TEJON RANCH CO
Form 10-K
March 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

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	**(IRS Employer**
incorporation or organization)	**Identification Number)**

P.O. Box 1000, Lebec, California 93243

(Address of principal executive office)

Registrant s telephone number, including area code: (661) 248-3000

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web Site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ((§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files) ¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of registrant s Common Stock, par value $.50 per share, held by persons other than those who may be deemed to be affiliates of registrant on June 30, 2010 was $455,340,012 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 25, 2011 was 19,768,145 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2011 relating to the directors and executive officers of the Company are incorporated by reference into Part III.

Total Pages - 99

Exhibit Index - 52

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PART I

Forward Looking Statements

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

ITEM 1. BUSINESS

Tejon Ranch Co. (the Company, Tejon, we, us and our) is a diversified real estate development and agribusiness company committed to responsibly using our land and resources to meet the housing, employment, and lifestyle needs of Californians and create value for our shareholders. Current operations consist of land planning and entitlement, land development, commercial sales and leasing, leasing of land for mineral royalties, grazing leases, income portfolio management, and farming. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield. We create value by securing entitlements for our land, facilitating infrastructure development, strategic land planning, development, and conservation.

We are involved in several joint venture agreements which facilitate the development of portions of our land. We are also actively engaged in land planning, land entitlement, and conservation projects. In October 2009, our Tejon Mountain Village, or TMV, community received unanimous entitlement approval from the Kern County Board of Supervisors. In November 2010, Kern County Superior Court Judge Kenneth Twissleman ruled in favor of the Company, its development partner DMB Associates, Inc. and Kern County when he found that Kern County had properly analyzed and evaluated the environmental effects of TMV. Judge Twissleman rejected claims made by the Center for Biological Diversity, or CBD, along with other parties, that our

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environmental impact report or EIR for TMV was inadequate. The findings of Judge Twissleman were appealed by CBD on February 8, 2011. See Item 3, Legal Proceedings, for a further discussion. The Board of Supervisors approval and the Court s affirmation allows the Company to proceed with its proposed development of TMV as a premier resort community, however, we generally believe it is more prudent to have lawsuits settled or finally determined before beginning development.

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

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

(Amounts in thousands of dollars)

	2010	2009	2008
Revenues			
Real estate - commercial/industrial	$ 16,656	$ 14,996	$ 27,234
Real estate - resort/residential	281	272	
Farming	18,576	12,983	12,887
Segment revenues	35,513	28,251	40,121
Investment income	979	1,640	2,169
Other income	61	45	349
Total revenues	$ 36,553	$ 29,936	$ 42,639
Segment Profits (Losses) and Net Income (Loss)			
Real estate - commercial/industrial	$ 5,997	$ 2,527	$ 13,388
Real estate - resort/residential	(2,808)	(4,171)	(4,563)
Farming	7,662	1,179	1,195
Segment profits (1)	10,851	(465)	10,020
Investment income	979	1,640	2,169
Other income	61	45	349
Interest expense	(9)	(70)	(70)
Corporate expenses	(5,612)	(7,311)	(8,539)
Operating income (loss) before equity in earnings of unconsolidated joint ventures	6,270	(6,161)	3,929
Equity in earnings of unconsolidated joint ventures	541	374	2,227
Income (loss) before income taxes	6,811	(5,787)	6,156
Income tax provision (benefit)	2,852	(2,354)	2,044
Net income (loss)	3,959	(3,433)	4,112
Net loss attributable to noncontrolling interest	(216)	(56)	
Net income (loss) attributable to common stockholders	$ 4,175	$ (3,377)	$ 4,112
Identifiable Assets by Segment (2)			
Real estate - commercial/industrial	$ 51,053	$ 59,652	$ 45,826
Real estate - resort/residential	98,829	86,553	34,357
Farming	26,366	23,375	22,180
Corporate	111,843	65,164	84,709
Total assets	$ 288,091	$ 234,744	$ 187,072

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

(2) Identifiable 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, and land, buildings and improvements.

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Real Estate Operations

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

Interstate 5, one of the nation s most heavily traveled freeways, brings approximately 90,000 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 four interchanges. The strategic plan for real estate focuses on development opportunities along the Interstate 5 corridor, which includes the Tejon Ranch Commerce Center, or TRCC, the Centennial master planned community on our land in Los Angeles County, or Centennial and our resort and residential community called TMV. TRCC includes development west of Interstate 5, TRCC-West, and development east of Interstate 5, TRCC-East. TRCC-West has been in development for approximately eleven years while infrastructure development began at TRCC-East in 2009.

We are continuing, under the terms of the Conservation Agreement, we entered into with five of the major environmental organizations in June 2008, with our development of TMV, Centennial, and the Grapevine area of Interstate 5 located in Kern County, which includes TRCC-East and West. In February 2011, we completed the sale of conservation easements over 62,000 acres of our land with the Tejon Ranch Conservancy, or Conservancy, for $15,750,000. Portions of the 62,000 acres are suitable for development in the long-term future, but the conservation easements preclude us from pursuing any long-term development on the 62,000 acres. We do however retain fee ownership of the 62,000 acres and will continue to operate current revenue generating activities including farming, cattle grazing, oil and gas, and other mineral exploration on portions of the acreage.

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

Commercial/Industrial

Construction:

During 2010 we finalized the water system infrastructure at TRCC-East and completed the expansion of the Laval Road interchange bridge that serves both TRCC-East and West.

Leasing:

Within our commercial/industrial segment, we lease land to various types of tenants. We currently lease land to a truck wash, three auto service stations with convenience stores, five fast-food operations, two full-service restaurants, one motel, an antique shop, and a United States Postal Service facility.

In addition, the Company leases several microwave repeater locations, radio and cellular transmitter sites, and fiber optic cable routes; 32 acres of land to Calpine Generating Company, or Calpine, for an electric power plant; and one office building in Rancho Santa Fe, California.

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We lease certain portions of our land to oil companies for the exploration and production of oil and gas, but do not ourselves engage in any such exploratory or extractive activities. As of December 31, 2010, approximately 9,293 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 496,000 barrels of oil and 287,000 MCF (each MCF being 1,000 cubic feet) of dry gas during 2010. Our share of production, based upon average royalty rates during the last three years, has been 176, 190, and 215, barrels of oil per day for 2010, 2009, and 2008, respectively. Approximately 238 producing oil wells were located on the leased land as of December 31, 2010. Royalty rates on our leases range from 12.5% to 25%.

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

We have approximately 2,000 acres under lease to National Cement Company of California, Inc., or National, for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. National owns and operates a cement manufacturing plant on our property with a capacity of approximately 1,000,000 tons of cement per year. The amount of payment that we receive under the lease is based upon shipments from the cement plant which declined in 2010 compared to 2009. The decline in shipments is the direct result of reduced construction activity due to the depressed economy and real estate market. 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. See Item 3, Legal Proceedings, for a further discussion.

Please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding our 2010 commercial/industrial activity.

Joint Ventures:

We are also involved in multiple joint ventures with several partners. Our TA/Petro joint venture owns and operates two travel and truck stop facilities, and also operates three separate gas stations with convenience stores within TRCC-West and TRCC-East. We are involved in two joint ventures with Rockefeller Development Group, the Five West Parcel LLC which owns a 606,000 square foot building in TRCC-West, which is partially leased, and the 18-19 West LLC which owns 61.5 acres of land for future development within TRCC-West.

Resort/Residential

Our resort/residential segment activities include land planning and entitlement and land stewardship and conservation activities. We have two major resort/residential communities within this segment, one of which, TMV, received county entitlement approvals in 2009 that were reaffirmed by the Kern County Superior Court in November 2010, and one of which, the Centennial community, is still progressing through the entitlement process in Los Angeles County. The entitlement process precedes the regulatory approvals necessary for land development and routinely takes several years to complete. The Conservation Agreement that we signed in 2008 is designed to minimize the opposition from environmental groups to these projects and eliminate or reduce the time spent in litigation once governmental approvals are received. Litigation by environmental groups has been a primary cause of delay and loss of financial value for real estate development projects in California.

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Centennial community:

The Centennial development is a large master-planned community development encompassing approximately 11,000 acres of our land within Los Angeles County. Upon completion of Centennial, it is estimated that the community will include approximately 23,000 homes. The community will also incorporate business districts, schools, retail and entertainment centers, medical facilities and other commercial office and light industrial businesses that, when complete, would create a substantial number of jobs. Centennial is being developed by Centennial Founders, LLC, a consolidated joint venture in which we have a 63.6% ownership interest as of December 31, 2010. Our partners in this joint venture are Pardee Homes, Lewis Investment Company and Standard Pacific Corp. In 2009, our partners in Centennial Founders LLC elected to become non-contributing capital partners due to the financial difficulties facing homebuilders and the downturn within the real estate industry. As a result, the Company began funding 100% of Centennial Founders LLC s current operations, thereby diluting each other partner s percentage ownership. This change in funding occurred in July 2009. Prior to that time the Company was contributing 50% of the capital funds necessary to pursue entitlement and development efforts undertaken by this joint venture. We expect to continue funding all entitlement and pre-development activities for the near future.

Since the initial submittal of our administrative-level EIR with respect to the Centennial community to Los Angeles County, we have continued to receive feedback from the Los Angeles Planning Department and have submitted several revisions of our administrative EIR as we work towards the public filing of our EIR and final approval. We cannot estimate when or if this approval will be granted, but the process is being actively pursued. In addition to the EIR, we have submitted a variety of other reports required as part of the entitlement process including our specific plan, tentative tract maps, geological reports, traffic reports, and water supply assessment reports. Centennial is envisioned to be an ecologically friendly and commercially viable development. Our plan is for a sustainable program that provides for the needs of the community while protecting the environment and will be achieved through our continuing focus on responsible use of limited resources and progressive construction design. We recognize the need to balance expensive Green Program certifications with the practicality of investing those same funds in environmentally sound building elements.

Tejon Mountain Village community:

In addition to the Centennial community project, we are currently engaged in the development of TMV. TMV is envisioned as an exclusive, very low-density, resort-based community that will provide owners and guests with a wide variety of recreational opportunities, lodging and spa facilities, world-class golf facilities, a range of housing options, and other exclusive services and amenities that are designed to distinguish TMV as the resort of choice for the Southern California market. TMV is being developed by TMV LLC, an unconsolidated joint venture in which we have a 50% ownership interest. Our partner in this joint venture is DMB TMV LLC, a wholly-owned subsidiary of DMB Associates Inc., or DMB, which is a leading resort/recreational planned community developer. Under the joint venture agreement, the parties have agreed to secure all entitlements and all necessary regulatory approvals, to master plan, develop and sell parcels and homes to end users, and to develop and own, sell or joint venture commercial properties, hotels, and golf course sites in TMV. In 2006, the Company contributed rights to all studies, research, and other work that we had performed related to TMV to the joint venture and committed to contribute 26,000 or more acres comprising the TMV site at such time as entitlements are successfully obtained and litigated, while DMB committed up to a total of at least $113,500,000 to fund entitlement efforts and the beginning of development. Beginning in 2009, based on the

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achievement of entitlement contribution levels by DMB, we began equal sharing of all funding requirements for entitlement and development activities with DMB.

In October 2009, TMV received unanimous entitlement approval from the Kern County Board of Supervisors which allows the Company to commence development activities. This approval began a thirty day period in which a CEQA lawsuit could be filed against Kern County. These lawsuits routinely allege inadequacy of the EIR. As expected, a group of parties led by CBD filed a suit in November 2009 alleging inadequacy of the EIR. In November 2010, Kern County Superior Court Judge Kenneth Twissleman ruled in favor of the Company, its development partner, and Kern County when he found that Kern County had properly analyzed and evaluated the environmental effects of TMV. Judge Twissleman rejected claims made by CBD that our environmental impact report for TMV was inadequate. The findings of Judge Twissleman were appealed by CBD on February 8, 2011. It is difficult to predict the ultimate timing of the settlement of the appeal or the eventual outcome of the appeal. See Item 3, Legal Proceedings, for a further discussion.

Because our residential housing communities, Centennial and TMV, are both in the entitlement phase, they have not been directly impacted by the downturn in the housing market over the last few years. However, we cannot project the condition of the housing market or the stability of the mortgage industry if and when we have secured full entitlement for our projects, or when these projects move into their development and marketing phases. These factors can impact the timing of beginning of development.

The sale and leasing of commercial/industrial real estate is very competitive, with competition coming from numerous and varied sources around California. The degree of competition has increased due to the current economic climate which has caused an oversupply of comparable real estate available for sale or lease due to the decline in demand as a result of the recent economic downturn and lack of active business expansion. Our ability to attract tenants due to preferential pricing is minimized due to price-cutting by our most direct regional competitors in the Inland Empire region of Southern California and areas north of us in the San Joaquin Valley of California. The greatest competition for the Centennial community will come from California developments in the Santa Clarita Valley, Lancaster, Palmdale, and Bakersfield. TMV will compete generally for discretionary dollars that consumers will allocate to recreation and second homes, so its competition will range over a greater area and range of projects.

Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes 1,621; almonds 1,513; and pistachios 1,012. We manage the farming of alfalfa and forage mix on 775 acres in the Antelope Valley and we periodically lease 750 acres of land that is used for the growing of vegetables.

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 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.

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

In 2010, we sold 64% of our grape crop to one winery, 28% to a second winery and the remainder to two other customers. These sales are under long-term contracts ranging from one to thirteen years. In 2010, our almonds were sold to various commercial buyers, with the two largest buyers accounting for 53% and 40%, respectively of our almond revenues. In 2010 the majority of our pistachios were sold to two customers, purchasing approximately 48% and 41% of the crop, respectively. We do not believe that we would be adversely affected by the loss of any or all of these large buyers because of the markets for these commodities, the large number of buyers that would be available to us, and the fact that the prices for these commodities do not vary based on the identity of the buyer or the size of the contract.

Nut and grape crop markets are particularly sensitive to the size of each year s world crop and the demand for those crops. Large crops in California and abroad can rapidly depress prices. Crop prices, especially almonds, are also adversely affected by a strong U.S. dollar which makes U.S. exports more expensive and decreases demand for the products we produce. The relatively weak value of the dollar over the last few years has helped to maintain strong almond prices in the U.S. and in overseas markets.

Our water entitlement for 2010 available from the California State Water Project, or SWP, when combined with supplemental water, was adequate for our farming needs. The State Department of Water Resources, or DWR, has announced its early 2011 estimated water supply delivery at 60% of full entitlement. We anticipate that this current year allocation is sufficient for our 2011 farming needs. It is possible that when the current SWP allocation is combined with other available water resources, such as groundwater and surface sources, the Company may be able to bank additional water in 2011 for future use. See discussion of water contract entitlement and long-term outlook for water supply under Item 2, Properties.

Customers

In 2010, Stockdale Oil and Gas, an oil and gas lease-holder, accounted for 11% of our revenues from continuing operations.

In 2009, Calpine, a tenant who leases and operates a power plant on our land, accounted for 12% of our revenues from continuing operations.

In 2008, Stockdale Oil and Gas, an oil and gas lease-holder, accounted for 13% of our revenues from continuing operations.

Organization

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

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Employees

At December 31, 2010, we had 129 full-time employees. None of our employees are covered by a collective bargaining agreement.

Reports

We make available free of charge through our Internet website, www.tejonranch.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or to be furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. We also make available on our website our corporate governance guidelines, charters of our key Board of Directors Committees (audit, compensation, nominating and corporate governance, and real estate), and our Code of Business Conduct and Ethics for Directors, Officers, and Employees. These items are also available in printed copy upon request.

Executive Officers of Registrant

The following table shows each of our executive officers and the offices held as of March 7, 2011, the period the offices have been held, and the age of the executive officer. All of such officers serve at the pleasure of the Board of Directors.

Name	**Office**	**Held since**	**Age**
Robert A. Stine	President and Chief Executive Officer, Director	1996	64
Dennis J. Atkinson	Senior Vice President, Agriculture	1998	60
Joseph E. Drew	Senior Vice President, Real Estate	2001	68
Allen E. Lyda	Senior Vice President, Chief Financial Officer	1990	53
Kathleen J. Perkinson	Senior Vice President, Natural Resources and Stewardship	2008	51

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

Mr. Stine has been employed by us since May 1996, serving as President and Chief Executive Officer and as a Director.

Mr. Atkinson has been employed by us since July 1998, serving as Vice President, Agriculture, until 2008 when he was promoted to Senior Vice President.

Mr. Drew has been employed by us since March 2001, serving until December 2003 as Vice President, Commercial and Industrial Development, when he was promoted to his current position.

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Mr. Lyda has been employed by us since 1990, serving as Vice President, Finance and Treasurer. He was elected Assistant Secretary in 1995 and Chief Financial Officer in 1999. Mr. Lyda was promoted to Senior Vice President in 2008.

Ms. Perkinson has been employed by us since July 2007, serving as Vice President, Community Development until September 2008 when she was promoted to her current position. She became an executive officer in December 2008. Prior to joining the Company she served for ten years as Managing Director of the Miller Family Companies where she managed all aspects of a 2,350 unit master planned community.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing the Company. If any of the following risks occurs, 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.

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

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

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

A downturn in national or regional economic conditions could continue to adversely impact our business. The collapse of the housing market beginning in 2007 together with the crisis in the credit markets, resulted in a recession in the national economy. At such times, potential home buyer and commercial real estate customers often defer or avoid real estate transactions due the substantial costs involved and uncertainties in the economic environment. Our future real estate sales, revenues, financial condition and results of operations could suffer as a result. Our business is especially sensitive to economic conditions in California, where all of our land is located.

While there have been signs of improvement in the economy, California as one of the hardest hit states in the recent economic downturn, could take longer to recover than the rest of the nation. A prolonged downturn will continue to have a material adverse effect on our business and results of operations.

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

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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. In addition, 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. While we have worked with representatives of various environmental interests and wildlife agencies to minimize and mitigate the impacts of our planned projects, certain groups opposed to development have made clear they intend to oppose our projects vigorously, so litigation challenging their approval is expected. The issues most commonly cited in opponents public comments include the poor air quality of the San Joaquin

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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 green house gas emissions in the state and current efforts to enact federal legislation to address climate change concerns could require further reductions in our projects carbon footprint in the future.

Constriction of the credit markets could limit our ability to access capital and increase our cost of capital. During the recent economic downturn, we have relied principally on positive operating cash flow and cash and investments to meet our current working capital needs. A recent stock rights offering will be used to fund development and entitlement activities in the future. While there has been signs of improvement in the economy, the ongoing economic and real estate downturn has reduced other sources of liquidity available to the industry, and may continue to limit these sources of liquidity in the future and potentially increase our costs of capital.

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

We are in competition with several other developments for customers and residents. Within our real estate activities, we are in direct competition for customers with other industrial sites in Northern, Central, and Southern California. We are also in competition with other highway interchange locations using Interstate 5 and State Route 99 for commercial leasing opportunities. Once they receive all necessary approvals and entitlements, Centennial will ultimately compete with other residential housing options in the region, such as developments in the Santa Clarita Valley, Lancaster, Palmdale, Bakersfield, and TMV 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.

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, which is currently in an economic downturn, 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. There is no consensus as to when the economy will begin to improve or how long it could take the economy to recover from the continuing economic downturn. Ultimately, our ability to sell or lease lots may decline as a result of weak economic conditions or restrictive regulations.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects. We currently depend heavily on the services of Robert A. Stine, our President and Chief Executive Officer, and a number of other key management personnel. The loss of Mr. Stine s services or that of other key personnel could materially and adversely affect our results of operations, financial condition, or our ability to

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pursue land development. Our success will also depend in part on our ability to attract and retain additional qualified management personnel.

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. For several years 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.

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

Concentrated ownership of our Common Stock creates a risk of sudden change in our share price. As of February 25, 2011, directors and members of our executive management team beneficially owned or controlled approximately 28.64% 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 of any significant amount 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.

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.

Within our real estate operations, inflation can result in increased costs of construction and can reduce operating margins as increases in operating costs result in deteriorating margins on long term fixed lease agreements.

A prolonged downturn in the real estate market or continued 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 and TMV, are currently in the entitlement phase, and therefore they have not been impacted by the current downturn in the housing market or the mortgage lending crisis. However, if the downturn in the real estate market or the 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. 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.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our approximate 270,000 acres include portions of the San Joaquin Valley, portions of the Tehachapi Mountains and portions of the western end of the Antelope Valley. 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 general guidelines for land use and development, it is subject to amendment to accommodate changing circumstances and needs. In addition to conforming to any amendment of the General Plan, much of our land will require specific zoning and site plan approvals prior to actual development.

The remainder of our land, approximately 23,000 acres, is in Los Angeles County. This area is accessible from Interstate 5 via Highway 138. Los Angeles County has adopted general plan policies that contemplate future residential development of portions of this land, subject to further assessments of environmental and infrastructure constraints. We are currently pursuing

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entitlements for the Centennial master-planned community on approximately 11,000 acres of this land. See Item 1, Business Real Estate Operations.

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. 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, which may 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 Wheeler Ridge, provide for water entitlements and deliveries from the SWP, to our agricultural 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, 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 our agricultural contract water entitlements, we have an additional water entitlement from the SWP sufficient to service a substantial amount of future residential and/or commercial development in Kern County. The Tejon-Castac Water District, or TCWD, a local water district serving only our land and land we have sold in TRCC, has 5,278 acre feet of SWP entitlement. In addition, TCWD has approximately 32,250 acre feet of water stored in Kern County water banks. Both the entitlement and the banked water are the subject of a long-term water supply contract extending to 2035 between TCWD and our Company. TCWD is the principal water supplier to TRCC, and would be the principal water supplier for any significant residential and recreational development in TMV.

We have constructed 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 purchased 6,700 acre feet of water from the Antelope Valley-East Kern Water Agency, or AVEK, which has been pumped from the California aqueduct and is currently retained in this water bank. In 2007 and 2008 we contracted for 2,362 additional acre feet of water from AVEK, but have deferred delivery of the water to a future year. We anticipate adding additional water to the water bank in the future as water is available. In 2009 we began participating in the newly formed AVEK in-lieu water-banking program and we have 331 acre feet of water to our credit in this program.

In recent years we have also been purchasing water for our future use or sale. In 2008 we purchased 8,393 acre feet of transferable water and in 2009 we purchased an additional 6,393 acre feet of transferable water, all of which is currently held on our behalf by AVEK. We are also eligible to receive water under long term SWP water contract agreements that we have with the Tulare Lake Water District and the Dudley Ridge Water District. These contracts are to supply annually 3,444 acre feet of water, subject to SWP allocations, and the contracts extend through 2035.

During 2010, SWP allocations were 50%, and Wheeler Ridge was able to supply us with 100% of our farming demands through supplemental water it provided principally from water banks. 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. Both Wheeler Ridge 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 deliveries 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 deliveries are less than 30% of our entitlement in any year, or if shortages continue for a sustained period of several years, then Wheeler Ridge 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 others, 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 60% preliminary SWP water allocation has been made by the DWR for 2011.

All SWP water contracts require annual payments related to the fixed costs of the SWP and each water district, whether or not water is used or available. Wheeler Ridge 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. Ground water in the Antelope Valley Basin is the subject of litigation. See Item 3, Legal Proceedings for additional information about this litigation.

There have been many environmental challenges regarding the movement of state project water through the Sacramento Delta. These challenges resulted in a 2007 temporary court ordered shut down of the Delta pumps, which 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. New Biological Opinions, or BOs, issued by the U.S. Fish and Wildlife Service and National Marine Fisheries Service in 2008 and 2009 contain similar restrictions on pumping from the Delta. These BOs are being challenged in the courts by both water agencies and environmental groups. Judge Wanger of the Federal District Court, Eastern District of California, has determined that parts of the new BOs related to the Delta Smelt are insufficient and remanded the BOs back to the U.S. Fish and Wildlife Service for further analysis. There are many groups, governmental and private, working together to develop a solution in the near future to alleviate the curtailment of water from the Delta.

Historic SWP restrictions on the right to use agricultural water entitlement for municipal purposes were removed in 1995, and the parties to a lawsuit challenging such removal have agreed to a settlement which would allow such removal to continue while the environmental impacts are studied. For this purpose, municipal use includes residential and industrial use. Therefore, although only 2,000 of Tejon-Castac s 5,278 acre feet of entitlement are labeled for municipal use, there is no practical restriction on Tejon-Castac s ability to deliver the remaining water to residential or commercial/industrial developments. In the near term, for political and regulatory reasons, it is unlikely that we would be able to direct any of our Wheeler Ridge agricultural entitlement to municipal or industrial uses.

Other Activities

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company s Kern County developments. TRPFFA has created two Community Facilities Districts, or CFDs, the West CFD and the East CFD. The West CFD has placed liens on 1,728 acres of the Company s land to secure payment of special taxes related to $30,000,000 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 $12,670,000 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 $107,000,000 of additional bond debt authorized by TRPFFA. Proceeds from the sales of these bonds are to reimburse the Company for public infrastructure related to TRCC-East. In 2010, we received $10,860,000 of reimbursement from these bond funds and in 2009 we received $2,007,000 of reimbursement from these funds. In 2008, we did not receive any reimbursement from these bond funds.

In 2010, 2009, and 2008, we paid approximately $1,061,000, $250,000 and $748,000, respectively, in special taxes related to the CFDs. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the assessed special tax. As this happens, our obligation is reduced. It is expected that we will have special tax payments in 2011 of approximately $1,555,000, 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. As development and values increase around TRCC, we may be able to have approximately 1,400 acres released from West CFD liens.

ITEM 3. LEGAL PROCEEDINGS

Tejon Mountain Village

On October 5, 2009, the Kern County Board of Supervisors granted entitlement approval for TMV. On November 10, 2009, a group consisting of CBD, Wishtoyo Foundation, Tri-County Watchdogs and the Center on Race, Poverty and the Environment filed an action in Kern Superior Court under the California Environmental Quality Act, or CEQA, against Kern County and the Kern County Board of Supervisors, or collectively, the County, concerning the County s granting of approval for TMV, including the certification of the Environmental Impact Report, or EIR, approval of associated General Plan amendments, adoption of associated Zoning Maps, adoption of Special Plan No. 1, Map 256, exclusion from Agricultural Preserves Nos. 4 and 19, and approval of Vesting Tentative Tract Maps 6720 and 6717, among other associated approvals. TMV was named as the Real Party in Interest in the action.

The 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, biological resources, hydrology and water quality, traffic, cultural resources, hazards, and failure to adequately describe the project and the environmental setting. The action also alleged that the County violated the Planning and Zoning Law and the Kern County General Plan.

On November 5, 2010, Kern County Superior Court Judge Kenneth Twisselman ruled in favor of Kern County, the Company, and its development partner DMB Associates, Inc., when he found that the County had properly analyzed and evaluated the environmental effects of TMV. In his ruling, Judge Twisselman rejected claims made by the above listed plaintiffs. On February 8, 2011, CBD appealed the Court s decision. It is difficult to predict the ultimate timing of the settlement of the appeal or the eventual outcome of the appeal.

On November 10, 2009, an additional suit was filed in Federal Court by an alleged representative of the Kawaiisu Tribe alleging that the Company does not hold legal title to the land within the TMV development that it seeks to develop. The grounds for the federal lawsuit were the subject of a United States Supreme Court decision in 1924 where the United States Supreme Court found in favor of the Company. On January 24, 2011, the Company received a ruling by Judge Wanger, of the Federal, District Court, Eastern District of California, which dismissed all claims against the Company, TMV, the County and the federal defendants. However, the Judge did grant a limited right by the plaintiff to amend certain causes of action in the complaint. The plaintiff s have not filed an amended complaint as of the filing of this report.

Burrows Lawsuit

On February 10, 2010, an individual and a related limited liability company (collectively Burrows) filed a lawsuit in Los Angeles County regarding the allocation of certain water, land and entitlement processing rights as between Burrows, Tejon and Tejon s partners for the Centennial project in Los Angeles County. The lawsuit was filed against the Company and Centennial. The lawsuit arises from and relates to a 2006 settlement agreement between Burrows and the Company involving a land swap, water rights and entitlement processing requirements relating to Centennial and certain properties owned by Burrows in the immediate vicinity of the Centennial site.

A previously issued temporary restraining order was dissolved by the judge assigned to the Burrows lawsuit. The case is in the discovery stage and is set for trial in the Superior Court of the State of California County of Los Angeles- North District, commencing on August 5, 2011. The Company and Centennial Founders LLC are aggressively completing discovery and preparing for trial, using the services of an outside law firm. Given the preliminary nature of this lawsuit, the Company has an insufficient basis to address the merits or potential outcomes of the Burrows lawsuit. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

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 several orders in the late 1990s with respect to environmental conditions on the property

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currently leased to National:

(1) *Groundwater plume of chlorinated hydrocarbon compounds.* This order directs the Company s former tenant Lafarge Corporation, or Lafarge, the current tenant National, and the Company to, among other things, clean up groundwater contamination on the leased property. In 2003, Lafarge and National installed a groundwater pump-and-treat system to clean up the groundwater. The Company is advised that Lafarge and National continue to operate the cleanup system and will continue to do so over the near-term.

(2) *Cement kiln dust.* National and Lafarge have consolidated, closed and capped cement kiln dust piles located on land leased from the Company. An order of the RWQCB directs National, Lafarge and the Company to maintain and monitor the effectiveness of the cap. Maintenance of the cap and groundwater monitoring remain as on-going activities.

(3) *Former industrial waste landfills.* This order requires Lafarge, National and the Company to complete the cleanup of groundwater associated with the former industrial waste landfills. The Company is advised that the cleanup is complete. Lafarge continues to monitor the groundwater.

(4) *Diesel fuel.* An order of the RWQCB directs Lafarge, National and the Company to clean up contamination from a diesel fuel tank and pipeline. The Company is advised that Lafarge and National have substantially completed the groundwater cleanup and that groundwater monitoring remains an on-going activity.

To date, the Company is not aware of any failure by Lafarge or National to comply with the orders or informal requests of the RWQCB. Under current and prior leases, National and Lafarge are obligated to indemnify the Company for costs and liabilities arising directly or indirectly out of their use of the leased premises. The Company believes that all of the matters described above are included within the scope of the National or Lafarge indemnity obligations and that Lafarge and National have sufficient resources to perform any reasonably likely obligations relating to these matters. If they do not and the Company is required to perform the work at its own cost, it is unlikely that the amount of any such expenditure by the Company would be material.

Antelope Valley Groundwater Cases

On November 29, 2004, a complaint was filed asking for the Antelope Valley groundwater basin to be adjudicated by the Los Angeles Superior Court. This complaint sought to have the rights of all parties overlying the basin, including the Company s land, should be fixed based on various principles of water law and on negotiations among the principal parties or groups of water users. The case is currently in the third phase of a multi-phase trial, therefore, it is too early to ascertain what effect, if any, this case may have on the Centennial project or the Company s remaining lands in the Antelope Valley. Because the water supply plan for the Centennial project includes several sources of water in addition to groundwater underlying the Company s lands, and because the creation of an efficient market for local water rights is frequently an outcome of adjudication proceedings, we anticipate that sufficient water to supply the Company s needs will continue to be available for its use regardless of the outcome of this case.

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State Water Resources Control Board Lawsuit

On May 12, 2010, the California Attorney General, on behalf of the State Water Resources Control Board, filed a complaint in the Alameda County Superior Court for civil penalties and a permanent injunction against a number of TravelCenters of America LLC, or TA, facilities in the Central Valley of California. The travel centers in the Petro Travel Plaza Holdings LLC, or TA/Petro, were also included in the complaint. The lawsuit claims violations of various paper reporting, operating and UST monitoring prevention laws. In addition to the TA/Petro entity and its respective member entities, the lawsuit also names the Company and Tejon Industrial Corporation as defendents. The Company has tendered defense of the lawsuit to TA, under the defend and indemnify clause in the TA/Petro LLC s operating agreement, and has also secured the services of an outside law firm to work with TA s outside counsel under a joint defense agreement. Counsel for TA and the Company have worked with the California Attorney General to change the venue of the lawsuit to Merced County, and are also working together to attempt to dismiss the Company and TIC, as well as other TA entities, from the lawsuit. A demurrer filed by counsel for TA and the Company was granted, and the California Attorney General has filed an amended complaint to which joint counsel are preparing to respond. Given the preliminary nature of this lawsuit, the Company has an insufficient basis to address the merits or potential outcomes of the lawsuit. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

Water Bank Lawsuits

On June 3, 2010, Central Delta and South Delta Water Agencies and several environmental groups, including CBD, filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources (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 State Water Project contracts that were originally approved in 1995, known as the Monterey Amendments. The original EIR for the Monterey Amendments was determined to be insufficient in a lawsuit, and the current lawsuit challenges the remedial EIR that DWR prepared as a result of the original lawsuit. Among other legal allegations, the current lawsuit challenges the transfer of the Kern Water Bank, or KWB, from DWR to Kern County Water Agency and in turn to various Kern County interests, including TCWD which has a 2% interest in the KWB. A parallel lawsuit was also filed against Kern County Water Agency, also naming the Company and TCWD as real parties in interest. The Company is named on the ground that it controls TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. Counsel for the Company is pursuing a dismissal of the Company from these lawsuits. Given the preliminary nature of these lawsuits, the Company has an insufficient basis to address the merits or potential outcomes of the lawsuit. The monetary value of a potential adverse outcome on the claim likewise cannot be estimated at this time.

ITEM 4. RESERVED

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PART II

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

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

	2010		2009	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 33.30	$ 29.06	$ 25.69	$ 18.40
Second	$ 30.71	$ 23.00	$ 28.92	$ 20.29
Third	$ 24.40	$ 21.15	$ 28.18	$ 24.55
Fourth	$ 28.58	$ 21.49	$ 30.78	$ 24.76

As of February 17, 2011, there were 402 owners of record of our Common Stock.

No dividends were paid in 2010 or 2009 and at this time there is no intention of paying 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.

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ITEM 6. SELECTED FINANCIAL DATA

Years Ended December 31

(In thousands of dollars, except per share amounts)

	2010	2009	2008	2007	2006
Total revenues from operations, including interest and other income	$ 36,553	$ 29,936	$ 42,639	$ 35,908	$ 31,516
Income (loss) from operations before equity in earnings of unconsolidated joint ventures	$ 6,270	$ (6,161)	$ 3,929	$ 920	$ (5,690)
Equity in earnings of unconsolidated joint ventures	541	374	2,227	10,580	1,247
Net income (loss)	3,959	(3,433)	4,112	7,333	(2,729)
Net income (loss) attributable to noncontrolling interests	(216)	(56)			
Net income (loss) attributable to common stockholders	$ 4,175	$ (3,377)	$ 4,112	$ 7,333	$ (2,729)
Total assets	$ 288,091	$ 234,744	$ 187,072	$ 175,503	$ 159,117
Long-term debt, less current portion	$ 290	$ 325	$ 358	$ 389	$ 417
Equity	$ 276,652	$ 214,381	$ 173,306	$ 165,054	$ 149,030
Net income (loss) per share, diluted	$ 0.22	$ (0.19)	$ 0.23	$ 0.42	$ (0.16)

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

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

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 three business segments: commercial/industrial real estate development and services; resort/residential real estate development; and farming.

Our commercial/industrial real estate development and services generates revenues from building, grazing, and land lease activities, land and building sales, oil and mineral royalties and ancillary land management activities. The primary commercial/industrial development is TRCC. The resort/residential segment is actively involved in the land entitlement and development process internally and through joint venture entities. Its revenues are generated through farming activities within the Centennial joint venture. Within our resort/residential segment, the two active developments are TMV and the Centennial master planned community. Farming produces revenues from the sale of winegrapes, almonds, and pistachios.

The Conservation Agreement we entered into with five of the major environmental organizations in June 2008 calls for the permanent protection of up to 240,000 acres of our land through phased dedicated conservation easements on approximately 145,000 acres of our land, 33,000 acres of open space within permitted project areas, and the purchase of conservation easements on an additional 62,000 acres of our land that was completed during February 2011.

During 2010, we recognized net income of $3,959,000 compared to a net loss of $3,433,000 in 2009, an increase of 215%. The significant improvement in net income is largely the result of higher farming revenues and an overall reduction in operating expenses. The reduction in operating expenses included a significant reversal of stock compensation expense of $6,327,000. During 2010, revenues grew to $35,513,000 from $28,251,000 in 2009. The primary driver of the increase in revenues was an increase of $5,593,000 in farming revenues due primarily to an increase in pistachio production and prices in 2010 compared to 2009. Commercial/industrial revenues also grew by $1,660,000 in 2010 when compared to 2009 due to higher oil royalties, a land sale, and increased ancillary service revenues. Compared to 2009, expenses from operations declined $5,753,000 in 2010 to $30,274,000 due to the reversal of stock compensation expenses related to the modification of existing performance grants and lower operating costs.

For 2009 we had a net loss of $3,433,000 compared to net income of $4,112,000 in 2008, a decline of 183%. The decline in net income resulted from decreased commercial/industrial revenues, a decline in equity in earnings of unconsolidated joint ventures and reduced other income. These declines were partially offset by lower operating expenses in the real estate segments and corporate operations. In 2009, revenues from operations fell $11,870,000 to $28,251,000 when compared to 2008. The primary driver of the decline in revenue was a reduction in commercial revenues of $12,238,000 resulting primarily from the absence of sales of developed and undeveloped land, when compared to 2008. We also experienced declines in oil royalties and a drop in percentage and straight line rents from our power plant lease with Calpine. Expenses from operations decreased $2,613,000 in 2009 to $36,027,000 compared to the prior year largely due to the absence of cost of sales of land and a decline in corporate expenses. The decrease in equity in earnings of unconsolidated joint ventures was the result of a decrease in earnings from our TA/Petro joint venture due to increased operating expenses and a decrease in earnings of our Five West Parcel joint venture as the building it owns and leases was partially vacant during the year. Corporate expenses declined in 2009 due to reduced compensation costs.

During 2011, we plan to continue to invest funds in our joint ventures and internally toward the achievement of entitlements for our land and for infrastructure development within our active industrial developments. The process of securing entitlements for our land is a long, arduous process which can take several years. The Conservation Agreement is designed to help minimize future legal delays that are often a part of this process. During the next few years, our net income will fluctuate from year-to-year based upon commodity prices, production within our farming segment, and the timing of sales of land and the leasing of land within our industrial developments.

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 14 of the Notes to Consolidated Financial Statements.

Critical Accounting Policies and Estimates

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

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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 of the Notes to the 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, 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.

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

We fully recognized the revenues from all land sales in 2010 and in 2008 as none of the requirements for deferral of revenue were present. There were no land sales in 2009.

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 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 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. This method of recognizing revenues on the sale of orchard crops is a standard practice within the agribusiness community.

For the 2010 orchard crops, we estimated almond revenue to be $2,685,000, or $1.76 per pound on average, and pistachio revenue to be $8,917,000, or $2.45 per pound on average. These estimates not only impact the recorded revenues within our farming segment but also our recorded accounts receivable at December 31, 2010. Over the last three years, prices received on almonds have ranged from $1.29 to $2.35 per pound. Pistachio prices over the last three years have ranged from $1.77 to $2.45 per pound. If we were to assume that our above estimates for 2010 orchard crop revenues were changed to the upper end or lower end of the range we developed in the course of

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formulating our estimate, orchard crop revenues would have been reduced or increased by approximately $258,000, or 2% of the total revenue estimate. Our final estimates were based on the midpoint of a range in which the upper and lower ends of the range were $0.05 from the midpoint. As an example, the range for almonds in 2010 was $1.71 to $1.81 per pound. If we were to change our estimate of 2010 orchard crop revenues to the low end of the estimated range, there would be no material impact on our liquidity or capital resources.

Actual final orchard 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. The net effect of these adjustments increased farming revenue by $1,144,000, $579,000, and $933,000 in 2010, 2009 and 2008, respectively. The adjustment for 2010 includes $823,000 related to pistachios due to an improving price market resulting from low industry inventories, and $287,000 from almonds as increased demand pushed prices higher. The adjustment in 2009 was due to $252,000 in additional bonus payments and price adjustments on pistachios and $327,000 in adjustments related to almonds as prices continued to increase prior to the contract settlement. The large adjustment in 2008 was due to bonus payments received on pistachios of $718,000 and $206,000 from continuing price increases for almonds.

Capitalization of Cost 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 and we have not completed all infrastructure development related to the total project, we follow ASC 976, Real Estate Retail Land, to determine the appropriate costs of sales for the sold land and the timing of recognition of the sale. In the calculation of cost of sales or allocations to leased land, we use estimates and forecasts to determine total costs at completion of the development project. These estimates of final development costs can change as conditions in the market and costs of construction change.

In preparing these estimates, we use internal budgets, forecasts, and engineering reports to help us estimate future costs related to infrastructure that has not been completed. These estimates become more accurate as the development proceeds forward, due to historical cost numbers and to the continued refinement of the development plan. These estimates are updated periodically throughout the year so that, at the ultimate completion of development, all costs have been allocated. During 2010, $0.56 per square foot of cost was allocated to land sold in TRCC- East and in 2010, 2009 and 2008, $0.96 per square foot of cost was allocated to land that was sold, leased, or contributed to joint ventures, as the cost of development at TRCC-West. Costs for land within TRCC-East on a going forward basis are currently estimated at $0.60 per square foot. Any increases to this estimate 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 is a critical accounting estimate and will become even more significant as we continue to move forward as a real estate development company. The estimates used are very susceptible to change from period to period, due to the fact that they require management to make assumptions about costs of construction, absorption of product, and timing of project completion, and changes to these estimates could have a material impact on the recognition of profits from the sale of land within our developments.

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

We currently operate in three segments, commercial/industrial real estate development, resort/residential real estate development, and farming. At this time, there are no assets within either of our real estate segments or our farming segment that we believe are in danger of being impaired due to market conditions.

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

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

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

Defined Benefit Retirement Plans The plan obligations and related assets of our defined benefit retirement plan are presented in Note 13 of the Notes to Consolidated Financial Statements. Plan assets, which consist primarily of marketable equity and debt instruments, are valued using level one indicators which are market prices for the investments. Pension benefit obligations and the related effects on operations are calculated using actuarial models. The estimation of our pension obligations, costs and liabilities requires that we make use of estimates of present value of the projected future payments to all participants, taking into consideration the likelihood of potential future events such as salary increases and demographic experience. These assumptions may have an effect on the amount and timing of future contributions.

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

- Discount rates;

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

The discount rate enables us to state expected future cash flows at a present value on the measurement date. In determining the discount rate, the Company utilizes the yield on high-quality, fixed-income investments currently available with maturities corresponding to the anticipated timing of the benefit payments. Salary increase assumptions are based upon historical experience and anticipated future management actions. To determine the expected long-term rate of return on pension plan assets, we consider the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. At December 31, 2010, the weighted-average actuarial assumption of the Company s domestic plans consisted of a discount rate of 5.5%, a long-term rate of return on plan assets of 7.5%, and assumed salary increases of 3%. The effects of actual results differing from our assumptions and the effects of changing assumptions are recognized as a component of other comprehensive income, net of tax. Amounts recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost. If we were to assume a 50 basis point change in the discount rate used, our projected benefit obligation would change approximately $600,000.

Stock-Based Compensation We apply the recognition and measurement principles of ASC 715, Compensation Retirement Benefits in accounting for long-term stock-based incentive plans. Our stock-based compensation plans have historically included both stock options and stock grants. We have not issued any stock options to employees or directors since January 2003, and our 2010 financial statements do not reflect any compensation expenses for stock options. All of our stock options are fully vested and all related expenses were recognized in prior year financial statements per GAAP. See Note 7 of the Notes to Consolidated Financial Statements, Stock Option Plan, for additional information regarding stock options.

We also 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 $637,000 depending on whether the change in estimate increased or decreased shares vesting.

Beginning in the first quarter of 2010, the Compensation Committee of the Board of Directors, or the Board, conducted a compensation study prepared by an outside consultant. One of the outcomes of the compensation study was that in September 2010 the Board elected to modify selected outstanding and unvested performance milestone grants, or the existing performance milestone grants, and issue additional milestone performance grants, to employees selected by the Board, or the new performance milestone grants. The Board determined that the development milestones that were outlined in the existing performance milestone grants continue to be the appropriate measurements for vesting purposes of the modified existing and new performance milestone grants. The Company has assessed that it is probable that these

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performance milestones will be met, although, with respect to a portion of the existing performance milestone grants, not within the timeframe required under those grants as discussed below.

As discussed above, the performance milestone grants approved by the Board in September 2010, included the modification of existing performance milestone grants totaling 262,438 restricted stock units and the issuance of new performance milestone grants totaling an additional 332,562 restricted stock units. With respect to the existing performance milestones grants, the modification of 179,638 restricted stock units has been accounted for as an improbable-to-probable modification since the Company determined that it would not have been able to achieve the performance milestones within the original timeframe set forth under those grants, which required achievement by the end of 2010. As such, the previous stock compensation expense recognized with respect to those existing performance milestone grants has been reversed as discussed more fully below, and the fair value of these modified performance milestone grants is being recognized over the new requisite service period. With respect to the remaining portion of the existing performance milestone shares granted, the modification of those 82,800 restricted stock unit has been accounted for as a probable-to-probable modification as the Company continues to believe that it is probable that we will achieve the vesting criteria for these grants both before and after the modification. The unamortized total cost relating to these probable-to-probable modified performance milestone grants is being recognized ratably over the new requisite service period. The impact of modifying the exiting performance milestone grants is a reversal of prior stock compensation expense of $6,327,000 during the year ended December 31, 2010.

As part of its analysis to determine the appropriate accounting for the modification of the existing performance milestone grants, the Company concluded that it should have reversed in 2009 the stock compensation expense related to 93,158 restricted stock units of the total 179,638 restricted stock units accounted for as an improbable-to-probable modification, as discussed above, since the time element restriction of the development milestone objective was not going to be met. This error resulted in an overstatement of stock compensation expense of approximately $3,098,000 for the year ended December 31, 2009. In accordance with the relevant guidance, management evaluated the materiality of the error from a qualitative and quantitative perspective. Based on such evaluation, the Company concluded that correcting the error would be immaterial to the expected results for the current year financial statements and correcting the error would not have had a material impact on any individual prior period financial statements or affect the trend of financial results. Accordingly, the Company recorded an adjustment during the third quarter of 2010 to reverse the associated stock compensation. The correction is included in the $6,327,000 stock compensation reversal explained above.

During 2009, based on current estimates of future operating results and cash flow projections, we reversed $268,000 of performance based stock compensation expenses that had been recorded in prior years operating results because it is was no longer likely that these shares would vest. We also adjusted future expenses for other stock awards based on our current estimates of future results.

See Note 8 of the Notes to Consolidated Financial Statements, Stock Compensation Plan, for total 2010 stock compensation expense related to stock grants.

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Fair Value Measurements FASB s 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.

New Accounting Standards

There are no recently issued accounting standards that are expected to have a material effect on our financial condition and results of operations in future periods.

Results of Operations by Segment

We evaluate the performance of our operating segments separately to monitor the different factors affecting financial results. Each segment is subject to review and evaluation as we monitor current market conditions, market opportunities, and available resources. The performance of each segment is discussed below:

Real Estate Commercial/Industrial

Our commercial/industrial segment profits during 2010 increased to $5,997,000, a $3,470,000 improvement, when compared to 2009 segment profits. The increase in segment profits was largely driven by the following favorable 2010 variances:

- $1,810,000 decrease in expenses when compared to 2009 primarily due to the reversal of $1,000,000 in stock compensation expense resulting from modification of performance milestone awards in 2010 and the write-off of $662,000 of historical costs incurred on an abandoned building expansion project in 2009;

- $1,160,000 higher royalties received on oil leases as oil prices increased compared to 2009. This improvement was partially offset by lower production. Oil prices averaged $73.42 based on Kern County crude oil prices during 2010 compared to $53.42 in 2009 while average production decreased by 49,000 barrels in 2010 when compared to 2009;

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$260,000 increase in land management ancillary service revenues when compared to 2009 due to higher game management memberships because of an increase in demand and higher landscape maintenance fees charged to tenants;

$604,000 gain on a land sale in 2010 in TRCC-East to a company that has plans to build a Microtel Hotel next to the new TA Travel Center; and

$150,000 recognition of income from a forfeited purchase option deposit.

The above increases in revenues and decline in expenses were partially offset by a $600,000 decrease in mineral royalties in 2010 compared to 2009 as the demand for rock aggregate decreased reflecting the continued decline in the construction industry during 2010.

We expect any continuation of the slow global and California economic recovery to have a negative impact on commercial/industrial revenues in 2011 by limiting future leasing and sales activities. The slow recovery in the real estate industry is continuing to cause a lack of demand for new construction, and sales and leasing of industrial products. Recent increases in the price of oil over the last few months could positively impact our revenues during 2011.

Our marketing efforts for TRCC-East and West continue to focus on educating potential users about the logistical benefits of our site and the success that current tenants and owners within our development have experienced. We believe California s long-term projected population growth will help to drive increases in industrial activity at TRCC once the economic environment improves. Our development strategy has fit well with the logistics model that companies have been using, which favors larger single-site buildings rather than a number of decentralized smaller distribution centers. Buildings of 1.0 million square feet or larger are difficult to build in Los Angeles due to the number of acres necessary for a building of that size. Our ability to provide land parcels to support buildings of that size provides us with a potential marketing advantage.

A potential disadvantage to our development strategy is our distance from the Port of Los Angeles in comparison to the traditional warehouse/distribution centers east of Los Angeles. The downturn in the economy and slow economic rebound continue to have an adverse impact on our ability to sell or lease our industrial/commercial product. The sharp downturn in economic activity over the last few years resulted in a marked decrease in potential tenant interest. Contraction of business operations has resulted in lower prices and significant competition for available warehouse space in the Inland Empire and other Los Angeles metropolitan areas. This increased competition has negatively impacted our pricing advantages, and the lack of corporate business expansion due to future economic uncertainties has decreased demand for our buildings and land in the near term. Although, we have begun to see more interest in our development products thus far in 2011.

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 increase real estate activities and pursue development opportunities.

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.

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Our commercial/industrial segment profits during 2009 decreased to $2,527,000, a $10,861,000 or 81% decline, when compared to 2008 segment profits. This decrease in segment profits was driven by the absence of land sales in 2009 compared to 2008, and decreased royalties received on oil leases as oil production and prices fell compared to the record highs reached in 2008. The absence of land sales in 2009 accounted for a decline of $6,220,000 in the profitability of this segment compared to land sales profitability in 2008 (in 2008, land sales margins increased $5,508,000 compared to land sales profitability in 2007). In 2009 oil and mineral royalty margins decreased $4,133,000 overall compared to 2008, with oil royalties decreasing by $3,359,000, and gas royalties decreasing by $86,000 while cement, sand and rock royalties decreased $386,000. Oil production in 2009 decreased approximately 63,000 barrels compared to 2008 production while prices decreased $30.00 per barrel on average compared to the prior year. Oil lease delay payments which are made to reserve future drilling rights on our land also declined as these parcels were developed into exploration wells. Mineral royalties declined as the demand for rock aggregate decreased reflecting the continued decline in the construction industry during 2009. A reduction in percentage rents and the reversal of straight line rental revenues from our Calpine lease accounted for an additional decrease of $496,000 while ancillary land use revenues fell $279,000 as the constricted economy had a negative impact on revenue lines which are dependent on consumer discretionary spending. These declines in revenue were partially offset by reduced expenses of $1,377,000. The absence of land sales resulted in a reduction in cost of sales in 2009 for land of $1,157,000 and a reduction in land sale related professional service costs of $393,000. The other major contributors to the reduction in expenses were an overall decline of $441,000 achieved through lower expenditures for materials and supplies, repairs and maintenance, travel, memberships, subscriptions and marketing programs at TRCC, and fuel costs, which fell compared to 2008 as prices for gasoline and underlying services dropped. We abandoned a potential building expansion project in 2009 and wrote-off the $662,000 of historical costs incurred on the project which increased current year costs and reduced the overall cost savings achieved by this segment.

See Item 1, Business Real Estate Operations for a further discussion of real estate development activities.

Real Estate Resort/Residential

The resort/residential segment had an operating loss of $2,808,000 in 2010, an improvement of $1,363,000, or 33% when compared to the prior year. The decreased loss in 2010 was primarily due to the reversal of $1,200,000 in stock compensation expense resulting from the modification of performance milestone awards, as discussed above.

Our resort/residential segment activities include land planning and entitlement activities related to our potential residential developments, which include the Centennial master-planned community and TMV. Each of our resort/residential projects is being developed through a joint venture. The intent of such joint venture agreements is to provide a source of capital and allow the significant costs and business risks inherent in these projects to be shared with our venture partners. During 2009 our joint venture agreement with our Centennial Founders partners was amended to allow our partners to cease capital contributions during the entitlement phase of the project allowing us to continue as the sole funding participant. In exchange for non-contributing status, these partners percentage ownership interests are diluted by a 2-to-1 ratio with regard to the amount of capital contributed on such partner s behalf. As a result of this partnership amendment, the results of operations of the Centennial Founders joint venture are now consolidated within our financial statements. During 2008, we signed a Conservation Agreement with five major environmental organizations. The organizations that signed the Conservation Agreement will not oppose our current residential developments. These developments will continue to be subject to the regulatory requirements that are a part of the entitlement process and could be opposed by other parties.

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However, we believe the Conservation Agreement will be beneficial in reducing future legal opposition and delays.

We expect near-term activities within this segment to be focused on obtaining entitlements for the Centennial project, located in Los Angeles County, defending the legal challenges to the TMV EIR, and stewardship activities. 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 the entitlement process for the above communities and continue to meet our obligations under the Conservation Agreement. The actual timing and completion of entitlement-related activities is difficult to predict due to the uncertainties of the approval process and the possibility of litigation upon approval of our entitlements in the future. 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.

Since we are in the process of achieving entitlements for our Centennial community, we do not have a fully approved project and therefore we do not have inventory for sale in the current market. We received entitlement approval for our TMV community during 2009 and affirmation of these approvals in November 2010 from the Kern County Superior Court. The Court s decision has been appealed. Although this legal challenge does not preclude us from commencing the development of TMV, we generally believe it is more prudent to have lawsuits settled or finally determined before beginning 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 Centennial and TMV remains unchanged. The housing industry downturn has impacted the perception of current land values due to the numerous write downs home builders took in previous years regarding land inventory. We believe this perception of decreasing current land values has impacted our stock price but does not diminish the long-term fundamentals which support housing demand, primarily California population growth and household formation both of which remain positive. However, it is not possible to predict how long the negative effects of the current market conditions will persist and if we will experience further deterioration from current levels or if conditions will improve.

The resort/residential segment had an operating loss of $4,171,000 in 2009, an improvement of $392,000, or 9% when compared to the prior year. The decreased loss in 2009 was the result of recognition of $272,000 of 2009 revenue from the Centennial Founders partnership and containment of expenses even after the consolidation of Centennial operations. The primary drivers behind the containment of 2009 expenses were a $237,000 reduction in the public relations costs and a $138,000 overall reduction in compensation costs, net of amounts capitalized, as savings from staff reductions and decreased incentive compensation cost were recognized. Routine fuel, repairs and maintenance, travel and leasing costs declined as cost reduction efforts were implemented. These cost savings were partially offset by increased contract and professional services costs as capitalized project costs are replaced by expensed implementation costs of the ranch-wide agreement. The Centennial Founders joint venture expenses of $403,000 also represent an increase in 2009 costs compared to 2008 as 2009 is the first year of consolidation of this joint venture.

See Item 1, Business Real Estate Operations for a further discussion of real estate development activities.

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Farming

Farming segment profits were $7,662,000 in 2010, an increase of $6,483,000 or 550% when compared to the prior year. The significant increase is primarily driven by a significant increase in pistachio and winegrapes revenues, partially offset by lower almond revenues.

In 2010, pistachio revenues increased $6,208,000, or 176%, to $9,740,000. Pistachio yields increased 1,791,000 pounds in 2010 compared to 2009. This increase in production was an unexpected yield for an off production year. This improvement in production was largely due to the near perfect weather during the pollination period for the trees. This resulted in a significant increase in the pounds available for sale compared to our estimate and the prior year production. In addition to the increase in yield, the average price per pound increased $0.68, or 38%, to $2.45 per pound in 2010 from $1.77 per pound in 2009. The price increase for pistachios is attributable to a worldwide crop shortage. Given the 2010 crop size, we expect the 2011 crop to reset itself to an off production year.

Grape revenues for the 2010 crop increased $1,929,000, or 73%, to $4,588,000 as compared to 2009 due to increased production. In 2010, grape production increased approximately 7.3 tons, or 65%, as compared to 2009, as production volumes improved within existing vineyards and a new vineyard became productive. We have long term contracts for our grape crops ranging from one to thirteen years. Grape prices are remaining relatively stable in spite of increased California production as new plantings from recent years have come into production.

In 2010, almond revenues decreased $2,548,000, or 38%, to $4,241,000. Sales of current year crop almonds accounted for $2,685,000 of 2010 revenues compared to current year crop sales in 2009 of $4,976,000. This decrease is primarily due to a delay in the harvest due to weather conditions, which in turn required the ground storage of a significant portion of the harvested almonds.

Our 2010 almond revenues also include $1,218,000 of revenue from the sale of 2009 and prior year crop almonds in 2010, as compared to $1,431,000 of 2009 farming revenues attributable to the sale of 2008 and prior year crop almonds. These sales reflect amounts held in inventory at the end of the prior year and sold in the following calendar year. We are carrying approximately 2,153,000 gross pounds of almonds in our inventory as of December 31, 2010, which we expect will be sold in 2011. Almond prices have remained relatively constant over the last two years with a trend toward higher prices.

Thus far in 2011, the price for almonds has increased steadily due to the stable demand in U.S. and world markets. The current range of almond prices is $1.13 to $2.13 per pound depending on the variety. As the value of the dollar was relatively weak against foreign currencies during most of 2010, the demand for U.S. almonds remained steady and built on the growth from prior years. The increased demand for U.S. almonds in 2010 is primarily tied to almonds being less expensive for foreign buyers. Strengthening of the U.S. dollar and the slow global economic growth could result in downward pressure on almond prices and decreased demand for the product we are carrying in our year-end inventory.

The following table reflects crop revenues in thousands for the last three years by variety of product and crop year. Production of almonds, pistachios and walnuts are stated in thousands of pounds and production of winegrapes is stated in thousands of tons. Average prices are stated on a per pound basis for almonds, and pistachios, and average prices are stated on a per ton basis for winegrapes.

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	2010			2009			2008		
	Revenue	Production	Average Price	Revenue	Production	Average Price	Revenue	Production	Average Price
ALMONDS (lbs.)									
Current year crop	$ 2,685	1,526	$ 1.76	$ 4,976	3,233	$ 1.54	$ 4,023	3,130	$ 1.29
Prior year crops	1,218	523	2.33	1,431	1,087	1.32	1,892	989	1.91
Price Adjustment	287			327			206		
Signing bonus	51			55					
Subtotal Almonds	$ 4,241	2,049		$ 6,789	4,320		$ 6,121	4,119	
PISTACHIOS (lbs.)									
Current year crop	$ 8,917	3,644	$ 2.45	3,280	1,853	$ 1.77	$ 3,047	1,430	$ 2.13
Price Adjustment	823			252			718		
Subtotal Pistachios	$ 9,740	3,644		$ 3,532	1,853		$ 3,765	1,430	
WINEGRAPES (tons)									
Current year crop	$ 4,554	18.6	$ 245	$ 2,659	11.3	$ 235	$ 2,884	12.1	$ 238
Price Adjustment	34						9		
Subtotal Winegrapes	4,588			2,659			2,893		
Total crop proceeds	$ 18,569			$ 12,980			$ 12,779		
Other farming revenues	7			3			108		
Total farming revenues	$ 18,576			$ 12,983			$ 12,887		

All of our crops are sensitive to the size of each year s world crop. Large crops in California and abroad can depress prices. With current worldwide grape production more in line with worldwide demand, the pressure on prices has been alleviated at the present time and grape prices should remain at current levels. Our long-term projection is that crop production, especially of almonds and pistachios will continue to increase on a statewide basis over time because of new plantings, which could negatively impact future prices if the growth in demand does not keep pace with production. While demand for product has been strong both in the United States and in export markets over the last few years, any significant increase in the dollar along with slow global economic growth could have a negative impact on the markets. It is too early to project 2011 crop yields and what impact that may have on prices later in 2011.

Water delivery and water availability continues to be a long-term concern within California. Any limitation of delivery of SWP water and the absence of available alternatives during drought periods could potentially cause permanent damage to orchards and vineyards. While we could be impacted by this, we believe we have sufficient water resources available to meet our requirements in 2011. Please see our discussion on water in Item 2, Properties Water Operations.

Farming segment profits were $1,179,000 in 2009, a decrease of $16,000, or 1%, when compared to the prior year. These comparable farming segment profits resulted from an overall 1% increase in both revenues and expenses. An increase of $201,000 in farm crop revenues was diluted by

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lower farming lease revenue and associated water sales. Farming expenses increased by $112,000 mainly as a result of $93,000 of additional fixed water costs as compared to 2008.

Grape revenues for the 2009 crop decreased $225,000, or 8%, to $2,659,000 as compared to 2008 due to decreased production and lack of bonus payments for high sugar content. Sugar content of the grapes is impacted by the weather and timing of the grape harvest. The higher sugar content of our 2008 crop triggered a bonus payment on our Rubired varietal and resulted in a higher average price for our winegrape crop when compared to 2009. In 2009, grape production decreased approximately 800 tons as compared to 2008 as we removed vines in the region of TRCC-East to make way for additional commercial real estate development.

In 2009, almond revenues increased $668,000, or 11%, to $6,789,000. Sales of current year crop accounted for $4,976,000 of 2009 revenues compared to current year crop sales in 2008 of $4,023,000. This increase was achieved through the sale of approximately 103,000 more pounds of almonds from the current year crop as compared to 2008. Our 2009 almond revenues include $1,431,000 of revenue from the sale of 2008 and prior year crop almonds in 2009 as compared to $1,892,000 of 2008 farming revenues attributable to the sale of 2007 and prior year crop almonds. These sales reflect amounts held in inventory at the end of the prior year and sold in the following calendar year.

In 2009, pistachio revenues decreased $233,000, or 7%, to $3,532,000. Pistachio yields increased 423,000 pounds in 2009 compared to 2008 due to 2009 being an on production year in the alternate-bearing production cycle for pistachios. This increase in production was substantially less than the expected yield for an on production year, as many of the nut shells did not form fruit. This resulted in a significant reduction in the pounds of edible nuts available for sale compared to our estimate. The increase in yield in 2009 compared to 2008 was partially offset by a price decline from an average of $2.13 per pound in 2008 to $1.77 per pound in 2009. The price decline for pistachios is attributable to the larger 2009 worldwide crop.

For further discussion of the farming operations, refer to Item I Business Farming Operations.

Investment Income

Investment income for 2010 fell $661,000, or 40%, to $979,000 due to the timing of new investments and much lower investment and reinvestment rates during 2010 as compared to rates on matured investments. Lower investment rates led to an overall decline of 112 basis points in the weighted average return of the investment portfolio. The above interest income relates to our marketable securities portfolio as further disclosed in Footnote 2, Marketable Securities , of our Financial Statements for the year ended December 31, 2010.

Investment income for 2009 of $1,640,000 represented a $529,000, or 24%, decrease compared to 2008. This decrease in investment income was due to a decrease in average funds invested during 2009 compared to 2008. Impairment losses of $113,000 taken during 2009 were fully offset by gains recognized on the subsequent sale of the investments.

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Interest Expense

Interest expense was $9,000 in 2010 and $70,000 in both 2009 and 2008. Interest incurred and paid during 2010 was $180,000 compared to $306,000 in 2009 and $175,000 in 2008, of which $171,000, $236,000, and $105,000, respectively, were capitalized.

Corporate Expenses

Corporate expenses of $5,612,000 in 2010 represented a decrease of $1,699,000 when compared to 2009 due primarily to the reversal of stock compensation expenses, which was partially offset by increases in bonus expense as well as increases in professional service fees. Additionally, in 2010 there were increases in depreciation, professional services, licenses and fees relating to our records and information management system coming online.

Corporate expenses decreased during 2009 when compared to 2008 primarily as a result of a decrease in compensation expenses of $973,000 due to decreased executive and employee bonuses and stock compensation. Additional savings were achieved though reduction of discretionary travel, donations and fuel costs. Offsetting this decrease were increases in amortization expense of long-term water contracts.

Equity in Earnings of Unconsolidated Joint Ventures

In 2010, we recognized net earnings of $541,000 from unconsolidated joint ventures compared to $374,000 of net earnings in 2009. Our largest contributor to equity in earnings of joint ventures is the TA/Petro joint venture. For 2010, this joint venture provided $1,205,000 in earnings. This is a decline of $199,000 when compared to 2009 due to higher operating expenses because of a full year of operations at the new TA site and to a full year of interest expense. A favorable variance for 2010 in the TA/Petro joint venture was the increase in volume and activity at the travel centers as revenues grew due to a full 12 months of operations at the new site and higher diesel sales volumes. Offsetting the decline in earnings at the TA/Petro joint venture was an improvement in the loss from the Five West Parcel joint venture due to a full year of lease revenues from a tenant in a portion of the building. During 2010, our portion of the loss declined to $625,000 from $936,000 in 2009.

Within our Centennial joint venture, our partners are Pardee Homes, Lewis Investment Co. LLC and Standard Pacific. We have stated in past filings that the last few years have been extremely difficult for many homebuilders as they have seen their businesses decline and their internal financing become much more difficult. We have also noted in our filings that if the real estate sector continued to be impacted by the economy it could become necessary for one or all of our current partners to leave the joint venture due to difficulty in meeting obligations related to future required capital contributions. Due to these circumstances the joint venture agreement was amended in August 2009 to allow our partners to become non-funding members during the entitlement phase of the project while we continue as the sole funding partner. During this period any non-funding partner s percentage ownership interest will be diluted by a 2-to-1 ratio with regard to the amount of capital contributed on such partner s behalf. Consequently, the operating results of Centennial Founders were consolidated effective July 1, 2009. Despite this change, our partners continue to be involved in an advisory capacity and may re-elect contributing status at a later time. At December 31, 2010 we have a 63.6% ownership position in Centennial Founders.

The 606,000 square foot building owned by our Five West Parcel joint venture remained partially leased during 2010. In November 2009, the construction loan on the building was repaid as the

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required coverage ratio had not been achieved. Replacement financing was completed in August 2010. The replacement financing is for a maximum loan amount of $11,000,000. The current outstanding loan balance is $8,625,000. This note is due in 2013. The available amount on the loan is to be used for tenant improvements. The replacement financing is fully secured by the building as well as guarantees from each partner. We do not believe the bank will ever call on the guarantees provided.

During 2009, we recognized net earnings of $374,000 from unconsolidated joint ventures compared to net earnings of $2,227,000 during 2008. The largest single component of these earnings consisted of our portion of the equity in the earnings of TA/Petro of $1,404,000. The balance of the net earnings from joint ventures consisted of losses from Five West Parcel of $936,000 and losses from TMV LLC of $30,000. Also included in this amount is our share of the loss from the Centennial Founders operations for the pre-consolidation period January 1, 2009 through June 30, 2009 of $63,000. After that date the results of operations of the Centennial Founders joint venture are consolidated due to amendments to the partnership agreement which qualified the joint venture for consolidation. Earnings from our TA/Petro joint venture declined $1,028,000 when compared to 2008 due to increased operating expenses. New travel plaza facilities routinely take up to three years to achieve consistent profitability. Losses from the Centennial and TMV joint ventures did not vary significantly from those incurred in 2008.

Income Taxes

For financial statement purposes, our effective tax rate for 2010 was 40.6% after taking into consideration permanent and temporary timing differences. Our effective tax rate is impacted by the noncontrolling interest held in the Centennial Founders partnership because income (loss) before income taxes includes losses allocable to the noncontrolling interest. Our tax expense for 2010 is $2,852,000. During 2010, our largest permanent tax difference was related to depletion allowances. We have a tax receivable at December 31, 2010 of $1,547,000 due to net operating loss carry-backs.

For 2010, we had net deferred tax assets of $3,985,000 and a related allowance of $750,000. Our largest deferred tax assets were made up of temporary differences related to the capitalization of costs, pension adjustments, and stock grant expense. Deferred tax liabilities consist of depreciation, deferred gains, cost of sale allocations, and straight-line rent. Due to the nature of most of our deferred tax assets, we believe they will be used in future years and an allowance is not necessary. However, one deferred tax asset related to a charitable donation of land is limited in the available carry-forward period and because it is more likely than not that this asset will not be utilized, an allowance has been set up for the full value of the asset.

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 business segments to achieve profitable future growth. We have historically funded our operations with cash flows from operating activities, cash and investments, and short-term borrowings from our bank credit facilities. In the past, we have also issued common stock and used the proceeds for funding needs. 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.

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Our cash, cash equivalents and short-term marketable securities totaled approximately $71,012,000 at December 31, 2010, an increase of $40,173,000, from the corresponding amount at the end of 2009. Cash and marketable securities increased in 2010 due to a successful rights offering which generated approximately $60,000,000 in new equity, reimbursement of $10,860,000 in infrastructure costs at TRCC- East from the East CFD, and an equity distribution from our Five West Parcel LLC joint venture of $4,100,000. This inflow was partially offset by our continuing investments in our real estate projects, investments in our joint ventures, the purchase of water in December 2010, and repayment of our line of credit in June 2010.

The following table summarizes the cash flow activities for the last three years:

	Year Ended December 31		
(in thousands)	**2010**	**2009**	**2008**
Operating activities	$ 3,199	$ 1,361	$ 4,313
Investing activities	$ (33,568)	$ (11,423)	$ (14,909)
Financing activities	$ 51,713	$ 6,865	$ 4,174

Operations during 2010 provided $3,199,000 in cash, which is an improvement of $1,838,000, or 135%, when compared to 2009. The improvement compared to 2009 is due to our net income for the year after considering the impact of non-cash operating expenses, and a $1,440,000 distribution from the TA/Petro joint venture. These improvements were partially offset by increases in current assets that reflect the growth in farming activities during 2010. Our operations provided $1,361,000 of cash during 2009 which reflects a decline of $2,952,000, or 68%, compared to cash provided by operations in 2008. The primary reason for the decrease in cash inflows from operations in 2009 compared to 2008 was our net operating loss of $3,509,000 and a decline in liabilities of $2,845,000 including trade payables, accrued liabilities and income taxes payable. This cash outflow was mainly offset by non-cash operating expenses of $8,241,000 including depreciation, retirement plan costs, abandonments, and stock compensation.

During 2010, we invested $33,568,000 compared to $11,423,000 in 2009. Our investments during 2010 are primarily related to marketable securities, water purchases, our active real estate projects, our farming division, and joint ventures. We invested $14,196,000 in property and equipment, of which $12,800,000 was invested in real estate projects. Of this amount, $7,600,000 was related to the Centennial joint venture. The remaining amount of investment is related to infrastructure and building costs at TRCC and equipment and farm development costs. We also purchased 1,993 acre feet of SWP water during the year and invested in additional banking water at a total cost of $11,981,000. We continue to believe water is a valuable long-term asset for our future needs and we will continue to evaluate and possibly invest in new water sources and water infrastructure in the future. Within our joint ventures we contributed $4,375,000 of capital to TMV and $219,000 to the Five West Parcel and 18-19 West joint ventures. Our largest investment for the year was tied to the investment of a portion of the rights offering proceeds into short-term marketable securities for our use in the near-term future.

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Investing activities utilized $11,423,000 of funds in 2009 compared to $14,909,000 in 2008. Investments for these years were primarily dominated by investments in our real estate projects, investments in our joint ventures, water purchases and investments in our farming operations. Capital investments of $20,925,000 in 2009 include real estate projects of $18,771,000 compared to capital investments in 2008 of $20,366,000 which included real estate project investments of $16,859,000. The real estate project investments are primarily related to infrastructure development at TRCC and to the capitalization of costs related to our entitlement activities in our real estate projects which, in 2008, included our Conservation Agreement. We also invested cash of $6,013,000 in our TMV joint venture, $5,329,000 in our Five West Parcel joint venture, and $5,676,000 in our Centennial joint venture and made a non-cash contribution of land with a book value of $2,574,000 to the 18-19 West LLC joint venture and a non-cash contribution of $2,126,000 to our Centennial joint venture. Of the $5,676,000 of cash invested in our Centennial joint venture, $4,244,000 was invested subsequent to its July 1, 2009 consolidation, therefore the amount presented as investments in joint ventures in our statement of cash flows is shown net of this amount.

We anticipate that our capital investment requirements for 2011 could be as high as $22,200,000. These estimated investments include approximately $4,300,000 of infrastructure and entitlement investment for real estate development projects and approximately $2,400,000 of investment within our operating and corporate operations for the replacement of equipment. In 2011, we expect to contribute approximately $13,000,000 to our various joint ventures, including Centennial, and make an additional $2,500,000 investment in water assets. We continue to add to our current water assets to help secure our ability to supply water to our farming and real estate activities and as a future investment, since we believe that the cost of water in California will continue to increase. Investments in water are expected to continue at varied levels in future years.

Financing activities generated net cash of $51,713,000 during 2010. The primary source of this increase in cash was the successful rights offering competed in June 2010. A portion of these funds were used to payoff the outstanding balance on our working line of credit. We currently have no outstanding balance on our line of credit. As discussed above, during the second quarter of 2010 we completed a rights offering. Under the terms of the rights offering, we distributed at no charge to the stockholders of the Company, one transferable subscription right for each share of Tejon common stock owned by such stockholders as of May 21, 2010, the record date. The rights offering also included an over subscription privilege, which entitled a stockholder who exercised all of its basic subscription rights the right to purchase additional shares of common stock that remained unsubscribed at the end of the rights offering period. At the completion of the rights offering we issued 2,608,735 shares of stock raising approximately $60,000,000 of new capital.

Our funds provided by financing activities of $6,865,000 during 2009 resulted from net borrowings of $6,800,000 on our credit line and $241,000 from the exercise of stock options. The funds were utilized as working capital for our operations and for contributions to our joint ventures. Distributions from our joint ventures and proceeds from the sale of securities were used to repay $10,500,000 of the borrowing. We use this credit facility to fulfill cash needs that are not met by maturing securities or operating inflows due to the timing of those activities. Our funds provided by financing activities of $4,174,000 during 2008 resulted from borrowings of $7,750,000 on our line of credit and $1,226,000 of cash received from the exercise of stock options.

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 operations and the timing of sales and leases of property within our development 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 and cash balances over the next twelve months to fund internal operations.

Capital Structure and Financial Condition. At December 31, 2010, total capitalization was $276,977,000, consisting of $325,000 of debt and $276,652,000 of equity and resulting in a debt-to-total-capitalization ratio of less than 1%, which is more than a 4% decline from the prior year s debt-to-total-capitalization ratio.

We have a long-term revolving line of credit of $30,000,000 that, as of December 31, 2010, had no outstanding balance. At the Company s option, the interest rate on this line of credit can be fixed at 2.50% over a selected LIBOR rate or can be fixed at 2.25% above LIBOR for a fixed rate term. During the term of this credit facility (which matures in October 2013), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. Under the terms of the line of credit, we must maintain tangible net worth, defined as total equity, including noncontrolling interest, plus debt less intangible assets, not less than $175,000,000 and liquid assets of not less than $25,000,000. At December 31, 2010 our tangible net worth was $276,977,000 and liquid assets were $71,012,000. This line of credit is secured by a portion of our farm acreage. The outstanding long-term debt, less current portion of $35,000, is $290,000 at December 31, 2010. This debt is being used to provide long-term financing for a building being leased to Starbucks and the debt is secured by the leased building and land.

Our current and future capital resource requirements will be provided primarily from current cash and marketable securities, cash flow from ongoing operations, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, sales of easements over our land, additional use of debt, proceeds from the reimbursement of public infrastructure costs through the Community Facilities District bond debt (described below under Off-Balance Sheet Arrangements), and the issuance of common stock. As noted above, we have $71,012,000 in cash and securities at December 31, 2010 and current availability on lines of credit to meet any short-term liquidity needs. We continue to expect that substantial future investments will be required in order to develop our land assets. In order to meet these long-term 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, sales of easements, and the issuance of common stock. 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 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, 2010, to be paid over the next five years:

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		Payments Due by Period ($ in thousands)			
(in thousands)	**Total**	**< 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
CONTRACTUAL OBLIGATIONS:					
Long-term debt	$ 325	$ 35	$ 77	$ 89	$ 124
Interest on fixed rate debt	89	21	34	30	4
Line of credit commitment fees	99	70	29		
Cash contract commitments	1,965	1,965			
Tejon Conservancy advances	5,560	800	1,130	880	2,750
Total contractual obligations	$ 8,038	$ 2,891	$ 1,270	$ 999	$ 2,878