,760)

Information pertaining to assets of the Company's reporting segments is as follows for each of the years ended December 31:

(\$ in thousands)		Identifiable Assets	Depreciation and Amortization	Capital Expenditures
	2020			
Real estate - commercial/industrial		\$ 73,317	\$ 486	\$ 7,128
Real estate - resort/residential		297,052	39	9,764
Mineral resources		57,797	1,384	25
Farming		38,090	1,989	5,145
Ranch operations		2,442	482	91
Corporate		67,651	558	106
<b>Total</b>		<b>\$ 536,349</b>	<b>\$ 4,938</b>	<b>\$ 22,259</b>
	2019			
Real estate - commercial/industrial		\$ 76,814	\$ 517	\$ 8,690
Real estate - resort/residential		286,801	51	12,811
Mineral resources		55,049	1,371	37
Farming		41,258	1,909	3,362
Ranch operations		2,624	526	213
Corporate		76,876	662	109
<b>Total</b>		<b>\$ 539,422</b>	<b>\$ 5,036</b>	<b>\$ 25,222</b>
	2018			
Real estate - commercial/industrial		\$ 65,929	\$ 651	\$ 5,225
Real estate - resort/residential		273,620	58	13,459
Mineral resources		54,144	1,372	171
Farming		40,835	1,897	3,166
Ranch operations		2,973	536	102
Corporate		91,547	910	457
<b>Total</b>		<b>\$ 529,048</b>	<b>\$ 5,424</b>	<b>\$ 22,580</b>

Identifiable assets by segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist primarily of cash and cash equivalents, marketable securities, deferred income taxes, and land and buildings. Land is valued at cost for acquisitions since 1936. Land acquired in 1936, upon organization of the Company, is stated on the basis carried by the Company's predecessor.

#### 17. INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES

The Company maintains investments in joint ventures. The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation. The Company's investment in its unconsolidated joint ventures at December 31, 2020 was \$33,524,000. The equity in the income of the unconsolidated joint ventures was \$4,504,000 for the twelve months ended December 31, 2020. The unconsolidated joint ventures have not been consolidated as of December 31, 2020, because the Company does not control the investments. The Company's current joint ventures are as follows:

- Petro Travel Plaza Holdings LLC – TA/Petro is an unconsolidated joint venture with TravelCenters of America Inc. for the development and management of travel plazas and convenience stores. The Company has 50% voting rights and shares 60% of profit and losses in this joint venture. It houses multiple commercial eating establishments as well as diesel and gasoline operations in TRCC. The Company does not control the investment due to it having only 50% voting rights, and because the partner in the joint venture is the managing partner and performs all of the day-to-day operations and has significant decision-making authority regarding key business components such as fuel inventory and pricing at the facility. At December 31, 2020, the Company had an equity investment balance of \$23,358,000 in this joint venture.
  - On April 17, 2020, the Company sold the land and a building formerly leased to a tenant operating a fast food restaurant, to Petro. The Company received cash proceeds of \$2,000,000 from Petro, and realized a gain of \$1,331,000 under ASC 610-20, "Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets."

- In December 2019, the Company completed the shell and core of a new 4,900 square foot multi-tenant building at TRCC-East, with a fair value of \$2,805,000, and contributed the building and land to TA/Petro. The contribution met the criteria of a sale under ASC Topic 606, "Revenue from Contracts with Customers." As such, the Company recognized profit of \$334,000 and deferred \$501,000 of profit in accordance with ASC Topic 323, "Investment - Equity Method and Joint Ventures" on the date the assets were contributed.
- Majestic Realty Co. – Majestic Realty Co., or Majestic, is a privately-held developer and owner of master planned business parks in the United States. The Company partnered with Majestic to form three 50/50 joint ventures to acquire, develop, manage, and operate industrial real estate at TRCC. The partners have equal voting rights and equally share in the profit and loss of the joint venture. The Company and Majestic guarantee the performance of all outstanding debt. At December 31, 2020, the Company's investment in these joint ventures was \$1,753,000, which includes an outside basis.
  - In November 2018, TRC-MRC 3, LLC was formed to pursue the development, construction, leasing, and management of a 579,040 square foot industrial building on the Company's property at TRCC-East. TRC-MRC 3, LLC qualified as a VIE from inception, but the Company is not the primary beneficiary therefore does not consolidate TRC-MRC 3, LLC in its financial statements. The construction of the building was completed in the fourth quarter of 2019, and the Company has leased 100% of the rentable space to two tenants. In March 2019, the joint venture entered into a promissory note with a financial institution to finance the construction of the building. The note matures on May 1, 2030 and had an outstanding principal balance of \$35,785,000 as of December 31, 2020. On April 1, 2019, the Company contributed land with a fair value of \$5,854,000 to TRC-MRC 3, LLC in accordance with the limited liability agreement. The land contribution met the criteria of a land sale under ASC Topic 606, "Revenue from Contracts with Customers." As such, the Company recognized profit of \$1,537,000 and deferred \$1,537,000 of profit in accordance with ASC Topic 323, "Investment - Equity Method and Joint Ventures" on the date the land was contributed. The Company's investment in this joint venture was \$1,753,000 as of December 31, 2020.
  - In August 2016, the Company partnered with Majestic to form TRC-MRC 2, LLC to acquire, lease, and maintain a fully occupied warehouse at TRCC-West. The partnership acquired the 651,909 square foot building for \$24,773,000 and was largely financed through a promissory note guaranteed by both partners. The promissory note was refinanced on June 1, 2018 with a \$25,240,000 promissory note. The note matures on July 1, 2028, and currently has an outstanding principal balance of \$23,869,000. Since inception, the Company has received excess distributions resulting in a deficit balance of \$1,867,000. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of the consolidated balance sheet. The Company will continue to record its equity in the net income as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on the consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), the Company will recognize any balance classified as a liability as income.
  - In September 2016, TRC-MRC 1, LLC was formed to develop and operate an approximately 480,480 square foot industrial building at TRCC-East. The joint venture completed construction of the building during the third quarter of 2017. Since inception of the joint venture, the Company has received excess distributions resulting in a deficit balance of \$1,194,000. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of the consolidated balance sheet. The Company will continue to record its equity in the net income as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on the consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), the Company will recognize any balance classified as a liability as income. The joint venture refinanced its construction loan in December 2018 with a mortgage loan. The original principal balance of the mortgage loan was \$25,030,000, of which \$23,985,000 was outstanding at December 31, 2020.
- Rockefeller Joint Ventures – The Company has two joint ventures with Rockefeller Group Development Corporation or Rockefeller as of December 31, 2020. At December 31, 2020, the Company's combined equity investment balance in these joint ventures was \$8,413,000.
  - The first joint venture, 18-19 West LLC, was formed in August 2009 through the contribution of 61.5 acres of land by the Company, which is being held for future development. This joint venture is part of an agreement for the potential development of up to 500 acres of land in TRCC that are tied to Foreign Trade Zone designation. The Company owns a 50% interest in this joint ventures, and the joint ventures is being accounted for under the equity method due to both members having significant participating rights in the management of the ventures.

- The Company's 18-19 West LLC joint venture has a purchase option in place with the third-party who purchased the Five West building and land (noted below) to purchase lots 18 and 19 at a price of \$13.8 million through the option period ending May 21, 2021. If the option is extended to November 21, 2021, the price increases to \$15.2 million. The land option expires in the fourth quarter of 2021.
- The Company was a member of the Five West Parcel LLC joint venture, which owned and leased a 606,000 square foot building, the joint venture's primary asset, to Dollar General. The building was sold to a third party in November 2019 for a purchase price of \$29,088,000, realizing a gain of \$17,537,000. The outstanding term loan of the joint venture was paid off upon the sale. This joint venture was dissolved during the fourth quarter of 2020.
- The second joint venture is the TRCC/Rock Outlet Center LLC joint venture that was formed during the second quarter of 2013 to develop, own, and manage a net leasable 326,000 square foot outlet center on land at TRCC-East. The cost of the outlet center was approximately \$87,000,000 and was funded through a construction loan for up to 60% of the costs and the remaining 40% was through equity contributions from the two members. The Company controls 50% of the voting interests of TRCC/Rock Outlet Center LLC; thus, it does not control by voting interest alone. The Company is the named managing member. The managing member's responsibilities relate to the routine day-to-day activities of TRCC/Rock Outlet Center LLC. However, all operating decisions during the development period and ongoing operations, including the setting and monitoring of the budget, leasing, marketing, financing and selection of the contractor for any construction, are jointly made by both members of the joint venture. Therefore, the Company concluded that both members have significant participating rights that are sufficient to overcome the presumption of the Company controlling the joint venture through it being named the managing member. Therefore, the investment in TRCC/Rock Outlet Center LLC is being accounted for under the equity method. The TRCC/Rock Outlet Center LLC joint venture has a term note with a financial institution that matures on September 5, 2021. As of December 31, 2020, the outstanding balance of the term note was \$34,845,000. The Company and Rockefeller guarantee the performance of the debt.
- Centennial Founders, LLC – Centennial Founders, LLC, or CFL, is a joint venture that was initially formed with TRI Pointe Homes, Lewis Investment Company and CalAtlantic to pursue the entitlement and development of land that the Company owns in Los Angeles County. Based on the Second Amended and Restated Limited Company Agreement of CFL and the change in control and funding that resulted from the amended agreement, CFL qualified as a VIE, beginning in the third quarter of 2009, and the Company was determined to be the primary beneficiary. As a result, CFL has been consolidated into the financial statements beginning in that quarter. The remaining partners have retained a noncontrolling interest in the joint venture. On November 30, 2016, CFL and Lewis entered a Redemption and Withdrawal Agreement, whereby Lewis irrevocably and unconditionally withdrew as a member of CFL, and CFL redeemed Lewis' entire interest for no consideration. As a result, the noncontrolling interest balance was reduced by \$11,039,000. On December 31, 2018, CFL and CalAtlantic entered a Redemption and Withdrawal Agreement, whereby CalAtlantic irrevocably and unconditionally withdrew as a member of CFL, and CFL redeemed CalAtlantic's entire interest for no consideration. As a result, the noncontrolling interest balance was reduced by \$13,172,000. At December 31, 2020, the Company owned 92.85% of CFL.

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

Condensed balance sheet information and statement of operations of the Company's unconsolidated joint ventures are as follows:

**Balance Sheet Information as of December 31:**

	Joint Venture						TRC	
	Assets		Borrowings		Equity		Investment In	
	2020	2019	2020	2019	2020	2019	2020	2019
Petro Travel Plaza Holdings LLC	\$ 77,516	\$ 77,835	\$ (15,291)	\$ (15,287)	\$ 59,597	\$ 60,061	\$ 23,358	\$ 23,636
Five West Parcel, LLC	—	694	—	—	—	648	—	140
18-19 West, LLC	4,733	4,849	—	—	4,483	4,600	1,672	1,730
TRCC/Rock Outlet Center, LLC	65,475	69,459	(34,845)	(38,909)	29,608	29,688	6,741	6,781
TRC-MRC 1, LLC	26,502	28,673	(23,985)	(24,542)	2,059	3,623	—	—
TRC-MRC 2, LLC	20,191	20,026	(23,869)	(24,455)	(7,741)	(7,094)	—	—
TRC-MRC 3, LLC	38,502	37,292	(35,785)	(28,061)	(2,001)	6,052	1,753	5,953
<b>Total</b>	<b>\$ 232,919</b>	<b>\$ 238,828</b>	<b>\$ (133,775)</b>	<b>\$ (131,254)</b>	<b>\$ 86,005</b>	<b>\$ 97,578</b>	<b>\$ 33,524</b>	<b>\$ 38,240</b>
Centennial Founders, LLC	\$ 98,898	\$ 96,415	\$ —	\$ —	\$ 98,565	\$ 96,143	Consolidated	

**Condensed Statement of Operations Information as of December 31:**

	Joint Venture						TRC		
	Revenues			Earnings(Loss)			Equity in Earnings (Loss)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Petro Travel Plaza Holdings LLC	\$ 86,331	\$ 117,708	\$ 119,083	\$ 9,536	\$ 14,684	\$ 9,672	\$ 5,722	\$ 8,810	\$ 5,803
Five West Parcel, LLC	—	2,648	2,731	(6)	18,239	778	(2)	9,119	389
18-19 West, LLC	6	15	13	(136)	(107)	(102)	(68)	(53)	(51)
TRCC/Rock Outlet Center, LLC <sup>1</sup>	5,495	6,278	6,418	(4,180)	(3,843)	(4,645)	(2,090)	(1,921)	(2,323)
TRC-MRC 1, LLC	3,123	3,067	1,323	129	91	(498)	64	46	(249)
TRC-MRC 2, LLC <sup>2</sup>	4,087	4,023	3,981	1,357	1,151	529	678	575	265
TRC-MRC 3, LLC	\$ 4,032	\$ —	\$ —	\$ 399	\$ (2)	\$ —	\$ 200	\$ (1)	\$ —
	<b>\$ 103,074</b>	<b>\$ 133,739</b>	<b>\$ 133,549</b>	<b>\$ 7,099</b>	<b>\$ 30,213</b>	<b>\$ 5,734</b>	<b>\$ 4,504</b>	<b>\$ 16,575</b>	<b>\$ 3,834</b>
Centennial Founders, LLC	\$ 419	\$ 469	\$ 297	\$ (103)	\$ (20)	\$ (249)	Consolidated		

(1) Revenues for TRCC/Rock Outlet Center are presented net of non-cash tenant allowance amortization of \$1.3 million, \$1.7 million, and \$1.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

(2) Earnings for TRC-MRC2, LLC include non-cash amortization of purchase accounting adjustments related to in-place leases of \$0.0 million, \$0.2 million and \$0.8 million for the years ended December 31, 2020, 2019 and 2018, respectively.

**18. RELATED PARTY TRANSACTIONS**

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

The Company has water contracts with WRMWSD for SWP water deliveries to its agricultural and municipal/industrial operations in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts, the Company is entitled to annual water for 5,496 acres of land, or 5,749 acre-feet of water subject to SWP allocations. In December 2019, the Company's Executive Vice President and Chief Operating Officer became one of nine directors at WRMWSD. As of December 31, 2020 and December 31, 2019, the Company paid \$5,181,000 and \$3,299,000 for these water contracts and related costs, respectively.

#### 19. UNAUDITED QUARTERLY OPERATING RESULTS

The following is a tabulation of unaudited quarterly operating results for the years indicated:

(\$ in thousands, except per share)	Total Revenue <sup>1</sup>	Segment Profit (Loss)	Net Income (Loss)	Net Income (Loss) attributable to Common Stockholders	Net Income (Loss) Per Share	Net Income (Loss), Per Share attributable to Common Stockholders <sup>2</sup>
<b>2020</b>						
First Quarter	\$ 10,541	\$ 770	\$ (684)	\$ (682)	\$ (0.03)	\$ (0.03)
Second Quarter	4,926	(289)	(326)	(333)	(0.01)	(0.01)
Third Quarter	13,968	1,294	384	398	0.02	0.02
Fourth Quarter	9,279	908	(121)	(123)	—	—
	<u>\$ 38,714</u>	<u>\$ 2,683</u>	<u>\$ (747)</u>	<u>\$ (740)</u>		
<b>2019</b>						
First Quarter	\$ 11,011	\$ 1,442	\$ 124	\$ 119	\$ —	\$ —
Second Quarter	9,275	895	709	707	0.03	0.03
Third Quarter	9,951	(708)	37	47	—	—
Fourth Quarter	20,525	6,301	9,709	9,707	0.37	0.37
	<u>\$ 50,762</u>	<u>\$ 7,930</u>	<u>\$ 10,579</u>	<u>\$ 10,580</u>		

(1) Includes investment income.

(2) Net income (loss) per share on a diluted basis. Quarterly rounding of per share amounts can result in a variance from the reported annual amount. The fourth quarter 2019 amount includes gain realized by Five West Parcel LLC joint venture on building sale (see Note 17).



## DESCRIPTION OF SECURITIES

The following is a summary of the material terms of our capital stock. You are strongly encouraged, however, to read our restated certificate of incorporation, bylaws and other agreements, copies of which are available from us upon request. Please also refer to “Where You Can Find Additional Information” to find out where copies of these documents may be obtained.

### *General*

The following description of our capital stock and provisions of our restated certificate of incorporation and bylaws are summaries and are qualified by reference to the restated certificate of incorporation and the bylaws currently in effect. Copies of these documents have been filed with the SEC.

Our authorized capital stock consists of 5,000,000 shares of preferred stock, of which no shares are outstanding, and 30,000,000 shares of common stock, of which 20,703,838 shares were outstanding on March 14, 2016, held by 307 holders of record.

### *Common Stock*

The holders of common stock vote cumulatively when electing directors and are entitled to one vote per share on all other matters. The board of directors presently consists of three classes of directors based on when their terms expire. Each class is elected every three years to a three-year term. Because only a portion of the total number of directors is elected each year, a greater number of shares is required to ensure the ability to elect a specific number of directors using cumulative voting than would be required if the entire Board were elected each year.

Holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefore. In the event of liquidation, dissolution or winding up of the Company holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and satisfaction of any preferential rights of the holders of the preferred stock. Holders of common stock have no preemptive, subscription or conversion rights. There are no redemption or sinking fund provisions, and there is no liability for further calls or assessments by the Company.

### *Preferred Stock*

The Board has the authority to issue 5,000,000 shares of preferred stock in one or more series with dividend rights, conversion rights, voting rights, redemption terms, liquidation preferences and other rights or preferences that could be senior to those of holders of common stock. There are no shares of preferred stock outstanding.

### *Anti-Takeover Provisions*

We are subject to Section 203 of the DGCL. Subject to certain exceptions, Section 203 prevents a publicly held Delaware corporation from engaging in a “business combination” with any “interested stockholder” for three years following the date that the person became an interested stockholder, unless the interested stockholder attained such status with the approval of our board of directors or unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger or consolidation involving us, and the interested stockholder and the sale of more than 10% of our assets. In general, an “interested stockholder” is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person. The restrictions contained in Section 203 are not applicable to any of our existing stockholders.

In addition, our restated certificate of incorporation and bylaws include a number of provisions that may have the effect of discouraging persons from pursuing non-negotiated takeover attempts. These provisions include:

- a classified Board;
- a requirement that directors may only be removed for cause and only by an affirmative vote of the holders of a majority of the Company’s voting stock; and
- the elimination of the ability of stockholders to call special meetings and to act without a meeting.

Subject to the exceptions set forth below, certain business combinations involving a “Related Person” require the approval of the holders of at least 80% of the outstanding shares entitled to vote generally in the election of directors (which we refer to as

“voting shares”) and the approval of the holders of a majority of the voting shares not owned beneficially by the Related Person. The 80% voting requirement does not apply if:

- the terms of the business combination meet certain fairness standards set forth in our restated certificate of incorporation;
- the business combination is approved by the holders of a majority of the voting shares not owned beneficially by the Related Person; and
- all other affirmative voting requirements imposed by applicable law or our restated certificate of incorporation are met.

Alternatively, the business combination can be approved by a majority of the Continuing Directors and such other vote as may be required by law or by our restated certificate of incorporation.

“Related Person” means any person, entity or group that beneficially owns five percent or more of the outstanding voting stock (subject to certain exceptions) and affiliates and associates of any such person, entity or group.

“Continuing Director” means, as to any Related Person:

- a member of the board of directors who was a director of our company’s predecessor prior to June 9, 1987 or thereafter became a director of our company prior to the time the Related Person became a Related Person; and
- any successor of such a director who is recommended by a majority of such directors then on the Board.

However, to be a Continuing Director as to any Related Person, the director must not be the Related Person or an affiliate of the Related Person.

## LIST OF SUBSIDIARIES OF REGISTRANT

### EXHIBIT 21

(21) Subsidiaries of Registrant

A. Registrant: Tejon Ranch Co.

B. Subsidiaries of Registrant

- a. Tejon Ranchcorp, 100% owned by Registrant.
- b. Laval Agricultural Company, formerly Tejon Farming Company.
- c. Tejon Ranch Feedlot, Inc.
- d. White Wolf Corporation.
- e. Tejon Development Corporation.
- f. Tejon Industrial Corp.
- g. Tejon Energy LLC.
- h. Centennial Founders LLC, Delaware limited liability company, 84% owned by Tejon Ranchcorp.
- i. Tejon Hounds, LLC.
- j. Tejon Mountain Village, LLC., Delaware limited liability company.
- k. Tejon Ranch Wine Company, LLC.
- m. TRCC - West One, LLC.

C. Each of the aforesaid subsidiaries is included in Registrant's Consolidated Financial Statements, set forth in answer to Item 15(a)(1) hereof.

D. Each of the aforesaid subsidiaries (a) is a corporation unless otherwise stated, (b) was organized and incorporated or filed under the laws of the State of California unless otherwise stated, and (c) has 100% of its common stock (if a corporation) or membership interest (if a limited liability company) owned by Tejon Ranchcorp unless otherwise stated.

E. Each of the aforesaid subsidiaries does business under its name, as shown. Registrant also does business under the name Tejon Ranch Company. Tejon Ranchcorp also does business under the names Tejon Ranch Company, Tejon Ranch, Grapevine Center, Grapevine Press, High Desert Hunt Club and Laval Farms. Laval Agricultural Company does business also under the names Laval Farms and Tejon Ranch. Tejon Industrial Corp. also does business under the name Tejon Ranch Commerce Center and Tejon Industrial Complex.

## EXHIBIT 23.1

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-210500) relating to the Amended and Restated 1998 Stock Incentive Plan and Amended and Restated Non-Employee Director Stock Incentive Plan of Tejon Ranch Co.,
- (2) Registration Statement (Form S-8 No. 333-152804) relating to the Amended and Restated 1998 Stock Incentive Plan of Tejon Ranch Co.,
- (3) Registration Statement (Form S-8 No. 333-68869) relating to the 1998 Stock Incentive Plan and Non-Employee Director Stock Incentive Plan of Tejon Ranch Co.,
- (4) Registration Statement (Form S-8 No. 333-70128) relating to the 1998 Stock Incentive Plan of Tejon Ranch Co.,
- (5) Registration Statement (Form S-8 No. 333-113887) relating to the Tejon Ranch Nonqualified Deferred Compensation Plan of Tejon Ranch Co., and
- (6) Registration Statement (Form S-3 No. 333-231032) of Tejon Ranch Co.,

of our reports dated March 3, 2021, relating to the financial statements of Tejon Ranch Co. and subsidiaries and the effectiveness Tejon Ranch Co. and subsidiaries' internal control over the financial reporting appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California  
March 3, 2021

## EXHIBIT 23.2

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-210500) pertaining to the Amended and Restated 1998 Stock Incentive Plan and Amended and Restated Non-Employee Director Stock Incentive Plan of Tejon Ranch Co.,
- (2) Registration Statement (Form S-8 No. 333-152804) pertaining to the Amended and Restated 1998 Stock Incentive Plan of Tejon Ranch Co.,
- (3) Registration Statement (Form S-8 No. 333-68869) pertaining to the 1998 Stock Incentive Plan and Non-Employee Director Stock Incentive Plan of Tejon Ranch Co.,
- (4) Registration Statement (Form S-8 No. 333-70128) pertaining to the 1998 Stock Incentive Plan of Tejon Ranch Co.,
- (5) Registration Statement (Form S-8 No. 333-113887) pertaining to the Tejon Ranch Nonqualified Deferred Compensation Plan of Tejon Ranch Co., and
- (6) Registration Statement (Form S-3 No. 333-231032) of Tejon Ranch Co.;

of our report dated March 1, 2019, with respect to the consolidated financial statements of Tejon Ranch Co. and Subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Los Angeles, California  
March 2, 2021

## EXHIBIT 23.3

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-210500, 333-152804, 333-68869, 333-70128, 333-113887) and the Registration Statement and related Prospectus on Form S-3 (No. 333-231032) of Tejon Ranch Co. of our report dated March 2, 2021, relating to the consolidated financial statements of Petro Travel Plaza Holdings LLC, appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ RSM US LLP

Cleveland, Ohio

March 2, 2021

**EXHIBIT 31.1**

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

I, Gregory S. Bielli, certify that:

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

Dated: March 3, 2021

/s/ Gregory S. Bielli

Gregory S. Bielli  
Chief Executive Officer

**EXHIBIT 31.2**

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

I, Robert D. Velasquez, certify that:

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

Dated: March 3, 2021

/s/ Robert D. Velasquez

Robert D. Velasquez  
Chief Financial Officer



**EXHIBIT 32**

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

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

- The Annual Report of the Company on Form 10-K for the period ended December 31, 2020 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

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

Dated: March 3, 2021

/s/ Gregory S. Bielli

Gregory S. Bielli  
Chief Executive Officer

/s/ Robert D. Velasquez

Robert D. Velasquez  
Chief Financial Officer

# **Petro Travel Plaza Holdings LLC**

## **Consolidated Financial Statements**

**For the Years Ended December 31, 2020, 2019 and 2018**

## Report of Independent Registered Public Accounting Firm

To the Members  
Petro Travel Plaza Holdings LLC

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Petro Travel Plaza Holdings LLC (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, cash flows and changes in members' capital for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ RSM US LLP

We have served as the Company's auditor since 2015.

Cleveland, Ohio  
March 2, 2021

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands)

	December 31,	
	2020	2019
<b>Assets</b>		
Current assets:		
Cash	\$ 10,914	\$ 12,259
Inventory	2,233	2,409
Due from affiliate, net	1,240	4,560
Other current assets	193	143
<b>Total current assets</b>	<b>14,580</b>	<b>19,371</b>
Property and equipment, net	62,629	58,321
Other noncurrent assets	307	143
<b>Total assets</b>	<b>\$ 77,516</b>	<b>\$ 77,835</b>
<b>Liabilities and Members' Capital</b>		
Current liabilities:		
Accrued expenses and other current liabilities	\$ 2,309	\$ 1,602
<b>Total current liabilities</b>	<b>2,309</b>	<b>1,602</b>
Long term debt, net	14,844	15,287
Other noncurrent liabilities	766	885
<b>Total liabilities</b>	<b>17,919</b>	<b>17,774</b>
Members' capital	59,597	60,061
<b>Total liabilities and members' capital</b>	<b>\$ 77,516</b>	<b>\$ 77,835</b>

The accompanying notes are an integral part of these consolidated financial statements.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands)

	<b>Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Revenues:</b>			
Fuel	\$ 58,271	\$ 84,184	\$ 85,871
Nonfuel	28,060	33,524	33,212
Total revenues	<u>86,331</u>	<u>117,708</u>	<u>119,083</u>
<b>Costs and expenses:</b>			
<b>Cost of goods sold (excluding depreciation and amortization):</b>			
Fuel	43,986	65,940	72,658
Nonfuel	10,834	12,754	12,703
Total cost of goods sold	<u>54,820</u>	<u>78,694</u>	<u>85,361</u>
Operating expense	19,032	21,209	20,872
Depreciation and amortization expense	<u>2,561</u>	<u>2,475</u>	<u>2,560</u>
Total costs and expenses	<u>76,413</u>	<u>102,378</u>	<u>108,793</u>
Operating income	9,918	15,330	10,290
Interest expense, net	<u>382</u>	<u>646</u>	<u>618</u>
Net income	<u>\$ 9,536</u>	<u>\$ 14,684</u>	<u>\$ 9,672</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	Year Ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net income	\$ 9,536	\$ 14,684	\$ 9,672
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	2,561	2,475	2,560
Debt issuance costs	4	4	4
Increase (decrease) from changes in:			
Inventory	176	—	18
Other current assets	(50)	(100)	6
Due to/from affiliate, net	3,320	(2,592)	(957)
Accrued expenses and other current liabilities	122	33	(4)
Other, net	(163)	15	15
Net cash provided by operating activities	<u>15,506</u>	<u>14,519</u>	<u>11,314</u>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(6,851)	(3,749)	(3,097)
Net cash used in investing activities	<u>(6,851)</u>	<u>(3,749)</u>	<u>(3,097)</u>
<b>Cash flows from financing activities:</b>			
Distributions to members	(10,000)	(6,000)	(8,000)
Net cash used in financing activities	<u>(10,000)</u>	<u>(6,000)</u>	<u>(8,000)</u>
Net (decrease) increase in cash	(1,345)	4,770	217
Cash, beginning of period	12,259	7,489	7,272
Cash, end of period	<u>\$ 10,914</u>	<u>\$ 12,259</u>	<u>\$ 7,489</u>
<b>Supplemental cash flow information:</b>			
Interest paid during the period	\$ 394	\$ 652	\$ 615

The accompanying notes are an integral part of these consolidated financial statements.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**  
(in thousands)

	<b>Members' Capital</b>
<b>Balance, December 31, 2017</b>	\$ 49,705
Net income	9,672
Distributions to members	(8,000)
<b>Balance, December 31, 2018</b>	51,377
Net income	14,684
Distributions to members	(6,000)
<b>Balance, December 31, 2019</b>	60,061
Net income	9,536
Distributions to members	(10,000)
<b>Balance, December 31, 2020</b>	<u>\$ 59,597</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

**(1) Summary of Significant Accounting Policies**

**General Information and Basis of Presentation**

Petro Travel Plaza Holdings LLC (the "Company"), a Delaware limited liability company, was formed on October 8, 2008, by Tejon Development Corporation, a California corporation ("Tejon"), and TA Operating LLC, a Delaware limited liability company ("TA"). The Company has two wholly owned subsidiaries: Petro Travel Plaza LLC ("PTP") and East Travel Plaza LLC ("ETP"), each of which is a California limited liability company. The Company's Limited Liability Company Operating Agreement, as amended, ("the Operating Agreement") limits each members' liability to the fullest extent permitted by law. Pursuant to the terms of the Operating Agreement, TA manages the Company's operations and is responsible for the administrative, accounting and tax functions of the Company.

The Company has two travel centers, three convenience stores with retail gasoline stations and one standalone restaurant in Southern California, which we refer to collectively as the locations. One travel center and two convenience stores, owned by PTP, operate under the Petro brand and Goasis brand, respectively, and one travel center and one convenience store owned by ETP, operate under the TravelCenters of America brand and Goasis brand, respectively. The one standalone restaurant, owned by ETP, operates under the Black Bear Diner brand. The travel centers offer a broad range of products and services, including diesel fuel and gasoline, as well as nonfuel products and services such as truck repair and maintenance services, full service restaurants, quick service restaurants ("QSRs") and various customer amenities, such as showers, weigh scales, a truck wash and laundry facilities. The convenience stores offer gasoline as well as a variety of nonfuel products and services, including coffee, groceries, some fresh foods, and, in one store, a QSR.

The members and their interests in the Company are as follows:

<b>Members</b>	
Tejon	60.0 %
TA	40.0 %

In any fiscal year, the Company's profits or losses and distributions, if any, shall be allocated 60.0% to Tejon and 40.0% to TA pursuant to the terms of the Operating Agreement.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, PTP and ETP, after eliminating intercompany transactions, profits and balances. The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In March 2020, the World Health Organization and the U.S. Health and Human Services Secretary declared the outbreak of the novel coronavirus ("COVID-19") as a public health emergency in the United States in response to the outbreak, which continues to spread throughout the United States. As a result, during 2020, certain of the restaurants in the Company's locations had temporarily closed or were limiting the services offered to its customers. As of December 31, 2020, the Company's two travel centers and three convenience stores had reopened, some with limited services, and the standalone restaurant remained temporarily closed. The Company cannot reasonably estimate the length or severity of this pandemic or its impact on the Company's future financial results at this time.

The Company has evaluated subsequent events through March 2, 2021, which date represents the date the financial statements were available to be issued.



**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

***Significant Accounting Policies***

*Inventory*

Inventory is stated at the lower of cost or net realizable value. The Company determines cost principally on the weighted average cost method. The Company maintains reserves for the estimated amounts of obsolete and excess inventory. These estimates are based on unit sales histories and on hand inventory quantities, known market trends for inventory items and assumptions regarding factors such as future inventory needs, their ability and the related cost to return items to their suppliers and ability to sell inventory at a discount when necessary.

*Property and Equipment*

Property and equipment are recorded at historical cost. Depreciation and amortization expense are provided using the straight line method over the estimated useful lives of the respective assets. Repairs and maintenance are charged to expense as incurred and amounted to \$872, \$912 and \$853 for the years ended December 31, 2020, 2019 and 2018, respectively. Renewals and betterments are capitalized. The cost and related accumulated depreciation of property and equipment sold, replaced or otherwise disposed is removed from the related accounts. Gains or losses on disposal of property and equipment are credited or charged to depreciation and amortization expense in the accompanying consolidated statements of income.

*Impairment of Long Lived Assets*

The Company reviews definite lived assets for indicators of impairment during each reporting period. During 2020, the Company included the COVID-19 pandemic and its impact on the Company's operations in its analyses. The Company recognizes impairment charges when (a) the carrying value of a long lived asset or asset group to be held and used in the business is not recoverable and exceeds its fair value and (b) when the carrying value of a long lived asset or asset group to be disposed of exceeds the estimated fair value of the asset less the estimated cost to sell the asset. The Company's estimates of fair value are based on its estimates of likely market participant assumptions, including projected operating results and the discount rate used to measure the present value of projected future cash flows. The Company uses a number of assumptions and methods in preparing valuations underlying impairment tests including estimates of future cash flows and discount rate, and in some instances may obtain third party appraisals. The Company recognizes such impairment charges in the period during which the circumstances surrounding an asset or asset group to be held and used have changed such that the carrying value is no longer recoverable, or during which a commitment to a plan to dispose of the asset or asset group is made. The Company performs an impairment analysis for substantially all of its property and equipment at the individual site level because that is the lowest level of asset and liability groupings for which the cash flows are largely independent of the cash flows of other assets and liabilities. During 2020, the Company did not record any impairment charges related to its long lived assets.

*Environmental Liabilities and Expenditures*

The Company records the expense of remediation charges and penalties when the obligation to remediate is probable and the amount of associated costs is reasonably determinable. The Company includes remediation expenses within operating expense in the accompanying consolidated statements of income. Generally, the timing of remediation expense recognized coincides with the completion of a feasibility study or the commitment to a formal plan of action. Accrued liabilities related to environmental matters are recorded on an undiscounted basis because of the uncertainty associated with the timing of the related future payments.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

*Asset Retirement Obligations*

Asset retirement costs are capitalized as part of the cost of the related long lived asset and such costs are allocated to expense using a systematic and rational method. To date, these costs relate to the Company's obligation to remove underground storage tanks ("USTs") used to store fuel and motor oil. The Company records a liability for the fair value of an asset retirement obligation with a corresponding increase to the carrying value of the related long lived asset at the time a UST is installed. The Company amortizes the amount added to property and equipment and recognizes accretion expense in connection with the discounted liability over the remaining life of the respective UST, which is included in depreciation and amortization expense in the accompanying consolidated statements of income. The Company bases the estimated liability on its historical experiences in removing these assets, estimated useful lives, external estimates as to the cost to remove the assets in the future and regulatory or contractual requirements. Revisions to the liability could occur due to changes in estimated removal costs, or asset useful lives or if new regulations regarding the removal of such tanks are enacted. An asset retirement obligation of \$215 and \$196 was recorded as a noncurrent liability as of December 31, 2020 and 2019, respectively.

*Self Insurance Accruals*

For insurance programs for which the Company pays deductibles and for which the Company is partially self insured up to certain stop loss amounts, the Company establishes accruals for both estimated losses on known claims and potential claims incurred but not reported, based on claims histories and using actuarial methods. In the Company's consolidated balance sheets, the accrual for self insurance costs is included in other noncurrent liabilities, with the amount estimated to be expended within the subsequent 12 months included in accrued expenses and other current liabilities.

*Revenue Recognition*

The Company's revenues consist of fuel and nonfuel revenues. See Note 2 for more information about the Company's revenues.

*Advertising and Promotion Expense*

Costs incurred in connection with advertising and promotions are expensed as incurred. Advertising and promotion expenses, which are included in operating expense in the accompanying consolidated statements of income, were \$322, \$414 and \$400 for the years ended December 31, 2020, 2019 and 2018, respectively.

*Income Taxes*

The Company is not subject to federal or state income taxes. Results of operations are allocated to the members in accordance with the provisions of the Operating Agreement and reported by each member on its federal and state income tax returns. The taxable income or loss allocated to the members in any one year generally varies substantially from income or loss for financial reporting purposes due to differences between the periods in which such items are reported for financial reporting and income tax purposes.

*Comprehensive Income (Loss)*

As of December 31, 2020, the Company had no comprehensive income or loss, other than the net income disclosed in the consolidated statements of income.

**(2) Revenues**

The Company recognizes revenues based on the consideration specified in the contract with the customer, excluding any sales incentives (such as customer loyalty programs and customer rebates) and amounts collected on behalf of third parties (such as sales and excise taxes). The majority of the Company's revenues are generated at the point of sale in its retail locations.

*Fuel Revenues.* The Company recognizes fuel revenues and the related costs at the time of sale to customers at its locations. The Company sells diesel fuel and gasoline to its customers at prices that it establishes daily or are indexed to market prices and reset daily. The Company sells diesel fuel under pricing arrangements with certain customers.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

*Nonfuel Revenues.* The Company recognizes nonfuel revenues and the related costs at the time of sale to customers at its locations. The Company sells a variety of nonfuel products and services at stated retail prices in its travel centers, standalone convenience stores and standalone restaurant, as well as through its Road Squad® program. Truck repair and maintenance goods or services may be sold at discounted pricing under pricing arrangements with certain customers, some of which include rebates payable to the customer after the end of the period.

*Other.* Sales incentives and other promotional activities that the Company recognizes as a reduction to revenue include, but are not limited to, the following:

- *Customer Loyalty Program.* The Company offers travel center trucking customers the option to participate in TA's customer loyalty program. The customer loyalty program provides customers with the right to earn loyalty awards on qualifying purchases that can be used for discounts on future purchases of goods or services. The Company applies a relative standalone selling price approach to its outstanding loyalty awards whereby a portion of each sale attributable to the loyalty awards earned is deferred and will be recognized as revenue in the category in which the loyalty awards are redeemed upon the redemption or expiration of the loyalty awards. Significant judgment is required to determine the standalone selling price for loyalty awards. Assumptions used in determining the standalone selling price include the historic redemption rate and the use of a weighted average selling price for fuel to calculate the revenues attributable to the loyalty awards.
- *Customer Discounts and Rebates.* TA enters into agreements with certain customers on behalf of the Company in which it agrees to provide discounts on fuel and/or truck service purchases, some of which are structured as rebates payable to the customer after the end of the period. The Company recognizes the cost of discounts against, and in the same period as, the revenues that generated the discounts earned.

**Disaggregation of Revenues**

The Company disaggregates its revenues based on the type of good or service provided to the customer, or by fuel revenues and nonfuel revenues, in its consolidated statements of income. The Company's locations use similar processes to sell similar products and services.

**Contract Liabilities**

The Company's contract liabilities, which are presented in its consolidated balance sheets in other current liabilities, primarily include deferred revenue related to rebates payable to customers and other deferred revenues. Contract liabilities were \$2 and \$7 as of December 31, 2020 and 2019, respectively.

**(3) Inventory**

Inventory as of December 31, 2020 and 2019, consisted of the following:

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Nonfuel products	\$ 1,791	\$ 1,950
Fuel products	442	459
<b>Total inventory</b>	<b>\$ 2,233</b>	<b>\$ 2,409</b>

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

**(4) Property and Equipment**

Property and equipment, net, as of December 31, 2020 and 2019, consisted of the following:

	Estimated Useful Lives (years)	December 31,	
		2020	2019
Land and improvements		\$ 39,434	\$ 37,671
Buildings and improvements	10-40	38,818	34,610
Machinery, equipment and furniture	3-15	15,753	14,213
Construction in progress		751	1,524
Leasehold improvements		44	—
Property and equipment, at cost		94,800	88,018
Less: accumulated depreciation and amortization		32,171	29,697
Property and equipment, net		<u>\$ 62,629</u>	<u>\$ 58,321</u>

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 was \$2,543, \$2,456 and \$2,573, respectively.

**(5) Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities as of December 31, 2020 and 2019, consisted of the following:

	December 31,	
	2020	2019
Taxes payable, other than income taxes	\$ 692	\$ 795
Long term debt, current portion	447	—
Self insurance accrual, current portion	362	297
Accrued capital expenditures	359	24
Accrued utilities	72	96
Accrued interest	16	26
Environmental accrual, current portion	16	14
Other	345	350
Total accrued expenses and other current liabilities	<u>\$ 2,309</u>	<u>\$ 1,602</u>

**(6) Long Term Debt, net**

Long term debt, net as of December 31, 2020 and 2019, consisted of the following:

	December 31,	
	2020	2019
Note payable to a bank	\$ 14,884	\$ 15,331
Less: debt issuance costs	40	44
Total long term debt, net	<u>\$ 14,844</u>	<u>\$ 15,287</u>

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

The Company has a credit agreement with a bank that was amended in July 2016 to, among other things, extend the maturity date, with the first minimum principal payment of \$447 due in 2021 and \$767 due in 2022, 2023, 2024 and 2025, and decrease the interest rate on the debt to LIBOR plus 1.95%, payable monthly. The credit agreement includes certain financial covenants, with which the Company was in compliance with at December 31, 2020. At December 31, 2020, the interest rate was 2.09%. The Company's weighted average interest rates for the years ended December 31, 2020, 2019 and 2018 were 2.48%, 4.18% and 3.97%, respectively. The debt is secured by the Company's real property.

***Debt Issuance Costs***

Debt issuance costs are presented on the consolidated balance sheets as a reduction of long term debt, net and for the years ended December 31, 2020 and 2019, were \$40 and \$44, net of accumulated amortization of debt issuance costs of \$17 and \$13, respectively. The Company estimates it will recognize future amortization of debt issuance costs of \$4 in each of the years 2021, 2022, 2023, 2024 and 2025.

**(7) Leasing Transactions**

As of December 31, 2020, the Company had one vehicle under a finance lease. As of December 31, 2020, the Company's finance lease assets, liabilities and expenses were immaterial to its consolidated financial statements. Finance lease assets were included in other noncurrent assets, with the corresponding current and noncurrent finance lease liabilities included in other current liabilities and other noncurrent liabilities, respectively, in its consolidated balance sheet. Amortization of finance lease assets and interest of financing lease liabilities are included in depreciation and amortization expense and interest expense, net, respectively, on its statement of income.

**(8) Related Party Transactions**

***TA Operating LLC***

Pursuant to the terms of the Operating Agreement, TA provides cash management services to PTP, including the collection of accounts receivable. Accounts receivable are periodically transferred to TA for collection and any amounts for which PTP has not received payment from TA are reflected as due from affiliate, net in the accompanying consolidated balance sheets. Amounts due from affiliate, net as of December 31, 2020 and 2019, were \$1,240 and \$4,560, respectively. Pursuant to the terms of the Operating Agreement, TA manages the locations and is responsible for the administrative, accounting and tax functions of the Company. TA receives a management fee for providing these services, which may not be commensurate with the cost of these services were the Company to perform these internally or obtain them from an unrelated third party. The Company paid management fees to TA in the amount of \$1,506, \$849 and \$1,562 for the years ended December 31, 2020, 2019 and 2018, respectively, which fees are included in operating expense in the accompanying consolidated statements of income. In August 2016, the Company amended the Operating Agreement to include, among other things, construction of a QSR by TA on the property of an existing travel center. The Company has agreed to pay TA a construction management fee equal to 2.0% of hard costs of the construction of the QSR. TA opened the QSR on February 13, 2017. In November 2016, the Company further amended the Operating Agreement to, among other things, (a) increase the annual management fee to \$1,300 effective January 1, 2017, with annual increases equal to the lesser of (i) the increase in the Customer Price Index, or (ii) 2.5% and (b) include any additional new builds or significant renovation projects in the construction management fee. In November 2019, the Company further amended the Operating Agreement to, among other things, increase the annual management fee by \$100. In addition to management services and staffing provided by TA, the Operating Agreement grants the Company the right to use all of TA's names, trade names, trademarks and logos to the extent required in the operation of the Company's travel centers and convenience stores.

**PETRO TRAVEL PLAZA HOLDINGS LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 AND 2018**  
(in thousands)

TA purchases fuel and nonfuel products on the Company's behalf. In December 2019, the U.S. government retroactively reinstated the federal biodiesel blenders' tax credit for 2018 and 2019, as well as approved the federal biodiesel blenders' tax credit through 2022. As a result, the Company benefited from a \$1,868 reduction to its fuel cost of goods sold in the year ended December 31, 2019, which is included in due from affiliate, net in the accompanying consolidated balance sheets as of December 31, 2019. For the years 2020 through 2022, the benefit of the federal biodiesel blenders' tax credit will be included in the price TA pays for biodiesel. As of December 31, 2020, all of the federal biodiesel blenders' tax credit that was recognized in 2019 has been collected. In 2020, the Company benefited from a \$1,848 reduction in its fuel cost of goods sold in the year ended December 31, 2020.

The employees operating the Company's travel centers, convenience stores and standalone restaurant are TA employees. In addition to the management fees described above, the Company reimbursed TA for wages and benefits related to these employees that aggregated \$9,394, \$10,719 and \$10,198 for the years ended December 31, 2020, 2019 and 2018, respectively. These reimbursements were recorded in operating expense in the accompanying consolidated statements of income.

***Tejon Development Corporation***

In April 2020, the Company purchased from Tejon, a building and parcel of land for \$2,000. In December 2019, the Company purchased from Tejon, a newly developed building and a parcel of land for \$2,814. The Company accounted for these transactions as asset acquisitions.

**(9) Contingencies**

The Company is involved from time to time in various legal and administrative proceedings, including tax audits, and threatened legal and administrative proceedings incidental to the ordinary course of business, none of which is expected, individually or in the aggregate, to have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

The Company's operations and properties are subject to extensive federal and state legislation, regulations, and requirements relating to environmental matters. The Company uses USTs to store petroleum products and motor oil. Statutory and regulatory requirements for UST systems include requirements for tank construction, integrity testing, leak detection and monitoring, overfill and spill control and mandate corrective action in case of a release from a UST into the environment. The Company is also subject to regulation relating to vapor recovery and discharges into the water. Management believes that the Company's USTs are currently in compliance in all material respects with applicable environmental legislation, regulations and requirements.

Accruals for environmental matters are recorded in operating expense when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. From time to time the Company has received, and in the future likely will receive, notices of alleged violations of environmental laws or otherwise has become or will become aware of the need to undertake corrective actions to comply with environmental laws at its properties. Investigatory and remedial actions were, and regularly are, undertaken with respect to releases of hazardous substances. The Company had an accrual for environmental matters of \$23 and \$21 as of December 31, 2020 and 2019, respectively, which was presented in the accompanying consolidated balance sheets in other noncurrent liabilities, with the amount estimated to be expended within the subsequent 12 months in accrued expenses and other current liabilities. Accruals are periodically evaluated and updated as information regarding the nature of the clean up work is obtained. In light of the Company's business and the quantity of petroleum products that it handles, there can be no assurance that currently unidentified hazardous substance contamination does not exist or that liability will not be imposed in the future in materially different amounts than those the Company has recorded. See Note 1 for a discussion of the Company's accounting policies relating to environmental matters.