

Bixby Land Company and Subsidiaries



Consolidated Financial Statements

**For the Years Ended
December 31, 2021 and 2020**

BIXBY LAND COMPANY AND SUBSIDIARIES

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Report of Independent Auditors

To the Shareholders and Board of Directors of
Bixby Land Company and Subsidiaries

Opinion

We have audited the consolidated financial statements of Bixby Land Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Ernst & Young LLP

March 25, 2022

BIXBY LAND COMPANY AND SUBSIDIARIES

**Consolidated Balance Sheets
As of December 31, 2021 and 2020**

ASSETS	<u>2021</u>	<u>2020</u>
LAND, BUILDING AND IMPROVEMENTS, NET (Note 2)	\$ 595,400,000	\$ 538,845,000
INVESTMENTS IN UNCONSOLIDATED REAL ESTATE VENTURES (Note 4)	10,440,000	10,891,000
OTHER ASSETS		
Cash and cash equivalents	43,327,000	41,137,000
Certificate of deposit	5,030,000	–
Note receivable (Note 3)	3,150,000	3,150,000
Rent and other receivables	597,000	706,000
Deferred straight-line rents	12,403,000	13,095,000
Prepaid expenses	1,605,000	1,488,000
Lease commissions, net	10,275,000	10,651,000
Intangible assets, net (Note 5)	13,783,000	9,020,000
Deferred financing costs, deposits and other assets, net	6,551,000	56,000
TOTAL OTHER ASSETS	<u>96,721,000</u>	<u>79,303,000</u>
TOTAL ASSETS	<u>\$ 702,561,000</u>	<u>\$ 629,039,000</u>
 LIABILITIES AND EQUITY		
LIABILITIES		
Notes payable, net of deferred financing costs (Note 6)	\$ 354,344,000	\$ 317,515,000
Secured line of credit (Note 7)	–	23,593,000
Accounts payable and accrued liabilities (Note 8)	16,273,000	11,683,000
Below-market leases, net (Note 5)	5,599,000	5,653,000
Security deposits and prepaid rent	5,160,000	5,063,000
TOTAL LIABILITIES	<u>381,376,000</u>	<u>363,507,000</u>
 COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY		
Preferred stock, no par value, 100,000 shares authorized, and none outstanding as of December 31, 2021 and 2020	–	–
Common stock, no par value, 280,000 shares authorized, 182,145 shares issued and outstanding as of December 31, 2021 and 2020	39,323,000	39,323,000
Retained earnings	281,854,000	226,097,000
TOTAL SHAREHOLDERS' EQUITY	<u>321,177,000</u>	<u>265,420,000</u>
Noncontrolling interests (related party) (Notes 4 and 11)	8,000	112,000
TOTAL EQUITY	<u>321,185,000</u>	<u>265,532,000</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 702,561,000</u>	<u>\$ 629,039,000</u>

The accompanying notes are an integral part of these statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

**Consolidated Statements of Operations
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
RENTAL REVENUE	\$ 66,461,000	\$ 64,299,000
RENTAL EXPENSES	<u>14,565,000</u>	<u>14,324,000</u>
	<u>51,896,000</u>	<u>49,975,000</u>
EXPENSES		
General and administrative (Note 8)	19,735,000	10,553,000
Depreciation and amortization	19,878,000	19,655,000
Interest	15,097,000	15,002,000
	<u>54,710,000</u>	<u>45,210,000</u>
GAIN ON SALE OF REAL ESTATE, NET (NOTE 3)	70,709,000	–
OPERATING INCOME	<u>67,895,000</u>	<u>4,765,000</u>
OTHER INCOME AND EXPENSE		
Oil royalty income (Note 9)	1,498,000	901,000
Interest and dividend income	378,000	376,000
Other income (expense), net	(500,000)	(100,000)
Investment advisory, management and leasing services (primary to affiliates) (Note 11)	731,000	964,000
Equity in (losses) earnings of unconsolidated real estate ventures (Note 4)	<u>(2,060,000)</u>	<u>(131,000)</u>
	<u>47,000</u>	<u>2,010,000</u>
INCOME BEFORE INCOME TAX EXPENSE (NOTE 1)	67,942,000	6,775,000
INCOME TAX EXPENSE (ATTRIBUTABLE TO THE COMPANY'S TAXABLE REIT SUBSIDIARY)	<u>(267,000)</u>	<u>(289,000)</u>
NET INCOME	67,675,000	6,486,000
Loss allocable to noncontrolling interests (Notes 4 and 11)	<u>104,000</u>	<u>3,000</u>
NET INCOME ALLOCABLE TO COMMON SHAREHOLDERS	<u>\$ 67,779,000</u>	<u>\$ 6,489,000</u>
NET INCOME PER COMMON SHARE (BASIC AND DILUTED)	<u>\$ 372.12</u>	<u>\$ 35.63</u>
Weighted average number of shares outstanding	<u>182,145</u>	<u>182,145</u>

The accompanying notes are an integral part of these statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

**Consolidated Statements of Equity
For the Years Ended December 31, 2021 and 2020**

	Number of Shares	Common Stock	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests (Note 11)	Total Equity
Balance at January 1, 2020	182,145	\$ 39,323,000	\$ 230,537,000	\$ 269,860,000	\$ 115,000	\$ 269,975,000
Net income (loss)	-	-	6,489,000	6,489,000	(3,000)	6,486,000
Contributions from affiliated noncontrolling interests	-	-	-	-	-	-
Dividends and distributions	-	-	(10,929,000)	(10,929,000)	-	(10,929,000)
Balance at December 31, 2020	<u>182,145</u>	<u>\$ 39,323,000</u>	<u>\$ 226,097,000</u>	<u>\$ 265,420,000</u>	<u>\$ 112,000</u>	<u>\$ 265,532,000</u>
Net income (loss)	-	-	67,779,000	67,779,000	(104,000)	67,675,000
Contributions from affiliated noncontrolling interests	-	-	-	-	-	-
Dividends and distributions	-	-	(12,022,000)	(12,022,000)	-	(12,022,000)
Balance at December 31, 2021	<u>182,145</u>	<u>\$ 39,323,000</u>	<u>\$ 281,854,000</u>	<u>\$ 321,177,000</u>	<u>\$ 8,000</u>	<u>\$ 321,185,000</u>

The accompanying notes are an integral part of these statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 67,675,000	\$ 6,486,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including lease commissions, deferred loan costs and above/below market leases)	20,223,000	19,814,000
Gain on sale of real estate, net	(70,709,000)	–
Deferred straight-line rents	(782,000)	(1,630,000)
Equity in (earnings) losses of unconsolidated real estate ventures	2,060,000	131,000
Distributions of earnings from unconsolidated real estate ventures	1,000	–
Non-cash charge for stock appreciation rights	12,521,000	3,919,000
Changes in operating assets and liabilities:		
Rent and other receivables	109,000	(65,000)
Prepaid expenses	(117,000)	(60,000)
Deposits and other assets	6,000	28,000
Accounts payable and accrued expenses	(7,119,000)	(5,024,000)
Security deposits and prepaid rent	537,000	192,000
Net cash provided by operating activities	24,405,000	23,791,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of properties	(128,981,000)	(16,007,000)
Escrow deposits for future acquisitions	–	–
Capital improvements and leasing expenditures	(4,426,000)	(6,852,000)
Proceeds from sale of property, net of selling expenses	123,343,000	–
Repayment of note receivable	–	250,000
Equity placement fees for real estate venture	–	(397,000)
Investments in unconsolidated real estate ventures	(4,350,000)	(3,063,000)
Proceeds from sale of investment in unconsolidated real estate venture (Note 4)	–	–
Distributions of capital from unconsolidated real estate ventures	2,740,000	2,250,000
Investment in certificate of deposit	(5,030,000)	–
Net cash used in investing activities	(16,704,000)	(23,819,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings under secured notes	40,000,000	–
Repayment and settlement of secured notes	(2,688,000)	(215,000)
Borrowings on secured line of credit	1,431,000	3,346,000
Repayment of secured line of credit	(25,024,000)	–
Payment of deposit for collateral substitution	(6,197,000)	–
Payment of deferred financing costs	(1,011,000)	–
Dividends paid to common shareholders	(12,022,000)	(10,929,000)
Net cash used in financing activities	(5,511,000)	(7,798,000)

The accompanying notes are an integral part of these statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

**Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	\$ 2,190,000	\$ (7,826,000)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>41,137,000</u>	<u>48,963,000</u>
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u><u>\$ 43,327,000</u></u>	<u><u>\$ 41,137,000</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 14,590,000</u>	<u>\$ 14,692,000</u>
Income taxes	<u>\$ 269,000</u>	<u>\$ 279,000</u>
NON-CASH DISCLOSURE OF INVESTING AND FINANCING ACTIVITIES:		
Accounts payable related to capital improvements and leasing commissions	<u>\$ 139,000</u>	<u>\$ 951,000</u>
Application of escrow deposit for the acquisition of property	<u>\$ —</u>	<u>\$ 600,000</u>

The accompanying notes are an integral part of these statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

Organization and Operations

Bixby Land Company is incorporated under the laws of the State of California. It owns and manages industrial and office properties in the western, southwestern and southeastern United States.

Principles of Consolidation

The consolidated financial statements include the accounts of Bixby Land Company and its wholly-owned or majority owned qualified real estate investment trust (“REIT”) subsidiaries and its wholly-owned taxable REIT subsidiary (“TRS”), collectively referred to herein as the (“Company”).

The Company consolidates all entities that are wholly-owned and those in which the Company owns less than 100% but exercises control, as well as any variable interest entities (“VIE”) in which the Company is the primary beneficiary. In determining whether the Company represents the primary beneficiary of a VIE or otherwise controls an entity, the Company evaluates, among other factors, how the entity is structured and substantive terms of the arrangement to identify which enterprise has the power to direct the activities that most significantly impact the entity’s economic performance.

All material intercompany transactions and balances have been eliminated in consolidation. Square footage amounts and occupancy rates presented herein are unaudited.

Noncontrolling Interests

Noncontrolling interests represent interests held directly by members of executive management in certain joint venture entities which are consolidated by the Company (Note 4). Income or losses allocated to the noncontrolling interests are attributed based on the management interests’ share in income or loss recognized from the underlying joint ventures, including the effect of applicable profit-sharing provisions (Note 11).

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenues and expenses, and other information included in the related notes to the consolidated financial statements. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to the Requirements for Fair Value Measurement* (“ASU 2018-13”), which modifies and removes certain disclosure requirements for fair value measurements, including with regard to Level 3 measurements. ASU 2018-13 is effective for the Company for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company adopted ASU 2018-13 beginning in the year ended December 31, 2020. The adoption of ASU 2018-13 did not have a significant impact on its consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (“ASU 2016-02”). The amendments in ASU 2016-02 change the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. In July 2019, the FASB approved a proposal to delay the effective date of ASU 2016-02 for private companies, which made it effective for the Company for fiscal years beginning after December 15, 2020, with early adoption permitted. In June 2020, the FASB issued ASU No. 2020-05, which further delayed the effective date of ASU 2016-02 for private companies to fiscal years beginning after December 15, 2021. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is still evaluating the impact of the adoption of ASU 2016-02 will have on its consolidated financial statements and disclosures.

Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company generally considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

At December 31, 2021 and 2020, and throughout each year, the Company maintained cash balances in banks in excess of federally-insured limits. The Company has not experienced any losses related to uninsured cash balances.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

There are owners and developers of real estate that compete with the Company in its trade areas, which results in competition for tenants to occupy space. The existence of competition could have a material impact on the Company's ability to lease space and on the level of rent that can be achieved.

A majority of the Company's properties are located in California. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory, and social factors affecting the communities in which the tenants operate.

For the years ended December 31, 2021 and 2020, no tenant accounted for 10% or more of the annual base rents of the Company.

Land, Buildings and Improvements

Land, buildings and improvements are recorded at cost. Building and improvements are depreciated and amortized using the straight-line method over the estimated useful lives of the assets ranging from three to 40 years.

The Company is required to make subjective assessments as to the useful life of its properties for purposes of determining the amount of depreciation based on various factors, including industry standards, historical experience and the condition of the asset at the time of acquisition. These assessments have a direct impact on the Company's net income.

Deferred Costs

Deferred financing costs and lease commissions are deferred and amortized using the straight-line method over the related loan periods and lease terms, respectively. For deferred financing costs, the straight-line method approximates the effective interest rate method. Deferred financing costs related to notes payable are presented as a direct deduction in the related liability.

As of December 31, 2021 and 2020, the Company has presented \$2,245,000 and \$1,762,000, respectively, as a direct reduction from mortgage notes payable on the accompanying consolidated balance sheets, representing unamortized deferred financing costs. Unamortized deferred financing costs related to the Company's secured line of credit total \$66,000 and \$41,000, respectively, as of December 31, 2021 and 2020 and are included in deferred financing costs, deposits and other assets, net on the accompanying consolidated balance sheets. Amortization of lease commissions totaled \$2,445,000 and \$2,375,000 for the years ended December 31, 2021 and 2020 and is included in depreciation and amortization expense on the accompanying statements of operations.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Real Estate Acquisitions

The Company allocates the purchase price of an acquired real estate property to the tangible and intangible assets acquired and liabilities assumed based on management's estimates of their respective fair values as of the acquisition date. Acquisition related costs are expensed as incurred when the acquired real estate represents a business. Acquisition costs related to asset acquisitions are capitalized and allocated to the components of the assets acquired. The properties acquired during the years ended December 31, 2021 and 2020 were accounted for as asset acquisitions.

The determination of the fair value of acquired tangible and intangible assets requires significant estimates by management and considers many factors, including the Company's expectations about the underlying property and the general market conditions in which the property operates. The judgment and subjectivity inherent in such assumptions can have a significant impact on the magnitude of the intangible assets that the Company records.

The value of leases in place as of the acquisition date is estimated based on the value associated with lost rental revenue during the assumed lease-up period, which is recorded as in-place lease intangible assets, and the value associated with the costs avoided in originating leases comparable to the acquired in-place leases, which is recorded as lease commission assets. The value of in-place leases and lease commissions recorded in conjunction with the acquisition is amortized over the remaining term of the respective lease and is included in depreciation and amortization expense.

Above-market and below-market in-place lease values for acquired properties are recorded based on the present value of the difference between the contractual amounts to be paid pursuant to the in-place leases and management's estimates of market lease rates for the comparable in-place leases, based upon consideration of various factors including historical experience, recently executed transactions and specific property characteristics, measured over a period equal to the remaining non-cancelable term of the lease. The value of above-market lease values is amortized as a reduction of rental revenue over the remaining terms of the respective leases. The value of below-market lease values is amortized as an increase to rental revenue over the remaining term of the respective leases, including below-market renewal option periods.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Real Estate Assets Held for Sale

The Company considers real estate assets to be held for sale when the decision to sell an asset has been approved by the appropriate level of management and Board of Directors, is actively being marketed or is under contract to sell, and there are no known material contingencies relating to the sale, such that the sale is probable within one year. When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs of such assets. If, in management's opinion, the net sales price of the assets that have been identified as held for sale is less than the net book value of the assets, the asset is written down to its estimated fair value less costs to sell.

There were no real estate assets held for sale as of December 31, 2021 and 2020.

Gains (Losses) on Sale of Real Estate

Gains (losses) on dispositions of real estate properties are recorded when the criteria in FASB Accounting Standards Codification ("ASC") Topic 610, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*, are satisfied, generally at the time the property is sold and control is transferred.

Impairment of Real Estate Assets

Real estate assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The long-lived assets are considered impaired if management's estimate of the aggregate future cash flows to be generated over the expected hold period for the asset, including a net sale proceeds assumption (i.e., undiscounted and without interest charges), is less than the carrying value. These estimates take into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors.

The determination of undiscounted cash flows requires significant estimates by management, including the expected course of action at the balance sheet date. Subsequent changes in estimated undiscounted cash flows arising from changes in anticipated action to be taken with respect to the property could impact the determination of whether impairment exists and whether the effects could materially impact the Company's net income. To the extent impairment is identified, the impairment charge will be measured as the excess of the carrying amount of the property over the estimated fair value of the property.

During the years ended December 31, 2021 and 2020, the Company recognized no impairment charges related to its owned real estate assets.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Disclosures

The Company estimates fair value, when applicable, using available market information and valuation methodologies believed to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that would be realized upon disposition. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

There were no assets or liabilities measured at fair value during the years ended December 31, 2021 and 2020.

Investments in Unconsolidated Real Estate Ventures

Investments in unconsolidated real estate ventures are accounted for using the equity method of accounting, as the Company has significant influence, but not control, over these entities, and they do not represent variable interest entities for which the Company is a primary beneficiary. Under the equity method of accounting, the Company recognizes its proportionate share of earnings or losses from the unconsolidated real estate ventures, including any impairment charges recognized at the joint venture level. The Company also evaluates its investments in unconsolidated real estate ventures to determine whether other-than-temporary impairment charges are warranted.

Included in the Company's consolidated statements of operations for the years ended December 31, 2021 and 2020 are revenues and reimbursements related to investment advisory, management, leasing and development services provided by the Company to the unconsolidated real estate ventures.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Investments in Unconsolidated Real Estate Ventures (continued)

The Company uses the cumulative earnings approach to determine the classification of distributions received from unconsolidated real estate ventures within its statement of cash flows. Under the cumulative earnings approach, distributions up to the amount of cumulative equity in earnings recognized are treated as returns on investment within operating cash flows and those in excess of that amount are treated as returns of investment within investing cash flows.

Allowance for Doubtful Receivables

The Company makes estimates of the collectability of its receivables related to tenant rents including base rents, expense reimbursements and other revenue or income. The Company specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful receivables. The allowance for doubtful receivables was \$0 and \$48,000 as of December 31, 2021 and 2020, respectively.

Rental Revenue Recognition

The Company derives the majority of its revenues from tenant rents and other tenant-related activities. Tenant rents include base rents, and expense reimbursements (such as common area maintenance, real estate taxes and utilities). The Company records base rents on a straight-line basis over the term of the lease. The difference between base rent and straight-line rent is recorded as a non-cash increase or decrease to rental revenues with a corresponding adjustment to deferred straight-line rents on the consolidated balance sheets. The straight-line rent adjustment increased revenue by \$782,000 and \$1,630,000 for the years ended December 31, 2021 and 2020, respectively. Rental revenues also include amortization of above and below-market in-place leases.

Included in rental revenue are common area maintenance and other expense reimbursements totaling \$13,682,000 and \$12,671,000 for the years ended December 31, 2021 and 2020, respectively.

Lease termination fee income is recognized in the period when a termination agreement is signed and the Company is no longer obligated to provide space to the tenant, and is included as a component of rental revenue on the consolidated statements of operations. During the years ended December 31, 2021 and 2020, the Company recognized \$0 and \$5,000, respectively of income related to early tenant lease terminations.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Share-Based Compensation

Stock appreciation rights (“SARs”) issued under the Company’s Long Term Growth Compensation Plan (Note 8) are accounted for as liability awards as they are intended to be settled in cash. Liabilities related to the awards are remeasured each period based on the overall appreciation in the share price of the Company’s stock until the awards are settled, and are included in accounts payable and accrued liabilities on the consolidated balance sheets. Compensation expense associated with the change in value of the awards is recognized using the straight-line method over the respective vesting period from time of issuance, and is included in general and administrative expenses on the consolidated statements of operations.

Income Taxes

On January 1, 2005, the Company elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”). Under the Code, REITs are generally not required to pay federal income taxes if they distribute 100% of their taxable income and meet certain income, asset and shareholder tests. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any alternative minimum tax) and may not be able to qualify as a REIT for the four subsequent taxable years. Even as a REIT, the Company may be subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In order to comply with the REIT requirements of the Code, the Company is generally required to make distributions (other than capital gain distributions) to its shareholders at least equal to (i) the sum of (a) 90% of ‘REIT taxable income’ computed without regard to the dividends paid deduction and net capital gains and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (ii) certain excess noncash income.

The Company distributes a percentage of its cash flow to ensure it will meet the distribution requirements of the Code, while allowing the Company to maximize the cash retained to meet other cash needs, as capital improvements and other investment activities. The payment of distributions is dependent upon the Company’s financial condition, operating results and REIT distribution requirements and may be adjusted at the discretion of the Board of Directors during the year.

The Company has elected taxable REIT subsidiary (“TRS”) status for certain of its consolidated subsidiaries. This allows the Company to provide services and hold certain investments that would otherwise be considered impermissible for REITs. The Company recognizes income tax expense for the federal and state income taxes incurred by TRS and interest and penalties associated with any unrecognized tax benefit liabilities. For the years ended December 31, 2021 and 2020, the Company incurred income tax expense of \$267,000 and \$289,000, respectively.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Company evaluates tax positions taken in the financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is ‘more-likely-than-not’ that the tax position will be sustained on examination by taxing authorities.

When necessary, deferred income taxes are recognized in certain taxable entities. Deferred income tax is generally a function of the period’s temporary differences (items that are treated differently for tax purposes than for financial reporting purposes). A valuation allowance for deferred income tax assets is provided if all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance is generally included in deferred income tax expense.

The federal and state statutes of limitations for the Company’s tax returns are generally three and four years, respectively. As such, tax returns that remain subject to examination would be from 2018 and thereafter for federal purposes and 2017 and thereafter for state purposes. Consequently, the taxability of distributions is subject to change.

Income per Common Share

Income per common share for the years ended December 31, 2021 and 2020 were computed based upon the weighted-average number of common shares outstanding during the year. The Company had no stock options, contingent shares, or other dilutive securities outstanding during 2021 or 2020.

Insurance Proceeds for Property Damages

The Company generally maintains insurance policies that provide coverage for property damage and business interruption related to its real estate properties. Losses due to physical damages are recognized in the period in which they occur, and the amount of expected proceeds to be received from insurance policies, up to the amount of recognized losses, is recorded in the period in which insurance proceeds are determined to be probable of recovery. Losses, which are reduced by the related insurance proceeds determined to be probable of recovery, are included in other income (expense) on the accompanying consolidated statements of operations. Anticipated insurance proceeds in excess of recognized losses represent a gain and are recognized when the insurance claim has been resolved. Amounts incurred to repair the damaged property are recorded to building and improvements as incurred.

Anticipated proceeds for lost rental revenue under business interruption coverage are recognized when the insurance claim has been resolved.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies (continued)

COVID-19

With respect to the ongoing and evolving coronavirus (COVID-19) outbreak, which was designated as a pandemic by the World Health Organization on March 11, 2020, the outbreak has caused disruption in international and U.S. economies and markets. The outbreak is having an adverse impact on various industries and, if repercussions of the outbreak are prolonged, could have an adverse impact on our tenants and related performance and valuation of our real estate investments, which could be material.

2. Land, Building and Improvements

Land, building and improvements, net at December 31, 2021 and 2020 consist of the following:

	2021	2020
Building and improvements	\$ 525,813,000	\$ 460,214,000
Land and site improvements	171,667,000	185,745,000
Furniture, fixtures and equipment, net	639,000	597,000
Construction in process	64,000	563,000
Total land, building and improvements	698,183,000	647,119,000
Less accumulated depreciation	(102,783,000)	(108,274,000)
Land, building and improvements, net	<u>\$ 595,400,000</u>	<u>\$ 538,845,000</u>

Land, buildings and improvements are encumbered by certain loans at December 31, 2021 and 2020 (Note 6).

3. Acquisitions and Dispositions

Acquisitions

During 2021, the Company acquired an industrial building located in Horn Lake, Mississippi, an industrial building located in Southaven, Mississippi, an industrial building located in Louisville, Kentucky and an industrial property located in Newnan, Georgia for a total aggregate purchase price of \$128,750,000. These acquisitions were accounted for as asset acquisitions and acquisition costs totaling \$438,000 related to the properties acquired were capitalized to the basis of the properties.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

3. Acquisitions and Dispositions (continued)

The allocation of the purchase price for these properties, including acquisition costs, was recorded as follows:

Land	\$ 9,116,000
Site improvements	8,174,000
Buildings	101,701,000
Tenant improvements	2,143,000
Leasing commissions	1,526,000
Above-market leases	403,000
Below-market leases	(658,000)
In-place leases	6,783,000
	<u>\$ 129,188,000</u>

During 2020, the Company acquired an industrial building located in Pooler, Georgia for a purchase price of \$16,602,000. This acquisition was accounted for as an asset acquisition and acquisition costs totaling \$93,000 related to the property acquired were capitalized to the basis of the property.

The allocation of the purchase price for this property, including acquisition costs, was recorded as follows:

Land	\$ 1,275,000
Site improvements	1,029,000
Building	13,528,000
Tenant improvements	—
Leasing commissions	375,000
Above-market leases	—
Below-market leases	—
In-place leases	488,000
	<u>\$ 16,695,000</u>

Dispositions

In July 2021, the Company sold three industrial buildings located in Poway, San Marcos and Fremont, California to an affiliated joint venture, LIPT Bixby JV, LLC, in which the company has a 5% interest, for a total sales price of \$68,640,000 with an aggregate carrying value plus selling costs of approximately \$31,234,000 resulting in a net gain on sale of \$37,406,000.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

3. Acquisitions and Dispositions (continued)

In October 2021, the Company sold an industrial building located in Lake Forest, California for a total sales price of \$16,588,000 with an aggregate carrying value plus selling costs of approximately \$8,330,000 resulting in a net gain on sale of \$8,258,000.

In November 2021, the Company sold two industrial buildings located in Carlsbad and San Diego, California to an affiliated joint venture, LIPT Bixby JV, LLC, in which the company has a 5% interest, for a total sales price of \$41,100,000 with an aggregate carrying value plus selling costs of approximately \$16,055,000 resulting in a net gain on sale of \$25,045,000.

In January 2017, the Company disposed of a parcel of land located in Riverside, California for a gross sales price of \$7,300,000, resulting in no gain or loss on sale after closing costs. As partial payment for the land, the Company issued a note, secured by a deed of trust, to the buyer for \$3,650,000. The note originally accrued interest at a fixed rate of 6% and requires the buyer to make quarterly interest payments. The term of the original note was for two years with the entire balance due in January 2019. In January 2019, the note was amended, extending the maturity date to January 2020 and requiring a principal reduction payment of \$250,000. The remaining note balance of \$3,400,000 accrued interest at a fixed rate of 7.5% and requires the buyer to continue making quarterly interest payments. The amended note also allowed for a 6-month extension option, extending the maturity date to July 2020 with another \$250,000 principal reduction payment required in January 2020. The interest rate increased to 8% during the 6-month extension period. In October 2019, the note was further amended, extending the maturity date under the extension option to January 2021. In January 2020, the extension option was elected and the \$250,000 principal payment was made, reducing the note balance to \$3,150,000. In October 2020, the note was further amended, extending the maturity date to December 2021.

In December 2021, the note was further amended, extending the maturity date 6 months to June 2022. The extension required a fee of \$100,000, which was paid in December 2021, and a principal reduction payment of \$200,000 due in January 2022. The interest rate increased to 12% during the extension. In January 2022, the note balance of \$3,150,000 was repaid in full.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

4. Investments in Unconsolidated Real Estate Ventures

Investments in unconsolidated real estate ventures at December 31, 2021 and 2020, and the Company's effective ownership percentages therein, consisted of the following:

	Ownership Percentage	2021	2020
LIPT Bixby JV, LLC	5.00%	\$ 2,150,000	\$ —
SW 1 st Avenue Associates, LLC	9.50% ⁽¹⁾	148,000	2,118,000
BLC Industrial Venture I, LLC	10.00%	5,875,000	6,249,000
Savannah 95 Logistics Venture, LLC	10.00%	2,259,000	2,412,000
		10,432,000	10,779,000
Noncontrolling interests (related parties)	0.50%	8,000	112,000
Total		\$ 10,440,000	\$ 10,891,000

⁽¹⁾ Ownership percentage reflects effective ownership percentage of the Company in the underlying joint ventures and excludes 0.5% interests held directly by members of executive management

The changes in investments in unconsolidated real estate ventures during 2021 and 2020 were as follows:

	2021	2020
Balance — beginning of year	\$ 10,891,000	\$ 9,812,000
Investments in real estate ventures	4,350,000	3,460,000
Equity in (losses) earnings of real estate ventures	(2,060,000)	(131,000)
Distributions	(2,741,000)	(2,250,000)
Balance — end of year	\$ 10,440,000	\$ 10,891,000

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

4. Investments in Unconsolidated Real Estate Ventures (continued)

Summary unaudited financial information of the unconsolidated joint ventures as of and for the periods ending December 31, 2021 and 2020 is as follows:

	2021	2020
Assets, primarily real estate properties	\$ 347,543,000	\$ 241,625,000
Liabilities, primarily mortgage debt	\$ 210,241,000	\$ 140,621,000
Owners' capital	137,302,000	101,004,000
	<u>\$ 347,543,000</u>	<u>\$ 241,625,000</u>
Revenues	\$ 21,447,000	\$ 15,538,000
Expenses	(22,722,000)	(16,558,000)
Gain on sale of real estate	—	—
Net loss	<u>\$ (1,275,000)</u>	<u>\$ (1,020,000)</u>

SW 1st Avenue Associates, LLC

In December 2016, the Company formed SW 1st Avenue Associates, LLC with an institutional investor (“SW 1st”), in which the Company effectively owns a 9.5% interest. Members of the Company’s executive management team own a 0.5% interest in the venture and a promote interest in cash flows above specified thresholds, which is consolidated by the Company and reflected as a noncontrolling interest in the consolidated financial statements. SW 1st owns and operates two office properties located in Portland, Oregon totaling 263,994 square feet. The properties were 63% leased at December 31, 2021. The properties underwent significant capital improvements including interior and exterior renovations which were completed for one property in December 2017 and completed in June 2019 for the second property.

In December 2021, the Company recognized an impairment charge of \$1,897,000 related to its investment in SW 1st. The impairment charge was caused by a decrease in estimated value of the Company’s investment in the venture primarily attributable to a reduction in estimated fair value of the SW 1st properties due to continued high vacancy rates and other factors impacting tenant demand for office space in the Portland market. The fair value of the properties was estimated primarily based on a broker opinion of value, which is deemed to represent a Level 3 fair value measurement. The impairment charge is included in equity in losses of unconsolidated real estate ventures on the accompanying consolidated statements of operations.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

4. Investments in Unconsolidated Real Estate Ventures (continued)

BLC Industrial Venture I, LLC

In January 2018, the Company formed BLC Industrial Venture I, LLC (“Venture I”) with an institutional investor, in which the Company effectively owns a 10% interest. Venture I owns and operates two industrial properties located in Phoenix, Arizona, two industrial properties located in San Bernardino, California, an industrial property located in Sacramento, California and an industrial property located in Atlanta, Georgia. Collectively, the properties total 1,525,141 square feet and were 100% leased at December 31, 2021. Certain members of management share in the profits of the Company derived from Venture I above a specific threshold.

In February 2022, Venture I sold the property located in Atlanta, Georgia for \$30,415,000.

Savannah 95 Logistics Venture, LLC

In September 2020, the Company formed Savannah 95 Logistics Venture, LLC (“Savannah Venture”) with an institutional investor, in which the Company effectively owns a 10% interest. Savannah Venture owns and operates an 564,489 square foot industrial property located in Savannah, Georgia. In July 2021, Savannah Venture executed a lease for the remaining vacancy at the property totaling 100,214 square feet. The property was 100% leased at December 31, 2021. Certain members of management share in the profits of the Company derived from Savannah Venture above a specific threshold.

LIPT Bixby JV, LLC

In July 2021, the Company formed LIPT Bixby JV, LLC (“LIPT Venture”) with an institutional investor, in which the Company effectively owns a 5% interest. LIPT Venture owns and operates five industrial properties located in Poway, San Marcos, Carlsbad, San Diego and Fremont, California. Collectively, the properties total 434,963 square feet and were 100% leased at December 31, 2021. Certain members of management share in the profits of the Company derived from LIPT Venture above a specific threshold.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

5. Intangible Assets and Liabilities

Intangibles, net of accumulated amortization, included in other assets at December 31, 2021 and 2020 included the following:

	2021	2020
In-places leases, net	\$ 11,690,000	\$ 6,637,000
Above-market leases, net	1,056,000	1,206,000
Property tax abatement, net	1,037,000	1,177,000
Total intangible assets, net	\$ 13,783,000	\$ 9,020,000

Net below-market lease liabilities as of December 31, 2021 and 2020 totaled \$5,599,000 and \$5,653,000, respectively. Amortization of the value of in-place leases and property tax abatement during the years ended December 31, 2021 and 2020 resulted in amortization expense of approximately \$1,869,000 and \$1,618,000, respectively, while the amortization of above-market and below-market leases resulted in a net increase in rental revenue of \$160,000 and \$174,000 in 2021 and 2020, respectively.

The Company's intangible assets and liabilities as of December 31, 2021 are expected to be amortized as follows:

Year Ending December 31,	In-Place Lease Intangibles	Above- Market Leases	Property Tax Abatement	Below- Market Leases
2022	\$ 2,398,000	\$ 447,000	\$ 140,000	\$ (732,000)
2023	2,102,000	368,000	140,000	(674,000)
2024	1,729,000	131,000	140,000	(649,000)
2025	1,368,000	79,000	140,000	(569,000)
2026	1,011,000	31,000	140,000	(518,000)
Thereafter	3,082,000	-	337,000	(2,457,000)
	\$ 11,690,000	\$ 1,056,000	\$ 1,037,000	\$ (5,599,000)

As of December 31, 2021, the remaining lease intangible assets and liabilities are expected to be amortized over a weighted average remaining life of 4.2 years.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

6. Notes Payable, net

The composition of the Company's notes payable secured by deeds of trust at December 31, 2021 and 2020 is as follows:

Loan Terms	Interest Rate	Maturity Dates	2021	2020
Monthly interest only through 7/2025; LIBOR + 1.50%	1.60% ¹	7/25	\$ 40,000,000	\$ —
Monthly interest only through 9/2020; Fixed 4.32%	4.32%	9/25	51,394,000	52,277,000
Monthly interest only through 12/2020; Fixed 4.03%	4.03%	12/27	101,195,000	103,000,000
Monthly interest only through 7/2024; Fixed 4.61%	4.61%	7/30	<u>164,000,000</u>	<u>164,000,000</u>
Total principal balance outstanding			356,589,000	319,277,000
Less: Deferred financing costs, net			<u>(2,245,000)</u>	<u>(1,762,000)</u>
Notes payable, net			<u>\$ 354,344,000</u>	<u>\$ 317,515,000</u>

¹ The applicable LIBOR rate is the one-month LIBOR which was 0.10% at December 31, 2021.

In July 2021, the Company entered into a new \$40,000,000 loan secured by three properties. The Company utilized a portion of the loan proceeds totaling \$25,024,000 to repay the balance outstanding on the Company's \$30,000,000 secured line of credit. The loan bears interest at a rate of one-month LIBOR plus 1.50% and matures in July 2025. The Company has guaranteed the loan in an amount equal to 25% of the outstanding balance and unpaid interest.

Monthly principal payments are based on a 30-year amortization schedule and are required after the interest only periods expire. As of December 31, 2021, the annual principal payments on the above obligations, including the payoff amounts due at maturity are as follows:

2022	\$ 2,801,000
2023	2,919,000
2024	4,108,000
2025	93,267,000
2026	4,976,000
Thereafter	<u>248,518,000</u>
	<u>\$ 356,589,000</u>

Certain notes secured by deeds of trust contains certain financial covenants regarding net worth and liquidity. The Company was in compliance with these financial covenants as of December 31, 2021 and 2020.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

7. Secured Line of Credit

The Company's \$30,000,000 secured line of credit bears interest at a rate of one-month LIBOR (0.10% and 0.15% at December 31, 2021 and 2020, respectively) plus 2.5% and matures in June 2023.

In May 2021, the secured line of credit was amended to extend the availability period two years to coincide with the June 2023 maturity.

During 2021 and 2020, the Company borrowed \$1,431,000 and \$3,346,000, respectively under the secured line of credit to facilitate the operations of two industrial properties.

In July 2021, the Company repaid the total outstanding balance of \$25,024,000 with proceeds from the Company's new \$40,000,000 loan as described in Note 6. At December 31, 2021 there were no borrowings outstanding under the secured line of credit.

The secured line of credit contains certain financial covenants regarding tangible net worth, liquidity and debt service coverage. The Company was in compliance with these financial covenants as of December 31, 2021 and 2020.

8. Share-Based Compensation

In March 2012, the Company adopted a Long Term Growth Compensation Plan (the "Plan") which authorizes the Company's Board of Directors to issue stock appreciation rights ("SARs") on an annual basis to the senior officers of the Company. Awards issued under the Plan are calculated based upon overall appreciation in the share price of the Company's common stock and vest over five-year periods from time of issuance.

Prior to 2017, 50% of each SAR award was subject to the achievement of certain cash flow targets. In January 2017, the Plan was amended to remove these performance conditions in determining the number of awards earned, such that all awards are earned along a time-based vesting schedule over a five-year period. As a result, 100% of the awards issued and outstanding under the Plan are calculated based upon overall appreciation in the share price of the Company's common stock.

In January 2021, the Plan was amended to exclude the value of the Company's common stock attributable to the Company's oil royalties associated with its Long Beach, California mineral rights royalty lease, from the calculation of all awards granted under the Plan in 2021 and thereafter.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

8. Share-Based Compensation (continued)

As of December 31, 2021, there were 16,363 SARs outstanding under the Plan, comprised of 3,500 SARs that were granted in 2017, 2,643 SARs that were granted in 2018, 3,220 SARs that were granted in 2019 and 3,500 SARs that were granted in each of the years 2020 and 2021. In December 2020 and January 2021, the Company made cash payments totaling \$5,464,000 related to the SARs granted in 2016 which had fully vested as of December 31, 2020. In December 2021 and January 2022, the Company made cash payments totaling \$7,929,000 related to the SARs granted in 2017 which had fully vested as of December 31, 2021.

The Company recognized non-cash compensation charges of \$12,521,000 and \$3,919,000 for the awards granted under the Plan for the years ended December 31, 2021 and 2020, respectively, which are included in general and administrative expenses on the accompanying consolidated statements of operations. Liabilities related to awards issued under the Plan as of December 31, 2021 and 2020 totaled \$12,619,000 and \$7,525,000, respectively, and are included in accounts payable and accrued liabilities on the accompanying consolidated balance sheets.

9. Description of Leasing Activities

Rental revenue is derived primarily from leases of real property owned by the Company. All leases are classified as operating leases for consolidated financial statement purposes. Substantially all lease arrangements provide for periodic adjustments in minimum lease payments based upon fixed rate increases or upon price level changes.

Company as Lessor

The following is a schedule by years of minimum future rental receipts under noncancelable operating leases as of December 31, 2021:

<u>December 31,</u>	
2021	\$ 52,937,000
2022	50,934,000
2023	42,997,000
2024	32,672,000
2025	24,345,000
Thereafter	<u>56,530,000</u>
	<u>\$ 260,415,000</u>

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

9. Description of Leasing Activities (continued)

In August 2017, the Company entered into a mineral rights royalty lease on approximately 1,016 acres in Long Beach, California where the Company had previously owned land but had retained the mineral rights. The Company is entitled to royalty payments from oil production extracted from the site. The oil company commenced drilling during 2019 and the Company began receiving monthly royalty payments. During the years ended December 31, 2021 and 2020, the Company earned and recognized oil royalty income of \$1,498,000 and \$901,000, respectively.

Company as Lessee

In January 2017, the Company entered into a new seven-year operating lease for its corporate offices at its 1501 Quail Street property. The lease expires in February 2024.

Financial results for the year ended December 31, 2021 and 2020 exclude rental revenue and expense in its consolidated financial statements related to its leased space in buildings owned by the Company, including the Company's corporate offices located in the 1501 Quail Street property.

10. 401(k) Plan

The Company has a profit sharing plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers all eligible employees and allows deferrals of their annual compensation, subject to the annual deferral limits established by the Internal Revenue Service ("IRS"). The Company may match a certain percentage of compensation, as determined annually by the Board of Directors. In addition, the Company matches 100% of the employee contribution up to 6% of the employee salary, as defined in the 401(k) Plan.

For the years ended December 31, 2021 and 2020, the Company contributed approximately \$200,000 and \$193,000, respectively, to the 401(k) Plan.

11. Related Party Transactions

Noncontrolling interests presented in the Company's consolidated financial statements represent interests held directly by members of executive management in the Company's unconsolidated joint ventures. Income or losses allocated to these related party noncontrolling interests are attributed based on the management interests' share in income or loss recognized from the underlying joint ventures, including the effect of applicable profit-sharing provisions. Losses of \$104,000 and \$3,000 were allocated to these noncontrolling interests during 2021 and 2020, respectively, as further described in Note 4. There were no cash distributions to these noncontrolling interests during 2021 and 2020.

BIXBY LAND COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) December 31, 2021 and 2020

11. Related Party Transactions (continued)

The Company provides various investment advisory, management and leasing services to SW 1st Avenue Associates, LLC, BLC Industrial Venture I, LLC, Savannah 95 Logistics Venture, LLC and LIPT Bixby JV, LLC (collectively, “Joint Ventures”). In exchange for these services, the Company receives fee income and reimbursements for various operating expenses from the Joint Ventures. For the years ended December 31, 2021 and 2020, the Company earned and recognized fee income and reimbursements of \$731,000 and \$964,000, respectively, which are included in investment advisory, management and leasing services income in the accompanying consolidated statements of operations.

As of December 31, 2021 and 2020, the Joint Ventures owed the Company \$20,000 and \$1,000, respectively, relating to such fees and reimbursements which are included in rent and other receivables in the accompanying consolidated balance sheets.

12. Commitments and Contingencies

Litigation

The Company has claims and litigation arising in the normal course of business. Management believes the resolution of these matters will not have a material adverse effect on the Company’s consolidated financial position or results of operations.

Environmental

Although there can be no assurance, the Company is not aware of any material environmental liability that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company’s properties, the activities of tenants and other environmental conditions of which the Company is unaware with respect to its properties could result in future environmental liabilities.

13. Subsequent Events

In January 2022, a prepayment penalty of \$1,038,000 was incurred in connection with a partial repayment of the note due to mature in September 2025. The partial repayment totaled \$10,736,000 and allowed for the release of certain collateral securing the note.

Subsequent events have been evaluated through March 25, 2022, the date the consolidated financial statements were available to be issued.