TEJON RANCH CO
Form 10-Q
August 08, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-7183

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, 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. (Check one):
Large accelerated filer ¨ Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Small reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The number of the Company's outstanding shares of Common Stock on July 31, 2017 was 20,865,334.

TEJON RANCH CO. AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues:				
Real estate - commercial/industrial	$2,485	$2,159	$4,674	$4,313
Mineral resources	1,519	3,187	3,520	11,927
Farming	1,501	502	1,932	1,723
Ranch operations	860	1,001	1,941	1,839
Total revenues	6,365	6,849	12,067	19,802
Costs and Expenses:				
Real estate - commercial/industrial	1,902	1,714	3,645	3,393
Real estate - resort/residential	500	387	1,130	929
Mineral resources	529	1,800	1,853	6,493
Farming	1,258	1,350	2,581	2,856
Ranch operations	1,461	1,542	2,954	2,889
Corporate expenses	2,494	3,163	5,439	6,166
Total expenses	8,144	9,956	17,602	22,726
Operating (loss) gain	(1,779)	(3,107)	(5,535)	(2,924)
Other (Loss) Income:				
Investment income	95	120	198	238
Other (loss) income	(149)	37	31	88
Total other (loss) income	(54)	157	229	326
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	(1,833)	(2,950)	(5,306)	(2,598)
Equity in earnings of unconsolidated joint ventures, net	1,560	1,842	1,788	3,297
(Loss) Income before income tax expense	(273)	(1,108)	(3,518)	699
Income tax (benefit) expense	(272)	(380)	(1,604)	232
Net (loss) income	(1)	(728)	(1,914)	467
Net loss attributable to non-controlling interest	(27)	(40)	(38)	(54)
Net (loss) income attributable to common stockholders	$26	$(688)	$(1,876)	$521
Net (loss) income per share attributable to common stockholders, basic	$—	$(0.03)	$(0.09)	$0.03
Net (loss) income per share attributable to common stockholders, diluted	$—	$(0.03)	$(0.09)	$0.03

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net (loss) income	$(1)	$(728)	$(1,914)	$467
Other comprehensive income (loss):				
Unrealized gain on available for sale securities	17	54	55	242
Benefit plan adjustments	1,139	—	1,139	—
SERP liability adjustments	487	—	487	—
Unrealized (loss) gain on interest rate swap	(252)	(1,031)	122	(3,307)
Other comprehensive income (loss) before taxes	1,391	(977)	1,803	(3,065)
Benefit (provision) from income taxes related to other comprehensive income (loss) items	(569)	342	(731)	1,072
Other comprehensive income (loss)	822	(635)	1,072	(1,993)
Comprehensive loss	821	(1,363)	(842)	(1,526)
Comprehensive loss attributable to non-controlling interests	(27)	(40)	(38)	(54)
Comprehensive income (loss) attributable to common stockholders	$848	$(1,323)	$(804)	$(1,472)

See accompanying notes.

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

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 522	$ 1,258
Marketable securities - available-for-sale	22,707	26,675
Accounts receivable	3,761	8,740
Inventories	9,320	3,084
Prepaid expenses and other current assets	3,410	3,107
Total current assets	39,720	42,864
Real estate and improvements - held for lease, net	18,497	20,026
Real estate development (includes $91,149 at June 30, 2017 and $89,381 at December 31, 2016, attributable to Centennial Founders, LLC, Note 15)	257,911	248,265
Property and equipment, net	45,960	46,034
Investments in unconsolidated joint ventures	34,505	33,803
Net investment in water assets	47,556	43,764
Deferred tax assets	1,503	2,282
Other assets	4,326	2,663
TOTAL ASSETS	$ 449,978	$ 439,701
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$ 3,427	$ 2,415
Accrued liabilities and other	3,219	3,188
Deferred income	1,889	1,529
Revolving line of credit	20,000	7,700
Current maturities of long-term debt	3,969	3,853
Total current liabilities	32,504	18,685
Long-term debt, less current portion	67,849	69,853
Long-term deferred gains	3,187	3,662
Other liabilities	11,424	13,034
Total liabilities	114,964	105,234
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders’ Equity		
Common stock, $.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 20,857,255 at June 30, 2017 and 20,810,301 at December 31, 2016	10,429	10,405
Additional paid-in capital	231,127	229,762
Accumulated other comprehensive loss	(5,167)	(6,239)
Retained earnings	70,071	71,947
Total Tejon Ranch Co. Stockholders’ Equity	306,460	305,875
Non-controlling interest	28,554	28,592
Total equity	335,014	334,467
TOTAL LIABILITIES AND EQUITY	$ 449,978	$ 439,701

See accompanying notes.

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Operating Activities		
Net (loss) income	$(1,914)	$467
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,282	2,810
Amortization of premium/discount of marketable securities	163	255
Equity in earnings of unconsolidated joint ventures	(1,788)	(3,297)
Non-cash retirement plan expense	366	483
Deferred income taxes	48	—
Stock compensation expense	1,694	2,131
Excess tax benefit from stock-based compensation	143	—
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(2,867)	(4,939)
Current liabilities	231	(1,607)
Net cash used in operating activities	(1,642)	(3,697)
Investing Activities		
Maturities and sales of marketable securities	4,115	3,291
Funds invested in marketable securities	(255)	(3,151)
Real estate and equipment expenditures	(10,943)	(13,266)
Communities Facilities District and other reimbursements	—	4,650
Proceeds from sale of real estate/assets	—	—
Investment in unconsolidated joint ventures	(252)	(55)
Distribution of equity from unconsolidated joint ventures	2,848	600
Investments in long-term water assets	(4,468)	—
Net cash used in investing activities	(8,955)	(7,931)
Financing Activities		
Borrowings of short-term debt	12,300	11,000
Repayments of short-term debt	—	—
Repayments of long-term debt	(1,899)	(126)
Taxes on vested stock grants	(540)	(314)
Net cash provided by financing activities	9,861	10,560
Increase (decrease) in cash and cash equivalents	(736)	(1,068)
Cash and cash equivalents at beginning of period	1,258	1,930
Cash and cash equivalents at end of period	$522	$862
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	$(463)	$584
Income taxes paid	$—	$1,350
Non cash capital contribution to unconsolidated joint venture	$1,339	$—

See accompanying notes.

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TEJON RANCH CO. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND NONCONTROLLING INTERESTS
(In thousands, except shares outstanding)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 31, 2016	20,810,301	$10,405	$229,762	$ (6,239)	$71,947	$305,875	$ 28,592	$334,467
Net (loss) income	—	—	—	—	(1,876)	(1,876)	(38)	(1,914)
Other comprehensive income	—	—	—	1,072	—	1,072	—	1,072
Restricted stock issuance	76,558	39	(40)	—	—	(1)	—	(1)
Stock compensation	—	—	1,930	—	—	1,930	—	1,930
Shares withheld for taxes and tax benefit of vested shares	(29,604)	(15)	(525)	—	—	(540)	—	(540)
Balance June 30, 2017	20,857,255	$10,429	$231,127	$ (5,167)	$70,071	$306,460	$ 28,554	$335,014

See accompanying notes.

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

1. BASIS OF PRESENTATION

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

The periods ending June 30, 2017 and 2016 include the consolidation of Centennial Founders, LLC’s statement of operations within the resort /residential real estate development segment and statements of cash flows. The Company’s June 30, 2017 and December 31, 2016 balance sheets and statements of changes in equity and noncontrolling interests are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

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

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

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board, or FASB, issued Account Standards Update, or ASU, 2016-01, "Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which requires equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values. The new guidance is effective for periods beginning after December 15, 2017, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)`." From the lessee's perspective, the new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn’t convey risks and rewards or control, an operating lease results. ASU 2016-02 is effective for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company’s consolidated financial statements.

In March 2016, the FASB issued an ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 06)" that further clarifies an ASU issued in 2014 on recognition of revenue arising from contracts with customers. The core principle of this ASU is that entities will recognize revenue to represent the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in such exchange. Leases are specifically excluded from this ASU and will be governed by the applicable lease codification. However, this update may have implications in certain variable payment terms included in lease agreements and in sale and leaseback transactions. The ASU is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. Our primary sources of revenues include: 1) real property leases for which the pronouncement provides a scope exception, 2) agricultural sales where we act as the principle only, recognizing revenues upon satisfying a performance obligation for the gross amount of consideration, to which we expect to be entitled in exchange for the specified good transferred, and 3) hunting memberships and services where we act as the principle only, recognizing revenues upon satisfying a performance obligation for the gross amount of consideration, to which we expect to be entitled in exchange for the specified good transferred. Based on the Company's preliminary assessment over current revenue recognition policies and the new ASU, we believe that the new ASU will not have a material impact to the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting." The ASU is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. Stock-based compensation excess tax benefits or deficiencies are now reflected in the Consolidated Statements of Operations as a component of the provision for income taxes, whereas previously they were recognized within additional paid-in-capital. On the Consolidated Statements of Cash Flows, excess tax benefits or deficiencies associated with stock compensation should be classified as an operating activity. We applied both amendments prospectively within the Consolidated Statements of Operations and Consolidated Statements of Cash Flows recognizing excess tax deficiencies of $143,000. This change has no impact on total shareholders’ equity. The amendment also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity within the Consolidated Statements of Cash Flows. This approach is consistent with our existing policy and as such no changes were made to the Consolidated Statements of Cash Flows. Lastly, the ASU also allows for forfeitures to be recorded when they occur rather than estimated over the vesting period. However, we will continue to estimate forfeitures over the vesting period.

In August 2016, the FASB issued ASU No. 2016-15 “Statement of Cash Flows (Topic 230),” or ASU 2016-15. ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The new guidance addresses the classification of various transactions including distributions received from equity method investments. The new guidance allows companies to adopt the cumulative earnings or nature of distribution for classifying distributions received from equity method investments. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company’s consolidated financial statements.

2. EQUITY

Earnings Per Share (EPS)

Basic net 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 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 warrants to purchase common stock, and the vesting of restricted stock grants per ASC 260, "Earnings Per Share."

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted-average number of shares outstanding:				
Common stock	20,855,112	20,724,689	20,841,627	20,713,396
Common stock equivalents-stock options, grants	22,837	115,693	44,003	103,664
Diluted shares outstanding	20,877,949	20,840,382	20,885,630	20,817,060

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:

($ in thousands)		June 30, 2017		December 31, 2016	
Marketable Securities:	Fair Value Hierarchy	Cost	Fair Value	Cost	Fair Value
Certificates of deposit					
with unrecognized losses for less than 12 months		$1,241	$1,238	$1,868	$1,863
with unrecognized losses for more than 12 months		—	—	—	—
with unrecognized gains		3,603	3,612	3,320	3,329
Total Certificates of deposit	Level 1	4,844	4,850	5,188	5,192
US Treasury and agency notes					
with unrecognized losses for less than 12 months		1,165	1,164	947	946
with unrecognized losses for more than 12 months		—	—	—	—
with unrecognized gains		103	104	857	859
Total US Treasury and agency notes	Level 2	1,268	1,268	1,804	1,805
Corporate notes					
with unrecognized losses for less than 12 months		10,750	10,724	11,658	11,592
with unrecognized losses for more than 12 months		1,323	1,318	1,053	1,042
with unrecognized gains		1,182	1,184	3,431	3,435
Total Corporate notes	Level 2	13,255	13,226	16,142	16,069
Municipal notes					
with unrecognized losses for less than 12 months		1,836	1,817	2,556	2,526
with unrecognized losses for more than 12 months		519	516	271	269
with unrecognized gains		1,028	1,030	812	814
Total Municipal notes	Level 2	3,383	3,363	3,639	3,609
		$22,750	$22,707	$26,773	$26,675

We evaluate our securities for other-than-temporary impairment based on the specific facts and circumstances surrounding each security valued below its cost. Factors considered include the length of time the securities have been valued below cost, the financial condition of the issuer, industry reports related to the issuer, the severity of any decline, our intention not to sell the security, and our assessment as to whether it is not more likely than not that we will be required to sell the security before a recovery of its amortized cost basis. We then segregate the loss between the amounts representing a decrease in cash flows expected to be collected, or the credit loss, which is recognized through earnings, and the balance of the loss which is recognized through other comprehensive income. At June 30, 2017, the fair market value of investment securities was $43,000 less than their cost basis.

As of June 30, 2017, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflected an increase in the market value of available-for-sale securities of $55,000, which includes estimated taxes of $19,000. As of June 30, 2017, the Company's gross unrealized holding gains equaled $13,000 and gross unrealized holding losses equaled $56,000.

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

	June 30, 2017				
($ in thousands)	2017	2018	2019	2020	Total
Certificates of deposit	$195	$4,306	$324	$ —	$4,825
U.S. Treasury and agency notes	692	444	141	—	1,277
Corporate notes	1,724	7,073	4,152	—	12,949
Municipal notes	545	1,688	1,125	—	3,358
	$3,156	$13,511	$5,742	$ —	$22,409

	December 31, 2016				
($ in thousands)	2017	2018	2019	2020	Total
Certificates of deposit	$531	$4,306	$324	—	$5,161
U.S. Treasury and agency notes	1,234	444	142	—	1,820
Corporate notes	4,316	7,133	4,232	—	15,681
Municipal notes	840	1,688	1,075	—	3,603
	$6,921	$13,571	$5,773	$ —	$26,265

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

4. REAL ESTATE

($ in thousands)	June 30, 2017	December 31, 2016
Real estate development		
Mountain Village	$128,989	$ 126,096
Centennial	91,149	89,381
Grapevine	26,423	23,917
Tejon Ranch Commerce Center	11,350	8,871
Real estate development	257,911	248,265
Real estate and improvements - held for lease		
Tejon Ranch Commerce Center	20,293	21,643
Real estate and improvements - held for lease	20,293	21,643
Less accumulated depreciation	(1,796)	(1,617)
Real estate and improvements - held for lease, net	$18,497	$ 20,026

5. INVESTMENTS IN WATER ASSETS

Tangible Water Assets

Tangible water assets include water assets held for future use within our real estate developments and farming. Tangible water is held at cost, which includes the price paid for the water and the cost incurred to pump and deliver the water. A portion of our water is currently held in a water bank on Company land in southern Kern County. Banked water costs also include costs related to the right to receive additional acre-feet of water in the future from the Antelope Valley East Kern Water Agency, or AVEK. The Company has also banked water within an AVEK owned water bank and with TCWD.

We have also purchased water for future company uses or in certain circumstances, sale. In 2008, we purchased 8,393 acre feet of transferable water and in 2009 we purchased an additional 6,393 acre-feet of transferable water, the remaining portion of which is held on our behalf by AVEK under an agreement where AVEK will return this water to us at a 1.5 to 1 factor. To date, at the 1.5 to 1 factor, 13,548 acre-feet (9,032 X 1.5) of water has been returned and was placed in our Company water bank.

The costs assigned to tangible water assets were as follows ($ in thousands):

	June 30, 2017	December 31, 2016
Banked water and water for future delivery	$4,970	$ 4,779
Transferable water	13,351	9,075
Total tangible water	$18,321	$ 13,854

Intangible Water Assets

The Company's carrying amounts of its intangible water assets were as follows: ($ in thousands):

	June 30, 2017		December 31, 2016	
	Costs	Accumulated Depreciation	Costs	Accumulated Depreciation
Dudley Ridge water rights	$12,203	$ (3,327)	$12,203	$ (2,895)
Nickel water rights	18,740	(2,356)	18,740	(2,218)
Tulare Lake Basin water rights	5,857	(1,882)	5,857	(1,777)
	$36,800	$ (7,565)	$36,800	$ (6,890)
Net intangible water assets	29,235		29,910	
Total tangible water assets	18,321		13,854	
Net investments in water assets	$47,556		$43,764	

We have secured State Water Project, or SWP, entitlement under long-term SWP water contracts within the Tulare Lake Basin Water Storage District, or TLBWSD, and the Dudley-Ridge Water District, or DRWD, totaling 3,444 acre-feet of SWP entitlement annually, subject to annual SWP allocations. These contracts extend through 2035 and now have been transferred to AVEK for our use in the Antelope Valley. In 2013, the Company acquired from DMB Pacific, or DMB, 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 in 2017 is $716 per acre-foot. The purchase cost is subject to annual increases based on the greater of the consumer price index or 3%.

The water purchased above is expected to 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 this water is fully allocated to Company uses.

Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, and the Tejon-Castac Water District, or TCWD, are also in place, but were entered into with each district at inception of the contract and not purchased later from third parties, and do not have a related financial carrying cost on the books of the Company. Therefore, there is no amortization expense related to these contracts. These contracts are also subject to annual SWP allocations.

Water assets consist of the following:

(in acre feet, unaudited)	June 30, 2017	December 31, 2016
Tangible water assets		
Banked water and water for future delivery		
AVEK water bank	13,033	13,033
Company water bank	22,916	17,287
AVEK water for future delivery	7,227	2,362
Transferable water*	11,630	9,062
Total tangible water assets	54,806	41,744
Intangible water assets		
Water contracts	10,137	10,137
WRMWSD - Contract[s] with Company	15,547	15,547
TCWD - Contract[s] with Company	5,278	5,749
TCWD - Banked water contracted with Company	40,615	33,390
Total intangible water assets	71,577	64,823
Total water sources in acre feet	126,383	106,567

* Of the 13,049 acre feet of transferable water, 5,754 acre feet of transferable water with AVEK that is used by the Company or returned by AVEK to the Company will be returned at a 1.5 to 1 factor giving the Company use of a total of 8,631 (5,754 x 1.5) acre feet as of June 30, 2017.

Tejon Ranchcorp, or Ranchcorp, a wholly-owned subsidiary of Tejon Ranch Co., has a Water Supply Agreement with Pastoria Energy Facility, L.L.C., or PEF. 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 2017 is $1,056 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.

During the six months ended June 30, 2017, we sold 939 acre feet of water to PEF totaling $1,109,000 with a cost of $765,000, which was recorded in the mineral resources segment on the unaudited Consolidated Statements of Operations.

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

($ in thousands)	June 30, 2017	December 31, 2016
Accrued vacation	$ 847	$ 901
Accrued paid personal leave	576	590
Accrued bonus	1,320	1,346
Other	476	351
	$ 3,219	$ 3,188

7. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

($ in thousands)	June 30, 2017	December 31, 2016
Revolving line of credit	$ 20,000	$ 7,700
Notes payable	71,587	73,400
Other borrowings	381	467
Total short-term and long-term debt	91,968	81,567
Less: line-of-credit and current maturities of long-term debt	(23,969)	(11,553)
Less: deferred loan costs	(150)	(161)
Long-term debt, less current portion	$ 67,849	$ 69,853

On October 13, 2014, the Company, through its wholly-owned subsidiary Ranchcorp, 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 amended and restated the Company's existing credit facility dated as of November 5, 2010 and extended on December 4, 2013. The Credit Facility added a $70,000,000 Term Note, to the existing $30,000,000 revolving line of credit, or RLC. Funds from the Term Note were used to finance the Company's purchase of DMB TMV LLC’s interest in Tejon Mountain Village LLC. 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. As of June 30, 2017 and December 31, 2016, the RLC had an outstanding balance of $20,000,000 and $7,700,000, respectively. At the Company’s option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. The Term Note had outstanding balances of $67,757,000 and $69,439,000 as of June 30, 2017 and December 31, 2016, respectively. The interest rate per annum applicable to the Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Note requires interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Note at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables, the power plant lease and lease site, and related accounts and other rights to payment and inventory.

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than $20,000,000. At June 30, 2017 and December 31, 2016, we were in compliance with all financial covenants.

During the third quarter of 2013, we entered into a promissory note agreement with CMFG Life Insurance Company, to pay a principal amount of $4,750,000 with principal and interest due monthly starting on October 1, 2013. The interest rate on this promissory note is 4.25% per annum, with monthly principal and interest payments of $102,700 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. The current balance on the note is $3,829,000. The balance of this long-term debt instrument included in "Notes payable" above approximates the fair value of the instrument.

8. OTHER LIABILITIES

Other liabilities consist of the following:

($ in thousands)	June 30, 2017	December 31, 2016
Pension liability (Note 13)	$1,845	$ 2,931
Interest rate swap liability (Note 10)	1,743	1,865
Supplemental executive retirement plan liability (Note 13)	7,620	8,015
Other	216	223
Total	$11,424	$ 13,034

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

9. STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS

The Company’s stock incentive plans provide for the making of awards to employees based upon a service condition or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with service condition vesting; performance share grants that only vest upon the achievement of specified performance conditions, such as corporate cash flow goals, or Performance Condition Grants; and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones, or Performance Milestone Grants. The Company has also granted 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. 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 for the six months ended June 30, 2017:

Performance Share Grants with Performance Conditions	
Below threshold performance	—
Threshold performance	169,178
Target performance	434,521
Maximum performance	666,497

The following is a summary of the Company’s stock grant activity, both time and performance share grants, assuming target achievement for outstanding performance share grants for the following periods:

	June 30, 2017	December 31, 2016
Stock grants outstanding beginning of the year at target achievement	386,171	272,353
New stock grants/additional shares due to maximum achievement	295,243	287,091
Vested grants	(55,024)	(172,749)
Expired/forfeited grants	(37,239)	(524)
Stock grants outstanding	589,151	386,171

The unamortized costs associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of June 30, 2017 were $7,639,000 and 28 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 share 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 share grants that contain a range of shares from zero to maximum we determine, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance share grants is tied to the achievement of a performance condition, we estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition.

Under the Non-Employee Director Stock Incentive Plan, or NDSI Plan, each non-employee director receives his or her annual compensation in stock. The stock is granted at the end of each quarter based on the quarter ending stock price.

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

($ in thousands)	Six Months Ended June 30,	
Employee Plan:	2017	2016
Expensed	$1,346	$1,768
Capitalized	236	139
	1,582	1,907
NDSI Plan - Expensed	348	363
Total Stock Compensation Costs	$1,930	$2,270

10. INTEREST RATE SWAP LIABILITY

During 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 Note as discussed in Note 7 (Line of Credit and Long-Term Debt) The ineffective portion of the change in fair value of our interest rate swap agreement is required to be recognized directly in earnings. During the quarter ended June 30, 2017, our interest rate swap agreement was 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. As of June 30, 2017, the fair value of our interest rate swap agreement aggregating a liability balance was classified in other liabilities.

We had the following outstanding interest rate swap agreement designated as a cash flow hedge of interest rate risk as of June 30, 2017 ($ in thousands):

Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Rate	Fair Value	Notional Amount
October 15, 2014	October 5, 2024	Level 2	4.11%	$(1,743)	$67,757

11. INCOME TAXES

For the six months ended June 30, 2017, the Company's income tax benefit was $1,604,000 compared to income tax expense of $232,000 for the six months ended June 30, 2016. These represent effective income tax rates of approximately 46% and 33% for the six months ended June 30, 2017 and, 2016, respectively. As of June 30, 2017, we had income tax receivable of $2,117,000. The Company classifies interest and penalties incurred on tax payments as income tax expense. During the six months ended June 30, 2017, the Company made $0 of income tax payments.

12. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts with minimum annual payments in 2017 of approximately $8,799,000 of which $7,358,000 was paid during the first six months of 2017 with the remainder to be paid throughout the rest of the year. These estimated water contract payments consist of SWP, contracts with Wheeler Ridge Maricopa Water Storage District, Tejon-Castac Water District, or 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 5 (Investments In Water Assets), we purchased the assignment of a contract to purchase water in late 2013. The assigned water contract is with Nickel Family, LLC, and obligates us to purchase 6,693 acre-feet of water annually through the term of the contract.

The Company is obligated to make payments of approximately $800,000 per year through 2021 to the Tejon Ranch Conservancy as prescribed in the Conservation Agreement we entered into with five major environmental organizations in 2008. 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. These amounts are recorded 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 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.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company’s Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company’s land to secure payment of special taxes related to $28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company’s land to secure payments of special taxes related to $55,000,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $65,000,000 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 $4,921,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two 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 $83,000.

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 related to the TRCC-West development. At June 30, 2017 there were no additional improvement funds remaining from the West CFD bonds and there are $7,768,000 in improvement funds within the East CFD bonds for reimbursement of public infrastructure costs during 2017 and future years. During 2017, the Company paid approximately $1,292,000 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 June 30, 2017.

In July 2014, the Company received a copy of a Notice of Intent to Sue, or Notice, dated July 17, 2014 indicating that the Center for Biological Diversity, the Wishtoyo Foundation and Dee Dominguez intend to initiate a lawsuit against the U.S. Fish and Wildlife Service, or USFWS, under the federal Endangered Species Act challenging USFWS's approval of Ranchcorp's Tehachapi Uplands Multiple Species Habitat Conservation Plan, or TUMSHCP, and USFWS's issuance of an Incidental Take Permit, or ITP, to Ranchcorp for the take of federally listed species. The foregoing approvals authorize, among other things, removal of California condor habitat associated with Ranchcorp's potential future development of MV. No lawsuit has been filed at this time. It is not possible to predict whether any lawsuit will actually be filed or whether the Company or Ranchcorp will incur any damages from such a lawsuit.

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 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 is currently 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. The Company’s water supply plan for the Centennial project anticipated reliance on, among other sources, a certain quantity of groundwater underlying the Company’s lands in the Antelope Valley. The Company’s allocation in the Judgment is consistent with that amount. Prior to the Judgment becoming final, on February 19 and 22, 2016, several parties, including the Willis Class and Phelan Pinon Hills CSD, filed notices of appeal from the Judgment. Appellate briefing will likely occur during the last two quarters of 2017 and first quarter of 2018. Notwithstanding the appeals, the parties with assistance from the Court have begun establishment of the Watermaster and administration of 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 the Center for Biological Diversity (collectively, “Central Delta”), filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources, or DWR, Kern County Water Agency 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.” Petitioners in this action sought to invalidate environmental documentation prepared pursuant to the California Environmental Quality Act pertaining to the Kern Water Bank.

The original Environmental Impact Report, or EIR, for the Monterey Amendments was determined to be insufficient in an earlier lawsuit. The current lawsuit principally (i) challenges the adequacy of the remedial EIR that DWR prepared as a result of the original lawsuit and (ii) challenges the validity of the Monterey Amendments on various grounds, including the transfer of the Kern Water Bank ("KWB") lands, from DWR to the Kern County Water Agency and in turn to the Kern Water Bank Authority, or KWBA, whose members are various Kern and Kings County interests, including TCWD, which TCWD has a 2% interest in the KWBA. A parallel lawsuit was also filed by Central Delta in Kern County Superior Court on July 2, 2010, against Kern County Water Agency, also naming the Company and TCWD as real parties in interest, which has been stayed pending the outcome of the other action against DWR. The Company is named on the ground that it "controls" TCWD. This lawsuit has since been moved to the Sacramento County Superior Court. 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, or Rosedale, asserting that the remedial EIR did not adequately evaluate potential impacts arising from operations of the KWB, but this lawsuit did not name the Company, only TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit has since been moved to the Sacramento County Superior Court. In an initial favorable ruling on January 25, 2013, the court determined that the challenges to the validity of the Monterey Amendments, including the transfer of the KWB lands, were not timely and were barred by the statutes of limitation, the doctrine of laches, and by the annual validating statute. The substantive hearing on the challenges to the EIR was held on January 31, 2014. On March 5, 2014 the court issued a decision, rejecting all of Central Delta's California Environmental Quality Act, or CEQA, claims, except the Rosedale claim, joined by Central Delta, that the EIR did not adequately evaluate future impacts from operation of the KWB, in particular potential impacts on groundwater and water quality.

On November 24, 2014, the court issued a writ of mandate (the "2014 Writ") that requires DWR to prepare a revised EIR regarding the Monterey Amendments evaluating the potential operational impacts of the KWB. The 2014 Writ authorizes the continued operation of the KWB pending completion of the revised EIR subject to certain conditions including those described in an interim operating plan negotiated between the KWBA and Rosedale. The 2014 Writ, as revised by the court, requires DWR to certify the revised EIR and file the return to the 2014 Writ by September 28, 2016. On September 20, 2016 the Director of DWR (a) certified the Revised EIR 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 Superior Court its return to the 2014 Writ.

On November 24, 2014, the court entered a judgment in the Central Delta case (1) dismissing the challenges to the validity of the Monterey Amendments and the transfer of the KWB lands in their entirety and (2) granting in part, and denying, in part, the CEQA petition for writ of mandate. Central Delta has appealed the judgment and the KWBA and certain other parties have filed a cross-appeal with regard to certain defenses to the CEQA cause of action. The appeals are pending in the California Court of Appeal.

On December 3, 2014, the court entered judgment in the Rosedale case (i) in favor of Rosedale in the CEQA cause of action, and (ii) dismissing the declaratory relief cause of action. No appeal of the Rosedale judgment has been filed. Rosedale has stipulated to the discharge of the 2014 Writ.

On October 21, 2016, the Central Delta petitioners and a new party, the Center for Food Safety ("CFS Petitioners"), filed a new lawsuit against DWR and naming a number of real parties in interest, including KWBA and TCWD (but not including the Company). The new lawsuit challenges DWR's (i) certification of the Revised EIR, (ii) compliance with the 2014 Writ and CEQA, and (iii) finding concerning the continued use and operation of the KWB by KWBA. In response to a motion filed by the CFS Petitioners, on April 7, 2017 the Superior Court denied the CFS Petitioners' motion to stay the Superior Court proceedings on the return to the 2014 Writ and CFS petition pending appeal. The Superior Court subsequently modified the 2014 Writ to authorize the KWBA to construct an additional 190 acres of recharge ponds within the KWB pending the court's consideration of DWR's return to the 2014 Writ and the petition in CFS vs DWR. A hearing in the Superior Court on DWR's return to the 2014 Writ and the CFS Petition is scheduled for August 18, 2017.

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 granted entitlement approval for the Grapevine project (described below). On January 5, 2017 the Center for Biological Diversity (CBD) and the Center for Food Safety (CFS) filed an action in Kern County Superior Court pursuant to the California Environmental Quality Act (CEQA), against Kern County and the Kern County Board of Supervisors (collectively, the "County") concerning the County's granting of approvals for the Grapevine project, including certification of the final environmental impact report and related findings (EIR); approval of associated general plan amendments; adoption of associated zoning maps; adoption of Specific Plan Amendment No. 155, Map No. 500; adoption of Special Plan No. 1, Map No. 202; exclusion from Agricultural Preserve No. 19; and adoption of a development agreement, among other associated approvals. The Company and its wholly-owned subsidiary, Tejon Ranchcorp, are named as real parties in interest in this action.

The action alleges 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. As of the publication of this filing there have been no hearings on this matter and the County and real parties in interest have not filed their responsive pleadings. Petitioners seek to invalidate the County's approval of the project, the environmental approvals and require the County to revise the environmental documentation.

Proceedings Incidental to Business

From time to time, we are involved in other proceedings incidental to our business, including actions relating to employee claims, environmental law issues, 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, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows either individually or in the aggregate.

13. RETIREMENT PLANS

The Company has a defined benefit plan that covers many of its employees, or the Benefit Plan. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to-date and expected-to-be provided in the future. The Company funds the Benefit Plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. The Company in April 2017, froze the Benefit Plan as it relates to future benefit accruals for participants. The Benefit Plan was closed to new participants in February 2007. The benefit accrual freeze resulted in a benefit plan adjustment, improving our other comprehensive loss position by $1,139,000. We do not expect to contribute to the Benefit Plan during 2017.

Benefit Plan assets consist of equity, debt and short-term money market investment funds. The Benefit Plan's current investment policy targets 65% equities, 25% debt and 10% money market funds. Equity and debt investment percentages are generally allowed to typically fluctuate plus or minus 20% to take advantage of market conditions. As an example, equities could fluctuate from 78% to 52% of plan assets. At June 30, 2017, the investment mix was approximately 56% equity, 41% debt, and 3% money market funds. At December 31, 2016, the investment mix was approximately 60% equity, 29% debt and 11% 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 rates used in determining periodic pension cost were 3.9% and 4.3% in 2017 and 2016, respectively. The expected long-term rate of return on plan assets is 7.5% in 2017 and 2016. The long-term rate of return on Benefit Plan assets is based on the historical returns within the plan and expectations for future returns.

The expected total pension and retirement expense for the Benefit Plan was as follows:

	Six Months Ended June 30,	
($ in thousands)	2017	2016
Cost components:		
Service cost-benefits earned during the period	$(45)	$(111)
Interest cost on projected benefit obligation	(198)	(203)
Expected return on plan assets	263	258
Net amortization and deferral	(73)	(92)
Total net periodic pension cost	$(53)	$(148)

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 Company in April 2017, froze the SERP plan as it relates to the accrual of additional benefits resulting in a SERP liability adjustment, improving our other comprehensive loss position by $487,000. The pension and retirement expense for the SERP was as follows:

	Six Months Ended June 30,	
($ in thousands)	2017	2016
Cost components:		
Interest cost on projected benefit obligation	$(146)	$(161)
Net amortization and deferral	(166)	(172)
Total net periodic pension cost	$(312)	$(333)

14. REPORTING SEGMENTS AND RELATED INFORMATION

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

Commercial lease revenue consists of land and building leases to tenants at our commercial retail and industrial developments, base and percentage rents from our Pastoria Energy Facility power plant lease, communication tower rents, and payments from easement leases.

The revenue components of the commercial/industrial real estate development segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2017	2016	2017	2016
Pastoria Energy Facility Lease	$881	$860	$1,725	$1,731
Tejon Ranch Commerce Center	500	513	1,112	1,006
Commercial leases	290	399	592	800
Communication leases	167	198	374	394
Landscaping and other	172	189	396	382
Land sale	475	—	475	—
Commercial/industrial revenues	2,485	2,159	4,674	4,313
Equity in earnings from unconsolidated joint ventures	1,560	1,842	1,788	3,297
Total commercial/industrial revenues and equity in earnings from unconsolidated joint ventures	4,045	4,001	6,462	7,610
Net operating income from commercial/industrial and unconsolidated joint ventures	$2,143	$2,287	$2,817	$4,217

The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through a joint venture. The segment incurs costs and expenses related to its development activities, but currently generates no revenue. The segment produced losses of $1,130,000 and $929,000 for the six months ended June 30, 2017 and 2016, respectively. The segment produced losses of $500,000 and $387,000 for the quarters ended June 30, 2017 and 2016, respectively.

The mineral resources segment receives oil and mineral royalties in addition to periodic reimbursable costs from lessors. The segment also, as opportunities arise periodically, may generate revenues through water transactions. The revenue components of the mineral resources segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2017	2016	2017	2016
Oil and gas	$429	$383	$805	$769
Water sales	146	1,810	1,254	9,601
Rock aggregate	248	305	428	507
Cement	519	369	797	629
Land lease for oil exploration	—	25	25	126
Reimbursable costs	177	295	211	295
Total mineral resources revenues	1,519	3,187	3,520	11,927
Net operating income from mineral resources	$990	$1,387	$1,667	$5,434

The farming segment produces revenues from the sale of almonds, pistachios, wine grapes, and hay. The revenue components of the farming segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2017	2016	2017	2016
Almonds	$790	$359	$790	$1,344
Pistachios	312	59	568	258
Hay and other	399	84	574	121
Total farming revenues	1,501	502	1,932	1,723
Net operating income (loss) from farming	$243	$(848)	$(649)	$(1,133)

Ranch operations consists of game management, ranch and property maintenance, and ancillary land uses such as grazing leases and filming. Within game management, we offer a wide variety of guided big game hunts including trophy Rocky Mountain elk, deer, turkey and wild pig. The revenue components of the ranch operations segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2017	2016	2017	2016
Game management	$277	$373	$578	$852
Grazing	474	523	898	773
Filming and other	109	105	465	