

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1997

OR

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

for the transition period from to

For Quarter Ended Commission File Number

March 31, 1997 1-7183

TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

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

P.O. Box 1000, Lebec, California 93243  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code...(805) 248-6774

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

Yes X No

Total Shares of Common Stock issued and outstanding on March 31, 1997, were 12,682,244.

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PART I FINANCIAL INFORMATION

TEJON RANCH CO. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(Unaudited)

	THREE MONTHS ENDED	
	March 31	
	1997	1996
Revenues:		
Livestock	\$ 1,569	\$ 549
Farming	452	24
Oil and Minerals	302	281
Commercial and Land Use	377	336
Interest Income	323	328
	3,023	1,518

Costs and Expenses:		
Livestock	1,694	697
Farming	444	378
Oil and Minerals	45	43
Commercial and Land Use	517	480
Corporate Expense	709	476
Interest Expense	71	50
	3,480	2,124
Operating Loss	(457)	(606)
Income Tax Benefit	(171)	(242)
Net Loss	\$ (286)	\$ (364)
Net Loss Per Share	\$ (.02)	\$ (.03)

See Notes to Consolidated Condensed Financial Statements.

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

	March 31, 1997 (Unaudited)	DECEMBER 31, 1996*
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 758	\$ 693
Marketable Securities	19,032	20,127
Accounts & Notes Receivable	2,771	4,303
Inventories:		
Cattle	4,112	3,082
Farming	1,720	191
Other	505	157
Prepaid Expenses and Other	1,218	1,319
Total Current Assets	30,116	29,872
PROPERTY AND EQUIPMENT-NET	20,692	16,270
OTHER ASSETS	1,248	1,227
TOTAL ASSETS	\$ 52,056	\$ 47,369
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade Accounts Payable	\$ 1,589	\$ 488
Other Accrued Liabilities	217	569
Other Current Liabilities	8,464	4,129
Total Current Liabilities	10,270	5,186
LONG-TERM DEBT	1,800	1,800
DEFERRED CREDITS	2,607	2,651
Total Liabilities	14,677	9,637
STOCKHOLDERS' EQUITY		
Common Stock	6,341	6,341
Additional Paid-In Capital	387	387
Retained Earnings	30,967	31,253
Defined Benefit Plan-Funding		
Adjustment, net of taxes	(256)	(256)
Marketable Securities -		
Unrealized Gains (Losses)		
Net	(60)	7
Total Stockholders' Equity	37,379	37,732
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	\$ 52,056	\$ 47,369

See Notes to Consolidated Condensed Financial Statements.

\* The Balance Sheet at December 31, 1996 has been derived from the audited financial statements at that date.

TEJON RANCH CO. AND SUBSIDIARIES  
 CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW  
 (In thousands)  
 (Unaudited)

	THREE MONTHS ENDED	
	March 31	
	1997	1996
OPERATING ACTIVITIES		
Net Loss	\$ (286)	\$ (364)
Items Not Affecting Cash:		
Depreciation and Amortization	355	269
Decrease Income Taxes	0	134
Gain on Sale of Investments	(4)	0
Changes in Operating Assets and Liabilities:		
Receivables, Inventories and Other Assets, Net	(876)	(1,408)
Current Liabilities, Net	(43)	(689)
NET CASH (USED) BY OPERATING ACTIVITIES	(854)	(758)
INVESTING ACTIVITIES		
Acquisition of Champion Feeders	(3,874)	---
Maturities and Sales of Marketable Securities	1,916	3,987
Funds Invested in Marketable Securities	(928)	(4,081)
Property and Equipment Expenditures	(1,278)	(450)
Net Change in Breeding Herds	(1)	(104)
Other	(43)	(3)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(4,208)	645
FINANCING ACTIVITIES		
Proceeds From Revolving Line of Credit	10,041	3,700
Payments of Revolving Line of Credit	(4,914)	(3,779)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,127	(79)
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Year	693	44
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 758	\$ 78

See Notes to Consolidated Condensed Financial Statements.

TEJON RANCH CO. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
 (Unaudited)

March 31, 1997

NOTE A - BASIS OF PRESENTATION

The summarized information furnished by Registrant pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of Registrant's Management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature.

The results of the period reported herein are not indicative of the results to be expected for the full year due to the seasonal nature of Registrant's agricultural activities. Historically, the largest percentage of revenues are recognized during the

third and fourth quarters.

For further information, refer to the Consolidated Financial Statements and footnotes thereto included in Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

#### NOTE B - CALCULATIONS OF EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Common shares outstanding for the three month period ended March 31, 1997 and 1996 were 12,682,244. Registrant has a Stock Option Plan providing for the granting of options to purchase a maximum of 230,000 shares of Registrant's Common Stock to employees, advisors and consultants of Registrant. At March 31, 1997, options to purchase 179,000 shares are outstanding at prices equal to the fair market value at date of grant (100,000 shares at \$17.875, 59,000 shares at \$20.00 per share, and 20,000 shares at \$15.00 per share). Stock options granted will be treated as common stock equivalents in accordance with the treasury method when such amounts would be dilutive. Fully diluted common shares outstanding for the three month period ended March 31, 1997 and 1996 were 12,683,431 and 12,683,670 respectively. There is no change in earnings per share based on the fully diluted common shares outstanding.

#### NOTE C - MARKETABLE SECURITIES

Registrant has elected to classify its securities as available-for-sale per Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities, and therefore is required to adjust securities to fair value at each reporting date.

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Marketable securities consist of the following at:

	March 31 1997		December 31 1996	
	Estimated Cost	Estimated Fair Value	Estimated Cost	Estimated Fair Value
Marketable securities: (in thousands)				
U.S. Treasury and agency notes	\$11,768	\$11,701	\$13,156	\$13,158
Corporate notes	7,364	7,331	6,960	6,969
	\$19,132	\$19,032	\$20,116	\$20,127

As of March 31, 1997, the cumulative fair value adjustment is a \$100,000 unrealized loss. The cumulative fair value adjustment to stockholders' equity, net of a deferred tax of \$40,000, is an unrealized loss of \$60,000. Registrant's gross unrealized holding gains equal \$149,000, while gross unrealized holding losses equal \$249,000. On March 31, 1997, the average maturity of U.S. Treasury and agency securities was 1.2 years and corporate notes was 1.6 years. Currently, Registrant has no securities with a remaining term to maturity of greater than five years.

Market value equals quoted market price, if available. If a quoted market price is not available, market value is estimated using quoted market prices for similar securities. Registrant's investments in Corporate notes are with companies with a credit rating of A or better.

#### NOTE D - COMMODITY DERIVATIVES USED TO HEDGE PRICE FLUCTUATIONS

Registrant uses commodity contracts to hedge its exposure to price fluctuations on its purchased stocker cattle and cattle feed costs. The objective is to protect or create a future price for stocker cattle that will provide a profit or minimize a loss once the cattle are sold and all costs are deducted and to protect Registrant against market declines. To help achieve this

objective Registrant uses the cattle futures and cattle options markets to hedge the price of cattle. Registrant also hedges to protect against fluctuations in feed cost by using the corn futures and options markets. Feed costs are hedged in order to protect against large pricing increases in feed costs. Registrant continually monitors any open futures and options contracts to determine the appropriate hedge based on market movement of the underlying asset. The option and futures contracts used

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typically expire on a quarterly or semi-annual basis and are structured to expire close to or during the month the stocker cattle are scheduled to be sold. The risk associated with hedging is that hedging imposes a limit on the potential profits from the sale of cattle if cattle prices begin to increase dramatically. The costs of buying and selling options and futures contracts reduce profits. Any payments received and paid related to options contracts are deferred in and reflected as an asset on the balance sheet in prepaid expenses until contracts are closed or expire. There were no outstanding option contracts at March 31, 1997. Cattle futures contracts are carried off-balance sheet until the contracts are settled. Realized losses associated with closed contracts equal to \$116,000 are currently included in cattle inventory and will be recognized in cost of sales when the cattle are sold during the second quarter of 1997.

The following table identifies the cattle futures contract amounts outstanding at March 31, 1997 (in thousands, except number of Contracts):

Cattle Hedging Activity Commodity Future/Option Description	No. Contracts	Contract Expiration Date	Original Contract (Bought) Sold	Estimated Fair Value At Settlement		Estimated Gain (Loss) at Settlement
				(Buy)	Sell	
Cattle futures sold 50,000 lbs. per contract	25	May 97	\$ 827	\$ (873)	\$ (46)	
Cattle futures sold 40,000 lbs. per contract	20	Aug. 97	508	(511)	(3)	
Cattle futures purchased, 50,000 lbs. per contract	20 15	Sept. 97 Oct. 97	(733) (534)	737 558	4 24	

Estimated fair value at settlement is based upon quoted market prices at March 31, 1997.

NOTE E - ACQUISITION OF ASSETS

On March 10, 1997, Registrant completed the purchase of certain assets from Champion Feeders, Inc., a cattle feedlot company in western Texas. The assets purchased include land, a feed mill, cattle pins, office and shop buildings, all rolling stock, inventory and intangibles. No debt or material liabilities of

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Champion Feeders, Inc. were assumed in the purchase of these assets. The purchase price for these assets is \$3.5 million plus inventory value of \$358,000, as of February 28, 1997 and will be accounted for as a purchase. The purchase price of the assets was based upon a dollar value per head of capacity at the feedyard and the fair market value of assets purchased. The purchase price was allocated based on estimated fair value at date of acquisition. The excess of the purchase price over the fair market value of assets acquired was immaterial.

The purchase of these assets allows the Company to begin to meet its long-term objective of becoming vertically integrated within the beef industry. The assets purchased will allow Registrant to own and operate a cattle feedyard operation in western Texas.

The following unaudited pro forma information presents a summary of consolidated results of operations of Registrant as if the acquisition had occurred as of January 1, 1996.

	Three Months Ended	
	March 31	
	(In thousands except per share amounts)	
	1997	1996
Total Revenue	\$5,726	\$6,181
Net Operating Income (Loss)	(128)	(512)
Net Income (Loss)	(34)	(308)
Net Income (Loss) Per Share	\$0.00	\$(0.02)

#### NOTE F - CONTINGENCIES

Registrant leases land to National Cement Company of California, Inc. ("National") for the purpose of manufacturing portland cement from limestone deposits on the leased acreage. National, Lafarge Corporation (the successor to the previous operator) and Registrant have been ordered to clean up and abate certain hazardous waste sites on the leased premises. Under existing lease agreements, National or Lafarge is required to indemnify Registrant for costs and liabilities incurred in connection with the cleanup order depending on when the release of hazardous waste occurred. Due to the financial strength of National and its parent company, which guaranteed National's obligations, and Lafarge, Registrant believes that it is remote there will be a material effect on Registrant.

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As an unrelated matter, Registrant has recently become aware that soils contaminated by gasoline, diesel fuel, and heavy metals are present on the premises leased from Registrant by Truckstops of America for a truck stop and gas station. Registrant has become actively engaged in the regulatory oversight activities of the Kern County Environmental Health Services Department, which has named Registrant as a responsible party with respect to the underground diesel storage tanks that have leaked, and of the Central Valley Regional Water Quality Control Board. Registrant has demanded the cleanup of the contaminated soils. This demand has been made on the current tenant, and the guarantors of the lease, Standard Oil of Ohio and BP Oil & Exploration, Inc. Registrant has entered into settlement discussions with the foregoing parties, is currently working with them on a jointly approved investigation plan, and is hopeful that this dispute can be resolved without resorting to litigation. Because of the financial strength of Standard Oil of Ohio and BP Oil & Exploration, Inc. Registrant believes it is remote that this matter will have a material effect on Registrant.

For a further discussion refer to Registrant's 1996 Form 10-K, Part I, Item 3, - "Legal Proceedings". There have been no changes since the filing of the 1996 Form 10-K.

#### NOTE G - PAYMENT OF DIVIDEND

On April 7, 1997, the Board of Directors voted to declare a cash dividend of two and one-half cents (\$0.025) per share. The dividend will apply to stockholders of record as of the close of business on May 14, 1997, with payment to be made on June 16, 1997.

## Results of Operations

This Management's discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements that are subject to many uncertainties and may turn out not to be accurate. These forward looking statements are subject to factors beyond the control of Registrant (such as weather and market forces) and with respect to Registrant's future development of its land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that any such projections will turn out to be accurate.

Total revenues, including interest income for the first quarter of 1997 were \$3,023,000 compared to \$1,518,000 for the first quarter of 1996. The growth in revenues during the first quarter of 1997 is primarily attributable to increases in livestock and farming revenues. The increase in livestock revenues is due

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primarily to the purchase of a cattle feedlot located near Hereford, Texas that was completed on March 10, 1997. The revenues from the feedlot were approximately \$1,270,000. Revenues at the feedlot are derived from the sale of grain and other types of feed ration to customers that are feeding cattle at the feedlot. This growth in revenues within the livestock division was partially offset by a decline in cattle sales revenues due to 527 fewer head of cattle being sold in 1997, which resulted in cattle sales revenues being \$219,000 less than in 1996. Farming revenues increased due to the receipt of additional crop proceeds related to the 1996 grape and walnut crops. This increase is due to an increase in crop prices that were reflected in the final settlement payments received during January and February 1997.

Operating activities during the first quarter of 1997 resulted in a net loss of \$286,000, or \$0.02 per share, compared to a net loss of \$364,000, or \$0.03 per share, for the same period of 1996. The improvement in net earnings when compared to 1996 is due to the increase in revenues as described above which was partially offset by increased livestock and general and administrative expenses. The increase in livestock expense is primarily attributable to the purchase of the new feedlot. Expenses at the feedlot for the month of March were approximately \$1,140,000. This increase in expense was partially offset by lower cost of sales on cattle due to fewer head of cattle being sold. General and administrative costs have increased when compared to the first quarter of 1996 due to higher staffing costs and professional service fees related to work performed by J.P. Morgan. Staffing costs increased in 1997 due to the timing of hiring a new chief executive officer. During the first quarter of 1996 Registrant had not yet hired a new chief executive officer.

Registrant believes that cattle prices should continue to improve throughout 1997 due to lower supplies during the latter part of 1997 and the continued increase in demand due to export growth and U.S. population growth. It is a little early in the crop year to make production estimates for grapes and nuts, but winter storms and flooding in certain areas of California could have a negative effect on total state production. Based on current inventory levels within the grape and almond industry, Registrant believes that prices for these crops will remain at high levels.

Registrant has been advised that final approvals were received for the construction of a major crude oil pipeline through ranch lands. During December 1995 Registrant completed negotiations with respect to an easement agreement related to this pipeline. The actual start date of construction is still unknown at this time, but Registrant has been advised by the pipeline company that construction could begin during 1997, although there are still substantial uncertainties about the project and its timing.

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If and when construction starts, Registrant will receive a substantial one time payment for this easement that will be

recorded as revenues when received.

Registrant continues to be involved in various environmental proceedings related to leased acreage. For a further discussion refer to Note E - Contingencies.

Prices received by Registrant for many of its products are dependent upon prevailing market conditions and commodity prices. Therefore, Registrant is unable to accurately predict revenue, just as it cannot pass on any cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices. The operations of the Registrant are seasonal and results of operations cannot be predicted based on quarterly results.

#### Liquidity and Capital Resources

Registrant's cash, cash equivalents and short-term investments totaled approximately \$19,790,000 at March 31, 1997, compared to \$20,820,000 on March 31, 1996, a decrease of 5%. Working capital as of March 31, 1997 was \$19,846,000 compared to \$24,686,000 on December 31, 1996. Working capital uses during the first quarter of 1997 were for capital expenditures and the purchase of a cattle feedlot. The assets of the cattle feedlot were purchased on March 10, 1997 for \$3,500,000 plus an additional \$350,000 in beginning inventories. Registrant funded this purchase with cash and short-term lines of credit. Registrant has a revolving line of credit of \$5,000,000 that as of March 31, 1997 had a balance of \$3,935,000 at an interest rate of 8.50%. Registrant also has a short-term line of credit outstanding of \$4,000,000 from an investment banking firm. The lines of credit are expected to be paid down throughout the year from the proceeds of cattle and crop sales. The revolving lines of credit are used as a short-term cash management tool.

The accurate forecasting of cash flows by Registrant is made difficult due to the fact that commodity markets set the prices for the majority of Registrant's products and the fact that the cost of water changes significantly from year-to-year as a result of changes in its availability. Registrant, based on its past experience, believes it will have adequate cash flows over the next twelve months to fund internal operations.

Registrant is currently evaluating the possibility of new farming developments, expansion of the cattle herd, and commercial development along the Interstate 5 corridor. These potential new projects would be funded from current cash resources and from additional borrowings.

Registrant has traditionally funded its growth and capital

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additions from internally generated funds. Management believes that the combination of net earnings, short-term investments and borrowing capacity will be sufficient for its near term operations.

#### Item 8. Financial Statements and Supplementary Data.

The response to this Item is submitted in a separate section of this report.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

#### Impact of Accounting Change

None

#### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

Not Applicable

#### Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports - None

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#### SIGNATURES

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

TEJON RANCH CO.  
(Registrant)

Date

BY /s/  
Allen E. Lyda  
Vice President, Finance  
& Treasurer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE BALANCE SHEET, INCOME STATEMENT, AND FOOTNOTES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

3-MOS		
	DEC-31-1997	
	MAR-31-1997	758
	19,032	
	2,771	
	0	
	6,337	
	30,116	
		35,506
	(14,814)	
	52,056	
	10,270	
		0
	0	
		0
		6,341
		31,038
52,056		
		3,023
	3,023	
		2,700
	2,700	
	709	
	0	
	71	
	(457)	
		(171)
(286)		
	0	
	0	
		0
	(286)	
	(.02)	
	(.02)	