FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(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, 1997

OR

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

For the transition period from to

Commission File Number : 1-7183

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

| | |
|---|---|
| Delaware | 77-0196136 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

P.O. Box 1000, Lebec, California 93243
(Address of principal executive office)

Registrant's telephone number, including area code:(805) 327-8481

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock | American Stock Exchange |

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

None

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 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]

The aggregate market value of Registrant's Common Stock, $.50 par value per share, held by persons other than those who may be deemed to be affiliates of Registrant on March 19, 1998 was $347,279,086 based on the closing price on that date on the American Stock Exchange.

The number of Registrant's outstanding shares of Common Stock on March 19, 1998 was 12,685,994 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 11, 1998 relating to the directors and executive officers of Registrant are incorporated by reference into Part I, Item 4, and Part III.

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PART I

## Item 1. Business

Throughout Item I-"Business," Item 2-"Properties," Item 3-"Legal Proceedings," and Item 7-"Management's Discussion and Analysis of Financial Condition and Results of Operations," Registrant has made forward-looking statements regarding future developments in the cattle industry, the Registrant's plans for future plantings of permanent crops, future yields and prices for the Registrant's crops, future prices, production and demand for oil and other minerals, future development of the Registrant's property, and potential losses to the Company as a result of pending environmental proceedings. These forward-looking statements are subject to factors beyond the control of Registrant (such as weather and market forces) and, with respect to the Registrant's future development of its land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that actual future events will be consistent with the forward-looking statements made in this Annual Report.

Registrant owns approximately 270,000 contiguous acres of land located in Kern and Los Angeles Counties in the State of California on which it is engaged principally in production and sale of beef cattle, farming, and leasing of land for oil, gas and mineral production and commercial purposes. Registrant is also engaged in planning the future uses of its lands.

The following table shows the revenues, operating profits and identifiable assets of each of Registrant's industry segments for the last three years:

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS
(Amounts in thousands of dollars)

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Revenues (1) | | | |
| Livestock | $ 24,555 | $ 4,573 | $ 6,748 |
| Farming | 9,173 | 9,107 | 7,973 |
| Resource Management | 2,696 | 2,508 | 2,188 |
| Commercial and Land Use | 3,403 | 1,464 | 1,271 |
| Segment Revenues | 39,827 | 17,652 | 18,180 |
| Interest Income | 1,159 | 1,308 | 1,374 |
| Total Revenues | $ 40,986 | $ 18,960 | $ 19,554 |
| Operating Profits | | | |
| Livestock | $ 1,499 | $ 412 | $ 41 |
| Farming | 2,627 | 3,134 | 1,811 |
| Resource Management | 1,328 | 1,356 | 1,241 |
| Commercial and Land Use | 1,003 | (841) | (1,262) |
| Segment Profits (2) | 6,457 | 4,061 | 1,831 |
| Interest Income | 1,159 | 1,308 | 1,374 |
| Corporate Expense | (2,346) | (2,266) | (2,046) |
| Interest Expense | (747) | (295) | (436) |
| Operating Profits | $ 4,523 | $ 2,808 | $ 723 |
| Identifiable Segment Assets (3) | | | |
| Livestock | $ 24,215 | $ 5,554 | $ 5,533 |
| Farming | 10,176 | 10,545 | 10,370 |
| Oil and Minerals | 363 | 259 | 258 |
| Commercial and Land Use | 5,933 | 2,874 | 2,713 |
| Corporate | 23,006 | 28,137 | 26,329 |
| Total Assets | $ 63,693 | $ 47,369 | $ 45,203 |

(1) Intersegment sales were insignificant.

(2) Segment Profits are revenues less operating expenses, excluding interest and corporate expenses.

(3) Identifiable assets by segment include both assets directly identified with those operations and an allocable share of jointly-used assets. Corporate assets consist primarily of cash and cash equivalents, refundable and deferred income taxes and buildings and improvements.

### Livestock Operations

Registrant conducts a beef cattle range operation upon those portions of its ranch which are not devoted to farming, commercial or other purposes. This range operation depends primarily upon forage from natural vegetation. The beef cattle activities include both commercial cow-calf operations (the maintenance of a cattle herd whose offspring are used to replenish the herd, with excess numbers being sold commercially) and the use of stocker cattle (cattle purchased at light weights for growing on available range forage before being resold). At December 31, 1997, Registrant's cattle herd numbered approximately 30,975 of which approximately 22,882 head were stockers and the remainder were in the breeding herd. At December 31, 1996, Registrant's cattle herd numbered approximately 15,316 of which approximately 8,350 head were stockers. Registrant's range cattle are either sold to stocker and feedlot operators or fed at Registrant's feedlot in Texas and sold to packers. As to the sale of cattle, Registrant is in direct competition with other commercial cattle operations throughout the United States. The prices received for Registrant's cattle are primarily dependent upon the commodity market's perception of supply and demand at the time cattle are sold. In an attempt to reduce the market risks of its livestock activities, Registrant usually hedges future sales of cattle in the futures and options markets or obtains fixed prices for future delivery through contracts with cattle buyers, feedlots, or packing houses. Registrant purchased a feedlot in 1997 in order to further vertically integrate its beef operations.

During the last low in the cattle cycle a number of companies in the cattle industry began to explore in depth various forms of strategic alliances within the production, feeding and meat-packing segments of the cattle business. Registrant believes there will be dramatic shifts in the form of cattle marketing in the United States. To be successful in the cattle industry in the future Registrant believes that the producers of beef must become more consumer oriented. To achieve this goal Registrant is beginning a program to vertically integrate its cattle operations. Vertical integration will allow Registrant to control the quality of the product through the production process to the end users. To vertically integrate Registrant must control the feeding of cattle and create strategic alliances with other producers to supply beef products to end users. To begin the process of vertical integration within the beef industry, Registrant has purchased the assets of a cattle feedlot that is located in western Texas. This feedlot will allow Registrant to control the feeding and sales of cattle. The purchase of the feedlot occurred on March 10, 1997.

Cattle prices over the last year were steadily improving until late 1997 and early 1998 when the impact of the Asian financial crisis hit the cattle commodity markets. With beef being the largest dollar agricultural export and Asia receiving much of the beef exported, prices fell significantly during December 1997 through early February 1998. Not only have prices declined in the beef market, but prices for hides, which are used in the production of leather, have also declined. Hide prices have declined almost 30% over this time frame. It is anticipated that prices later in 1998 will improve when compared to current levels due to fewer head of cattle in feedlots. The increase in price, however, will be less than normally anticipated due to the decline in Asia's economies. Overall, Registrant believes it will see lower prices during 1998, which will impact cattle sales revenues.

Farming Operations

In the San Joaquin Valley, Registrant farms permanent crops including the following acreage: wine grapes-1,528, almonds-1,366, pistachios-738 and walnuts-295. Included in these acreage figures are: 308 acres of pistachio trees planted in 1994, with the first harvestable crop expected in 1998; 72 acres of Rubired grapes planted in 1996, with the first harvestable crop expected in 1998; 152 acres of almonds planted in 1996, with the first harvestable crop expected in 1999; and 36 acres of Cabernet Sauvignon and Ruby Cabernet wine grapes planted in early 1997, with the first harvestable crop expected in 1998. During 1997, Registrant began land preparation for the development of 300 acres of almonds which were planted in early 1998 and 300 acres of almonds to be planted in 1999. Registrant's objective in planting new trees is to offset the normal yield decline as its older plantings reach productive maturity and to improve revenues from farming operations in future years. As certain of Registrant's permanent plantings age to the point of declining yields, Registrant will evaluate the advisability of replanting such crops, or replacing them with different plantings, depending upon market conditions.

Registrant sells its farm commodities to several commercial buyers. As a producer of these commodities, Registrant is in direct competition with other producers within the United States and throughout the world. Prices received by Registrant for its commodities are determined by total industry production and demand levels. Registrant attempts to improve price margins by producing high quality crops through cultural practices and by obtaining better prices through marketing arrangements with handlers.

In 1997, almonds produced were sold to two domestic commercial buyers, with one of the buyers receiving approximately 70% of the crop.

The California almond industry is subject to a federal marketing order which empowers the Secretary of Agriculture to set the percentage of almonds which can be sold during any crop year and the percentage of almonds to be held in reserve in order to assist in the orderly marketing of the crop. During 1997 and 1996 the saleable percentage was set at 100% of the total almond crop.

In 1997, Registrant's pistachios were sold to one customer. Registrant's 1997 walnuts were sold to two customers, each receiving approximately 50% of the crop. During 1997 the majority of wine grapes were sold to one winery.

Yields from Registrant's farming operations were below 1996 yields with the exception of grapes. While the California almond industry produced a near record crop, Registrant's almond production was 12% below 1996 due to the timing of rains and cold temperatures during the critical pollination period. Prices for almonds declined during 1997 due to the increased level of production for the year within the industry. The combination of lower yields and prices caused revenues to decline approximately 40%.

Grape yields in 1997 were 29% greater than 1996 production, and 1997 grape revenues were 25% above the 1996 crop. Pistachios were in the "off year" of their alternate bearing cycle and, while the yields were 20% below the 1996 crop, they were much higher than previous "off year" yields. Pistachio revenue in 1997 was flat when compared to 1996 pistachio revenues. Prices for pistachios increased slightly when compared to the prior year due to crop yields being slightly below the previous year's level. Registrant's 1997 walnut crop yield was 39% below last year's production, and revenues from walnuts fell by approximately 39%. Prices for walnuts remained fairly stable due to flat production for the industry. Registrant's crop was below expectation due to below-normal chilling hours during the dormancy period and to high production from the trees over the last three years causing stress to the trees.

Overall 1997 crop revenues were less than expected due mainly to lower than expected almond and walnut production. See "Management's Discussion and Analysis of Financial Statements and Results of Operations". Demand for Registrant's crops is expected to remain good throughout 1998. Management expects further price pressure on both nuts and grapes as new production within California comes online. Registrant has some price protection with regard to its wine grapes because it has three years remaining on a contract with a winery that provides the better of a minimum price or market price for its grape shipments. Nut crop markets are particularly sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices.

1997 was an excellent water year with 100% of Registrant's water entitlement being available from the State Water Project. In addition, there was sufficient runoff from local mountain streams throughout the year, allowing Registrant to capture and utilize this water to offset some of the higher priced State Water Project water. Because of the abundant water, Registrant was able to bank (percolate into the underground) some of its excess supply for future use and was able to exchange some of its 1997 water deliveries for deliveries for banking purposes in future years plus a favorable exchange fee. The State Department of Water Resources has announced its 1998 water supply at 100% of full entitlement. This is only a tentative commitment, however, and is subject to change. This level of supply, if it ultimately turns out to be available, will cover all of the Registrant's farming needs.

See discussion of water contract entitlement and long-term outlook for water supply under Part I, Item 2, "Properties-Farmland".

Resource Management

The Resource Management Division is made up of Registrant's oil and mineral leases, game management program, film location activities, and the quarter horse breeding program. These are all lines of business which are based on the use of ranch lands and resources but are not of the size to warrant separate divisions such as livestock, farming and real estate.

Registrant leases certain portions of its land to oil companies for the exploration for, and production of, oil and gas but does not itself engage in any such exploratory or extractive activities.

As of December 31, 1997, approximately 9,645 acres were committed to producing oil and gas leases from which the operators produced an average of approximately 392 barrels of oil, 221 MCF of dry gas, and 10 gallons of wet gas per day during 1997. Approximately 1,600 acres were also held under exploratory leases. Registrant's share of production based upon its average royalty rate during the last three years has been 49, 66, and 62 barrels of oil per day for 1997, 1996, and 1995, respectively. Approximately 264 producing oil wells were located on the leased land as of December 31, 1997. An additional 66 wells during 1997 have been shut-in and non-productive. Shut-in wells occur as oil revenues received by the operators lag behind the cost of keeping the wells in production. Low prices in the oil market have been a disincentive to exploratory leasing and drilling on Registrant's lands. No new wells were drilled on Registrant's lands during 1997.

Prices for Kern County's heavy crude oil dropped throughout 1997, hitting a low of $6.75 per barrel during March 1998. These reduced prices for early 1998 will negatively impact Registrant's royalties from the producing wells. Registrant attempts to require lessees to honor their lease obligations to legally and properly abandon non-producing wells in an environmentally sound manner, but its success at this is mixed.

Estimates of oil and gas reserves on Registrant's properties are unknown to Registrant. Registrant does not make such estimates and does not file reports as to reserve estimates with governmental agencies. Registrant's lessees do not make information concerning reserves available to Registrant.

Registrant has approximately 2,440 acres under lease to National Cement Company of California, Inc. ("National") for the purpose of manufacturing portland cement from limestone deposits found on the leased acreage. National owns and operates on the property a cement manufacturing plant having a design capacity of 600,000 tons of cement per year. The manufacturing plant is currently being redesigned to have a production capacity of 1,000,000 tons. The amount of payment which Registrant receives under the lease is based upon shipments from the cement plant. The term of this lease expires in 2007, but National has remaining options to extend the term for two additional successive increments of 20 years each and one final increment of 19 years. For information as to proceedings under environmental laws relating to the cement plant, see Item 1-"Legal Proceedings".

Approximately 433 acres of Registrant's land are leased to owners and operators of sand and gravel screening and rock crushing plants under two leases with rental payments based on the amount of sand and gravel removed and sold. Registrant is actively searching for a new lessee for a third area of the ranch where rock aggregate deposits have been extracted in the past.

The quarter horse program consists of the breeding of quality blood line quarter horses, the sale of horses, the boarding and training of horses, and the management of horse events. The quarter horse program will continue to direct its efforts to the improvement of Registrant's breeding mares and the hosting of competitive events to enhance the revenues of the operation.

Registrant also provides filming location services and a game management program, which is a hunting program that is managed in close cooperation with California Department of Fish and Game.

Real Estate

Registrant leases to various tenants lands which are used for a full-service truckstop facility, a truck wash, four auto service stations with convenience stores, four full-service restaurants, four fast-food operations, a motel, two antique shops, a United States Postal Service facility, several microwave repeater locations and radio and cellular transmitters/relay sites. In addition, there is a 1,400-acre site leased to a major aeronautical firm for testing facilities.

The Real Estate Division continues to focus substantial attention on additional development along the Interstate 5 corridor, where the Company owns approximately 16 miles of frontage, with commercial land around four separate interchanges. The land planning process in previous years had identified the Interstate 5 corridor as an area of focus in near term planning and entitlement activities. (See Part I, Item 2, "Properties-Land Use Planning".)

During 1997, new commercial activity included the opening of a new Country Side Inn hotel at the Grapevine Center during March 1997 and the establishment of a new 350-acre Tejon Industrial Complex ("Industrial Complex") at the I-5/Laval Road interchange. The first project in the Industrial Complex was announced during December 1997. Registrant created a joint venture with Petro Stopping Centers for the purpose of developing a major Travel Plaza on 50 acres of land in the Industrial Complex. Construction of the Travel Plaza is scheduled to begin in the second quarter of 1998 and is expected to be completed before the end of the fourth quarter of 1998. Negotiations for two new commercial leases at the Grapevine Center have been initiated and are expected to close by the end of the second quarter of 1998.

Within the commercial leasing area, Registrant is in direct competition with other landowners who have highway interchange locations along Interstate 5 within California.

Customers

During 1997, 1996 and 1995 the following customers accounted for more than 10% of Registrant's consolidated revenues: Golden State Vintners, a purchaser of grapes (14% in 1997, 21% in 1996, and 18% in 1995), Harris Ranch (18% in 1996), and Timmerman Cattle (26% in 1995).

Employees

At December 31, 1997, Registrant had 88 full-time employees.

Executive Officers of Registrant

The following table shows, as to each executive officer of Registrant, the offices held as of March 23, 1998, the period the offices have been held, and the age of the executive officers. All of such officers serve at the pleasure of the board of directors.

| Name | Offices | Held Since | Age |
|---|---|---|---|
| Robert A. Stine | President and Chief Executive Officer, Director | 1996 | 51 |
| Matt J. Echeverria | Senior Vice President, Livestock | 1987 | 47 |
| John A. Wood | Vice President, Farming | 1978 | 60 |
| Dennis Mullins | Vice President, Public Affairs, Secretary and General Counsel | 1993 | 45 |
| Allen E. Lyda | Vice President, Finance, Treasurer and Assistant Secretary | 1990 | 40 |
| David Dmohowski | Vice President, Land Planning | 1991 | 50 |
| James Taylor | Vice President, Real Estate | 1997 | 59 |

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

Mr. Stine has been employed by Registrant since May 1996, serving as President and Chief Executive Officer and as a Director. Mr. Stine served as the Chief Executive Officer of the Collins Companies from 1986 to April 1995.

Mr. Echeverria has served as Vice President since 1987 and was elected Senior Vice President in 1995. He also served as acting Chief Executive Officer of Registrant from May 1995 to May 1, 1996.

Mr. Wood has served Registrant as Vice President since 1978.

Mr. Mullins has been employed by Registrant since 1993, serving as Vice President, Public Affairs, Secretary and General Counsel. From January 1992 to January 1993 he served as General Counsel of the United States General Services Administration in Washington, D.C.

Mr. Lyda has been employed by Registrant since 1990, serving as Vice President, Finance and Treasurer. He was elected Assistant Secretary in 1995.

Mr. Dmohowski has been employed by Registrant since January 1991, serving as Vice President, Land Planning.

Mr. Taylor has been employed by Registrant since May 1997, serving as Vice President, Real Estate. From 1992 to 1997, he was a principal partner and President of Urban Assist, Inc., a planning and project management company located in Irvine, California.

Item 2. Properties

Registrant owns approximately 270,000 acres of contiguous land located approximately 60 miles north of Los Angeles and approximately 15 miles east of Bakersfield. The land is undeveloped, except for certain limited farming and commercial uses. Included in the land are portions of the San Joaquin Valley, foothills, portions of the Tehachapi Mountains and portions of the western end of the Antelope Valley. A number of key transportation and utility facilities, including Interstate 5 (a major north-south federal highway in California), U.S. Highway 58, California Highways 138 and 223, the California Aqueduct, the Southern Pacific-Santa Fe Railway Line and various transmission lines for electricity, oil, natural gas and communication systems cross Registrant's lands.

For information as to Registrant's livestock, farming, resource management and real estate operations on the land, see Part I, Item 1 - "Livestock Operations," "Farming Operations," "Oil and Minerals," and "Real Estate."

Land Use Planning

Registrant has continued to engage in planning activities related to future uses of its lands. Over the last two years Registrant initiated planning programs intended to guide decision making relating to future development on the Ranch with special focus on the important Interstate 5 corridor. During 1997 Registrant retained a team of experts to evaluate the market feasibility of developing a major destination land use at the Grapevine Center. Evaluation and marketing studies continue to proceed forward for this project. Evaluations are also being conducted with various groups to determine the development potential of a rural ranch estates program in the central canyon areas near Tejon Lake. Planning and market research for this product will continue during 1998. Since the prospects and timing of residential and recreational projects are dependent on market demand, the timing of any significant residential and/or recreational development is uncertain. Registrant is evaluating the environmental and regulatory factors that might affect its ability to secure value-enhancing entitlements for potential land development. The results of this evaluation will help Registrant in formulating long-range entitlement strategies. The timing of any extensive development of Registrant's property and its nature and extent are expected to be dependent upon market demand, the availability of adequate development capital and the obtaining of appropriate governmental permits and approvals.

Approximately 250,000 acres of Registrant's land are located in Kern County, California. The Kern County 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 housing and recreational facilities. While the County 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 the General Plan, ranch lands will require specific zoning and site plan approvals prior to actual development.

Registrant has not yet made specific proposals to the County to implement any part of its proposed land use concept, except at the Grapevine and Laval Road Interchanges on Interstate 5. Along the Interstate 5 corridor, Registrant is aggressively pursuing additional commercial activity in order to meet the needs of the 50,000 vehicles per day that travel through the ranch. To meet this built-in customer base, Registrant is investigating several potential opportunities that can expand current commercial activities.

The remainder of Registrant's land, approximately 20,000 acres, is in Los Angeles County. This area of the ranch is accessible from Interstate 5 via Highway 138 and lies 30 miles west of the Antelope Valley communities of Palmdale and Lancaster. Los Angeles County has adopted general plan policies which contemplate future limited residential development of portions of this land, subject to further assessments of environmental and infrastructure constraints. No specific land use proposals have been made by Registrant to the County. Registrant continues to monitor regional planning issues and continues to develop its liaison with Los Angeles County government and other regulatory agencies in order to preserve future development opportunities.

In addition to its agricultural contract water entitlements, Registrant has an entitlement to obtain from the California State Water Project sufficient water to service a substantial amount of future residential and/or commercial development. Portions of the property also have available ground water; this would be sufficient to support low density residential development in the Tejon Lake area and significant commercial development in the Interstate 5 corridor.

Portions of Registrant's property consist of mountainous terrain, and much of the property is not presently served by developed roads or by utility or water lines. Any significant development of the property would involve the construction of roads, utilities and other expensive infrastructure and would have to be done in a manner which accommodates a number of environmental concerns, including endangered species and wetlands issues, that may limit development of portions of the property.

Due to the property's location and its undeveloped state, from time to time unsolicited proposals are made for governmental or quasi-public uses of portions of the property or neighboring lands by entities, some of which may have the power of eminent domain. For the most part Registrant opposes such uses because, to the extent that any such proposals may be implemented through the use of the power of eminent domain or otherwise, the flexibility to develop some of Registrant's other lands could be correspondingly limited. Registrant completed negotiations with a company concerning the construction of a major oil pipeline over the Ranch during December 1995. The pipeline will follow an alignment of other oil pipelines which are along the Interstate 5 corridor. Final governmental approvals were received by the pipeline company in 1996, and construction commenced in 1997. The pipeline company purchased its easement from Registrant in November 1997 for $2,050,000. Registrant's lands are also being evaluated as a possible route for a high speed rail system between Los Angeles and San Francisco.

Farmland

Although changing crop market conditions and the cost and availability of irrigation water bear on the economic feasibility of farming on Registrant's lands, portions of the land located in the San Joaquin Valley are suitable for farming a wide variety of tree, vine and row crops.

Existing long-term contracts with the Wheeler Ridge-Maricopa Water Storage District ("Wheeler Ridge") provide for water deliveries from the California State Water Project ("Project") to certain farmland in the San Joaquin Valley belonging to Registrant. The long-term water supply picture in the state is uncertain, however, not only due to recurring droughts, but also because of existing and likely additional restrictions placed on water exported from the Sacramento-San Joaquin River Delta ("Delta") to protect allegedly endangered species and improve water quality in the Delta. Reserving water flowing into the Delta for environmental purposes has been required. The reserved water then flows into the San Francisco Bay and is unavailable for beneficial use. The impact of these regulations could be severe during drought years when the supply of water for all uses is limited. Pursuant to an interim agreement that has been extended and now expires in late 1998 among the federal agencies, the concerned state agencies, environmental groups, and water users, a maximum of 1.1 million acre feet of water has been reserved for such environmental uses. This water would otherwise be available for beneficial use by state and federal water project participants. However, there is no assurance that this interim agreement will be made permanent or that the final agreement now in the final stages of development will limit water used for environmental purposes to a comparable amount.

Registrant's total water entitlement substantially exceeds its permanent crop needs. If a 100% allocation is made by the Project to the Kern County Water Agency, of which Wheeler Ridge is a sub-unit, then deliveries from Wheeler Ridge will be sufficient for Registrant's 1998 crops. Longer term, however, year-to-year uncertainty of the water supply and potentially higher costs for water may jeopardize the financial viability of Wheeler Ridge by forcing marginal operators out of business and shifting a greater portion of the financial burden imposed by long term fixed costs and defaulted water assessments upon the remaining growers. High water costs prevent farmers from raising annual crops. Farmers also may be unable to obtain conventional financing for the higher value permanent crops because of the unpredictability of a water supply to nourish the trees and vines. These effects have been mitigated by the set of agreements among the State and nearly all Project water users known as the "Monterey Agreement". The Monterey Agreement should improve the reliability of water supply to agricultural users in drought years by eliminating the priority for urban use that resulted in agriculture's allocation being reduced to as low as zero in dought years, and should improve the financial viability of Wheeler Ridge and similarly situated water districts by allowing for the sale of substantial water entitlement to urban users. A number of such water transfers have occurred, and interest in further transfers has been expressed by urban water agencies.

Registrant's contracts with Wheeler Ridge, as of December 31, 1997, provide for annual water entitlement to approximately 5,488 acres of Registrant's lands. Existing Wheeler Ridge water delivery facilities are capable of delivering the contract water entitlement amounts to all of that acreage. The water contracts require annual payments related to the Project and Wheeler Ridge fixed costs, whether or not water is used or available. Payments made under these contracts in 1997 by Registrant totaled approximately $1,215,000.

In 1995, Registrant transferred 4,021 acre feet of entitlement from

Wheeler Ridge to Tejon-Castaic Water District ("TCWD"), which lies entirely within the boundaries of Registrant's lands. TCWD contributed 900 acre feet of entitlement to the Kern Water Bank Authority in order to join the Authority and obtain water banking rights. The Kern Water Bank provides Registrant with a supplemental source of water for agricultural and development uses in drought years. The remaining 3,121 acre feet retained by TCWD are now more directly under the control of Registrant and would be available for future development purposes in the San Joaquin Valley or in other areas of the Ranch. This water could also be used for farming purposes in the same manner it was used before the transfer with the consent of Wheeler Ridge and the Kern County Water Agency.

Lands benefiting from Wheeler Ridge are subject to contingent assessment liens under the California Water Storage District Law. These liens are senior in priority to any mortgages on the property. The liens secure Wheeler Ridge bonds issued to finance construction of water distribution facilities. Lien enforcement can involve foreclosure of the liens and the resulting loss of the lands subject to the liens. These liens will be enforced only if Wheeler Ridge revenues from water contracts and other regular revenue sources are not sufficient to meet Wheeler Ridge obligations. Lien assessments are levied by Wheeler Ridge based on estimated benefits to each parcel of land from the water project serving the land. Lands belonging to Registrant are presently subject to such contingent liens totaling approximately $817,000. Since commencement of operations in 1971, Wheeler Ridge has had sufficient revenues from water contract payments and other service charges to cover its obligations without calls on assessment liens, and Wheeler Ridge has advised Registrant that it does not anticipate the need to make any calls on assessment liens.

Under California law, lands located in a water storage district may be reassessed at the request of the district board of directors or at the request of 10% or more of the district landholders. As a result of any reassessment, which is based upon relative benefits from district facilities to each land parcel, the lien assessments may be redistributed and may increase or decrease for any particular parcel. Additional projects, if any, which might result in new assessment liens, must be approved by landowners of more than one-half of the land (based on valuation) in the district as well as by the California Department of Water Resources.

## Item 3. Legal Proceedings

Registrant leases land to National Cement Company of California, Inc. ("National") for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. See "Business-Resource Management." In August 1997, National ceased burning hazardous waste as supplemental fuel in the cement plant located on the land leased from Registrant. The fuel was obtained, transported, stored and processed by National's subtenant, Systech Environmental Corporation ("Systech"). Systech has removed the above-ground improvements from its former sublease premises and is in the process of preparing a formal closure plan under the Resource Conservation and Recovery Act ("RCRA"). After this closure plan is approved by the California Department of Toxic Substances Control, Systech will undertake the site investigation and (if needed) cleanup work specified in the closure plan.

A number of contaminated sites have been discovered on the land leased to National, including several landfills containing industrial waste, a storage area for drums containing lubricants and grease, an underground plume of chlorinated hydrocarbons, and diesel fuel which leaked from a pipeline. Because the waste in some or all of the sites has contaminated groundwater, the California Regional Water Quality Control Board for the Lahontan Region (the "Regional Water Board") has issued investigation and cleanup orders with respect to certain of the sites. These orders, which have different provisions depending on the site involved, generally require National, Lafarge Corporation ("Lafarge"), the predecessor in interest to National under the existing lease, and the Registrant to investigate and clean up soil and groundwater contamination in the vicinity of the sites. Although Registrant did not deposit any of the contaminants, the orders state that Registrant, as a landowner, will be responsible for complying with the orders if Lafarge and National fail to perform the necessary work. Civil fines for violations of a Regional Water Board order can be as high as $10,000 per day for each day the violation occurs and as high as $15,000 per day for each day a discharge of pollutants and a violation of the order occurs.

Lafarge has undertaken the investigation and remediation of the landfills and has completed the removal of contaminated soils above the groundwater level from them. Additional work is required to alleviate groundwater contamination resulting from the landfills. The order issued by the Regional Water Board with respect to the drum storage area has been dismissed because of the low level of petroleum contamination. Lafarge has completed a substantial amount of the site investigation with respect to the chlorinated hydrocarbons. Lafarge is undertaking additional investigation work as directed by the Regional Water Board, and is developing a feasibility study evaluating different remediation options. The plume of chlorinated hydrocarbons covers an extensive area and has migrated off of the leased premises in one direction. With respect to the diesel pipe leak, Lafarge has performed some site investigation and requested that the Regional Water Board approve closure of the site without requiring any remediation. Registrant opposed the request, and in December 1996, the Regional Water Board denied Lafarge's request. Registrant believes that Lafarge will be directed or ordered to undertake further site investigation. There appears to be significant contamination along the length of the pipeline, and portions of the contamination appear to be located under the cement plant itself, which means that remediation, if possible, may be more difficult and expensive.

On October 9, 1997, the Regional Water Board named National and Lafarge as primarily responsible parties in a cleanup and abatement order and named National as the primarily responsible party in a cease and desist order and waste discharge requirements. Those orders require investigation and certain remedial activities related to the cement kiln dust piles on the premises but do not require the removal or disposal of the piles. The Regional Water Board named Registrant secondarily responsible on these three orders relating to the kiln dust piles, which means that Registrant could be ordered to perform the obligations of National or Lafarge under the orders if either of them should fail to do so. Registrant has appealed these orders but the appeals are currently stayed pending Lafarge's and National's compliance.

The United States Environmental Protection Agency ("USEPA") has proposed to regulate all kiln dust nationwide under the hazardous waste program, but with a tailored set of standards. The proposed rules would mostly involve careful groundwater monitoring and possibly covering dust piles so they do not blow in the wind. Measures of this type are already being taken by National on the cement plant site. Kiln dust from cement plants using supplemental fuels like the plant operated by National will not be treated any differently under this program. The cement industry filed comments opposing the proposed rules for kiln dust and is engaged in a legislative effort to secure the management of kiln dust as a non-hazardous waste. The industry has also proposed an enforceable agreement between the cement manufacturers and USEPA with respect to the management of kiln dust in lieu of regulations. USEPA is considering this approach. In 1995, the California Legislature enacted legislation classifying kiln dust as a non-hazardous waste if it is managed on-site under regulations administered by a regional water quality control board and it would otherwise be classified as hazardous solely because of its extreme pH content. Registrant believes this legislative reclassification will apply to the kiln dust pile currently used by National but not to older piles created by Lafarge and its predecessors, which are believed to contain chromium bricks. If the chromium bricks are present, that could provide an independent basis for classifying the kiln dust as a hazardous waste.

Under the lease between Registrant and National, the tenant is obligated to indemnify Registrant for costs and liabilities arising directly or indirectly out of the use of the leased premises by the tenant. All obligations under this indemnity provision arising after the assignment of the lease to National (which occurred in November 1987) were assumed by National, and Lafarge has liability for all obligations under the indemnity provisions arising before the assignment. National's obligation is guaranteed by its parent, National Cement Company, Inc. Registrant believes that all of the matters described above in this Item 3 are included within the scope of the National and Lafarge indemnity obligations. While National has to date generally honored its indemnity obligations by reimbursing Registrant for most of the costs and expenses for which National has been invoiced, Lafarge has recently repudiated its indemnity obligations. Registrant is currently evaluating whether it needs to file suit against Lafarge in order to enforce its rights under the indemnity.

Registrant has been advised that National and Lafarge have reached an agreement to share cleanup responsibilities. This agreement settled a lawsuit between National and Lafarge. Registrant believes that under this agreement Lafarge is responsible for cleanup of the industrial waste landfills, the diesel release and the chlorinated hydrocarbon plume.

To date Registrant is not aware of any failure by Lafarge or National to comply with the orders of the Regional Water Board or to pursue the cleanup of the Additional Landfills as instructed by Regional Water Board staff. Registrant has not been ordered by the Regional Water Board to perform any of the investigative, characterization, remediation or removal activities. However, Registrant has been compelled to become involved in reviewing the investigative reports and cleanup recommendations made by Lafarge and its consultants and in monitoring the Regional Water Board proceedings and Lafarge's activities.

Registrant believes that Lafarge and National have sufficient resources to perform any reasonably possible or reasonably likely obligations relating to these matters. Publicly available financial information with respect to Lafarge indicates that it had a net worth of approximately $1.2 billion as of September 30, 1997. National and its parent/guarantor are subsidiaries of a large French company, and so far as Registrant is aware, no separate financial statements are publicly available with respect to either company. However, Registrant has held discussions with National which indicate sufficient resources are available to satisfy any reasonably likely obligations relating to the above matters. Thus, Lafarge and National appear not to have violated any Regional Water Board orders and appear to have the financial strength to carry out any future orders that may be approved by the Regional Water Board. Therefore, Registrant believes that it is remote that any cleanup orders issued by the Regional Water Board will have a material effect on Registrant. If, however, National and Lafarge do not fulfill their cleanup responsibilities and Registrant is required at its own cost to perform the landfill, kiln dust, diesel release and underground plume remedial work likely to be mandated by the regulatory agencies, the amount of any such expenditure by Registrant could be material.

As an unrelated matter, Registrant has recently become aware that soils contaminated by gasoline, diesel fuel, and heavy metals are present on the premises along the Interstate 5 corridor leased by Truckstops of America for a truck stop and gas station. Registrant has become actively engaged in the regulatory oversight activities of the Kern County Environmental Health Services Department, which has named Registrant as a secondarily responsible party with respect to the underground diesel storage tanks that have leaked, and of the Central Valley Regional Water Quality Control Board. Registrant has demanded the cleanup of the contaminated soils. This demand has been made on the current tenant, the company that owns all Truckstops of America truck stops nationally, the former tenant, and the guarantors of the lease, Standard Oil Company of Ohio and BP Oil & Exploration, Inc. Registrant has entered into settlement discussions with the foregoing parties, all potential defendants, is currently working with them on a jointly approved investigation plan, and is hopeful that this dispute can be resolved without resorting to litigation. Because of the financial strength of Standard Oil Company of Ohio and BP Oil & Exploration, Inc., Registrant believes it is remote that this matter will have a material effect on Registrant.

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

1. 1998 Stock Incentive Plan.

2. Non-Employee Director Stock Incentive Plan.

The above are covered in the definitive Proxy Statement to be filed by Registrant with the Securities and Exchange Commission with respect to its 1998 Annual Meeting of Stockholders. Refer to "Approval of 1998 Stock Incentive Plan", "Approval of Non-Employee Director Stock Incentive Plan", and Appendices A and B of Proxy Statement.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Registrant's Common Stock is traded on the American Stock Exchange. The following table shows the high and low sale prices for Registrant's Common Stock on the American Stock Exchange for each period during the last two years, as reported by the American Stock Exchange.

| | 1997 | | 1996 | |
|---|---|---|---|---|
| Quarter | High | Low | High | Low |
| First | 18 | 14 | 16-7/8 | 14-1/4 |
| Second | 19 | 15-1/8 | 19-1/4 | 15-3/8 |
| Third | 45 | 17-3/4 | 18 | 15-1/4 |
| Fourth | 33-3/4 | 23-7/8 | 17 | 14 |

As of March 11, 1998, there were 750 owners of record of Registrant's Common Stock.

Registrant paid cash dividends of $.05 per share in each of the years 1997 and 1996. Two and one-half cents per share was paid in June and December of each year.

Item 6. Selected Financial Data.

| Years Ended December 31 (In thousands of dollars, except per share amounts) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Operating Revenues, Including Interest Income | $40,986(1) | $18,960 | $19,554 | $16,943 | $19,535 |
| Net Income | 3,032(1) | 1,685 | 434(2) | 1,527 | 2,972(3) |
| Total Assets | 63,693 | 47,369 | 45,203 | 44,920 | 47,111 |
| Long-term Debt | 3,925 | 1,800 | 1,800 | 1,950 | 3,550 |
| Income Per Share | .24(1) | .13 | .03(2) | .12 | .23(3) |
| Cash Dividends Declared and Paid Per Share | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |

(1) Includes receipt of one time payment of $2,050,000 ($1,353,000 net of tax, or $.11 per share) from a pipeline company for the acquisition of easement rights.

(2) Net income from continuing operations was reduced by $400,000 ($240,000 after tax or $.02 per share) due to the charge-off of almond trees destroyed by 1995 winter storms.

(3) Net income from continuing operations was enhanced by the recognition of a $1,054,000 ($632,000 after tax or $.05 per share) refund from a local water district.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that are subject to many uncertainties and may turn out not to be accurate. These forward-looking statements are subject to factors beyond the control of the Company (such as weather and market forces) and with respect to the Company's future development of its land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that actual future events will be consistent with the forward-looking statements made in this Annual Report.

Results of Operations

As reflected in the accompanying financial statements, net income was $3,032,000 in 1997, $1,685,000 in 1996, and $434,000 in 1995.

Net income for 1997 increased when compared to 1996 due to higher operating profits within the Livestock Division and increased easement sales within the Real Estate Division.

Net income for 1996 increased when compared to 1995 due to improved operating profits within the Livestock, Farming, and Real Estate Divisions. Changes in revenues and expenses of Registrant's industry segments for years 1997 and 1996 are summarized below.

Livestock. Livestock net operating income of $1,499,000 in 1997 was an increase of $1,087,000 when compared to 1996 net operating income. The growth in net operating income is due primarily to an increase in cattle sales revenue ($5,972,000) and net operating income provided by the cattle feedlot that was purchased early in 1997 ($801,000). These favorable variances were partially offset by an increase in cost of sales on cattle sold of approximately $5,386,000. Cattle sales revenue grew during 1997 due to an increase in volume of cattle sold and higher prices on the cattle sold. During 1997, 3,115 additional head of cattle were sold and the weights at which the cattle were sold averaged approximately 300 pounds per head greater than in 1996. Cost of sales increased due to owning the cattle for longer periods of time during 1997 than in past years. Registrant, with the purchase of the feedlot, has changed its operating procedures and is holding and owning the cattle through the feeding phase in order to have more direct control over the quality of beef the cattle are producing. By holding the cattle for a longer period of time, the weights on the cattle will increase and Registrant will receive more for the animal but the cost of sales also increases due to the costs of feeding for the additional period of ownership.

Registrant continued to use the futures and options markets to protect the future selling price of cattle and purchase prices of feed. Without the ability to hedge cattle and feed positions, Registrant would have sustained a net loss on the sale of its cattle during 1996. During 1997, due to the increase in cattle prices throughout most of the year, Registrant recognized approximately $360,000 in losses on hedge positions. Gains on hedge positions totaled approximately $578,000 during 1996. Many of these gains were due to the continuing decline of cattle prices during 1996, especially during the first half of 1996. Registrant's goal in hedging its cattle and feed costs is to protect or create a range of selling prices and feed prices that in years like 1996 and 1995, allow Registrant to recognize a profit on the sale of cattle once all costs are deducted. The risk in hedging cattle prices is that in those years that prices increase the hedge may limit or cap potential gains from the increase in price or can add additional costs for feed if grain prices fall dramatically.

Cattle prices improved throughout 1997 until late 1997 and early 1998 when the impact of the Asian financial crisis hit the cattle commodity markets. With beef being the largest dollar agricultural export and Asia receiving much of the beef exported, prices fell significantly during December 1997 through February 1998. Not only have prices declined in the beef market, but prices for hides, which are used in the production of leather, have also declined. Hide prices have declined almost 30% over this time period. It is anticipated that prices later in 1998 will improve when compared to current levels due to fewer head of cattle being in feedlots for sale. The increase in prices is expected to be less than would normally be expected due to the economic problems in Asia. Overall, Registrant believes it will see lower prices during 1998, which will impact cattle sales revenues.

On March 10, 1997, Registrant purchased the assets of a feedlot that is located in western Texas. Registrant will operate this feedlot for its use as well as that of other customers who want to feed cattle. The feedlot was purchased for $3.5 million, has a cattle head capacity of 35,000 and covers approximately 650 acres. Registrant believes that by controlling the feeding phase of its cattle before sending them to packing houses, a better quality product will be produced providing higher margins to Registrant. During 1997, the feedlot produced approximately $14,000,000 in revenues and a net operating profit of $801,000. Registrant believes that the revenues generated by the new feedlot operation will continue to be material to future earnings. In connection with the purchase of the feedlot Registrant began a program in 1997 to expand the cattle herd. At December 31, 1997 Registrant had 30,975 head of cattle, which is approximately 16,000 head more than in 1996. This will allow Registrant to provide additional cattle for the feedlot operation and potentially increase the earnings from its cattle operations. Registrant is also becoming involved in a strategic alliance with other select producers and a packer to produce a high-grade beef product to be sold to steak restaurants and higher end grocery stores. The strategic alliance was formed in order for the producers of cattle to gain higher margins on the beef they produce and sell.

Livestock operating profits of $412,000 in 1996, grew $371,000 when compared to 1995 operating profits. The growth in operating profits is due to a decrease in cost of sales ($2,553,000) which was partially offset by reduced cattle sales revenue ($2,091,000). Cost of sales declined during 1996 due to cattle being placed in feedlots for periods of time shorter than in 1995 and to better grazing conditions during 1996. During 1995, Registrant delayed the sale of approximately 7,000 head of cattle from May 1995 to October 1995 and placed these cattle in feedlots during the summer months of 1995. The expense associated with four extra months of feedlot costs during 1995 is the primary reason for the favorable 1996 cost of sales variance. The reduction in cattle sales revenue is due primarily to fewer pounds of cattle being sold in 1996 than in 1995. During 1996, more head of cattle were sold, 10,527 head of cattle compared to 9,551 head of cattle in 1995, but at weights which were approximately 370 pounds per head less than in 1995 when cattle were held in feedlots for four extra months. As in 1995 cattle prices per pound continued to be depressed throughout 1996.

See Part I, Item 1 -"Business-Livestock Operations" for a further discussion of Registrant's livestock operations for 1997 and future expectations.

Farming. Farming operating profits of $2,627,000 in 1997 are $507,000 less than 1996 operating profits. The decline in 1997 operating profits is due to a drop in almond revenues ($1,069,000), lower walnut revenues ($377,000) and higher cultural costs ($940,000). These unfavorable variances were partially offset by increased grape revenues ($980,000), the receipt in 1997 of revenues associated with the 1996 crop ($693,000) and lower fixed water costs ($240,000).

The decrease in almond revenues during 1997 was due to a decrease in production of 12% when compared to 1996 and a decrease in prices of approximately 47%. Registrant's production fell during 1997 due to the timing of rains and cold weather during the critical pollination period. Prices declined due to the California almond industry producing a near record crop. Walnut revenues declined due to a 39% drop in production during 1997. The decline in walnut production was due primarily to below normal chilling hours that are required by walnut trees for adequate dormancy during the winter months. Grape revenues increased primarily due to an increase in production of 29% when compared to 1996. Production increased due to favorable summer weather. The additional revenue received in 1997 related to the 1996 harvest was due to 1996 final market prices for grapes and almonds being higher than originally forecasted by the grape and almond industries. Cultural costs increased due to higher chemical costs, expenses associated with crops coming into production that were capitalized in prior years and increased harvest costs due to the high grape production.

Overall 1997 crop revenues were higher than expected due mainly to higher wine grape production and the receipt in 1997 of revenues associated with the 1996 crop. Almond, walnut, and pistachio demand is expected to remain good during 1998 and the near future. Industry expectations are that statewide nut crop yields should continue to improve, which may negatively impact prices. In addition, industry projections show a continuation of new almond and pistachio plantings that could impact prices once full production begins. Registrant's 1998 almond crop as well as the crops of other producers within California may be negatively impacted by the winter rain and winds caused by "El Nino" storms during February 1998 and March 1998 that arrived during the critical bee pollination period. This potential decline in production could help stabilize prices on almonds at current levels. In 1996 Registrant signed a five year contract with a winery that provides the better of a minimum price or market price for grapes each year. This contract is beneficial to the Registrant because it helps minimize future price fluctuations. Within the grape industry there continues to be new land developed, which could depress prices in the future once all new developments are in full production. Pricing pressure on grapes did begin during 1997 due to high industry production and should continue into 1998. All of Registrant's crops are particularly sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices. For a further discussion of the 1997 farming year refer to Part I, Item 1 - "Business - Farming Operations".

Farming operating profits increased $1,323,000 in 1996 to $3,134,000, which was a 73% increase over 1995 operating profits. In comparison to 1995, net operating income increased due to higher pistachio revenues ($608,000), higher grape revenues ($434,000), higher almond revenues ($127,000), and the charge-off of destroyed almond trees of $400,000, which occurred during 1995. Partially offsetting these favorable variances was an increase in fixed water costs of $168,000 and in cultural costs of $152,000. The increase in cultural costs was primarily due to higher harvesting costs.

Grape revenues grew $434,000 in 1996 due to increases in prices. On average the price received by Registrant increased approximately $61.00 per ton of grapes. The almond revenue increase during 1996 was due to a 13% increase in production. The increase in production was partially offset by almond prices falling 7% when compared to 1995 prices. Pistachio revenues were $608,000 higher in 1996 due to an increase in production. Pistachio production increased approximately 157% because 1996 was the "on" production year in the alternate year bearing cycle. Walnut revenues increased $51,000 during 1996 due to prices rising approximately 8% during 1996.

Resource Management. Resource Management net operating income of $1,328,000 in 1997 was $28,000, or 2% below 1996 net operating income. The decrease in net operating income during 1997 was due to lower revenues from oil and gas royalties, increases in professional service fees and an increase in staffing costs. These unfavorable variances were partially offset by increased sand/rock aggregate royalties, cement royalties, and game management permits. Oil and gas royalties declined due to lower prices for crude oil within California and the continuing decline of oil exploration activities on ranch lands. Professional service fees and staffing costs increased due to the ongoing monitoring of the activities of oil and gas lessees and monitoring of environmental activities at the National Cement lease site. Sand/rock and cement royalties increased during 1997 due to the growth of construction within Southern California and Kern County. Game management permit revenues increased due to an expansion of services offered and an increase in hunting programs. The Resource Management division has been very profitable over the last several years. However, oil and gas royalties are expected to be adversly affected over the next few years by the fact than little or no new oil and gas exploration is taking place on Registrant's lands and oil prices during early 1998 are at the lowest levels in 18 years. Registrant does expect royalties from cement production to grow over the next few years due to increased construction activity and to the cement manufacturing plant being renovated and production capacity being increased. See Part I, Item 1 - "Business - Resource Management", for a further discussion of 1997 activities and future expectations.

Resource Management operating profits of $1,356,000 in 1996 were $115,000, or 9% greater than 1995 operating profits. The increase in operating profits during 1996 was primarily due to the growth of filming location fees and higher oil and gas royalties and cement royalties. These increases were partially offset by lower sand/rock aggregate royalties and increased professional service fees. Filming location fees increased due to a much more aggresive marketing program which increased the number of films and commercials that used Registrant's lands for location film shoots. Oil and gas royalties increased due to an increase in oil prices throughout 1996, and cement royalties were higher due to increases in production because of the growth in construction within Southern California. Sand/rock royalties declined due to winter weather during early 1996 which delayed the start of several construction projects. Professional service fees increased due to the monitoring of environmental activities at the National Cement site.

Real Estate. Real Estate operating profits of $1,003,000 in 1997 is a $1,844,000 increase when compared to 1996's operating loss. The increase during 1997 is due primarily to the receipt of a one time payment of $2,050,000 ($1,353,000 net of tax) in revenue from a pipeline company for the acquisiton of easement rights. This increase is partially offset by higher professional service and planning fees ($154,000) and higher staffing costs ($75,000). Professional service fees increased due to market evaluations being conducted to determine the feasibility of developing a destination land use at Grapevine Center and a rural ranch estates program. Staffing costs increased due to the hiring of a new Vice President of Real Estate. See Part I, Item 1, "Business - Commercial and Land Use" and Part I, Item 2, "Properties - Land Planning", for a further discussion of 1997 and 1998 activity and future planning activities.

The 1996 operating loss of $841,000 was a $421,000 improvement over 1995's operating loss of $1,262,000. The improvement in 1996 was due to a decrease in professional service fees ($573,000) and a gain from the sale of land ($184,000). Partially offsetting the above favorable variances was an increase in fixed water costs of $325,000. Registrant's commercial lease revenue during 1996 was flat when compared to 1995 lease revenues. Professional service fees declined due to the timing of planning activities on Registrant's lands related to the Interstate 5 corridor and the absence of any costs during 1996 related to the proposed major crude oil pipeline through Registrant's land. The costs associated with the pipeline were incurred during 1995. Fixed water costs grew due to the transfer of additional state water project water that can be used in the future for municipal and industrial uses. In addition to the cost of this additional water, a local water district charged Registrant for costs related to a water banking program.

Interest. Interest income declined to $1,159,000 during 1997 from $1,308,000 in 1996 due to a $3,000,000 reduction in funds invested. Investment funds declined due to the purchase of the feedlot, capital expenditures, an increase in the cattle herd, and the payment of dividends.

Interest income in 1996 fell $66,000, or 5%, when compared to 1995 interest income. The reduction during 1996 is due primarily to lower average invested dollars throughout 1996 when compared to 1995. On average $20.3 million was invested during 1996 while $21.3 million was invested during 1995. Investment funds declined due to capital expenditures and the payment of dividends.

Interest expense for 1997 was $747,000, an increase of $452,000 over 1996. The growth in interest expense was due to the addition of long-term debt associated with the purchase of the cattle feedlot ($2,375,000 outstanding) and the short-term funding of the growth in the cattle herd. The feedlot also borrows on a short-term basis to provide cattle and feed financing for its outside customers. The cost of this borrowing approximates the bank's prime interest rate. The feedlot then charges its customers the national prime interest rate plus one to one and one-half percent for any financings it does. See Note 5 to the Audited Consolidated Financial Statements for a further discription of short-term and long-term debt.

Interest expense declined in 1996 to $295,000 from $436,000 in 1995. Interest expense during 1996 was attributable to the remaining balance of long-term debt used to finance Registrant's 758-acre almond and 897-acre wine grape developments, which were developed in 1981, and use of Registrant's working capital line of credit. The increase in expense during 1995 was due to Registrant increasing the usage of short-term lines of credit which became necessary because of delays in the sale of cattle and the timing of 1995 crop proceeds.

Corporate Expenses. Corporate expenses for 1997 were $2,346,000, an increase of $80,000 when compared to 1996 corporate expenses. The increase is due to higher professional service charges and staffing costs. Staffing costs increased due to to the fact that Registrant's new Chief Executive Officer joined Registrant in May 1996 and served the full year of 1997. Professional service fees increased due to costs associated with consulting contracts with an investment banking firm.

Corporate expenses for 1996 were $220,000, or 11%, higher than corporate expenses for 1995. The increase in costs is primarily due an increase in staffing costs ($122,000) and employee relocation costs ($108,000). These variances were partially offset by a reduction in professional service fees ($85,000). The increase in staffing costs and relocation costs was primarily related to the hiring of a new Chief Executive Officer in May 1996.

Inflation. Inflation can have a major impact on Registrant's operations. The farming operations are most affected by escalating costs and unpredictable revenues (due to an oversupply of certain crops) and very high irrigation water costs. High fixed water costs related to Registrant's farm lands will continue to adversely affect earnings.

Prices received by Registrant for many of its products are dependent upon prevailing market conditions and commodity prices. Therefore, it is difficult for Registrant to accurately predict revenue, just as it cannot pass on cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices.

Impact of Accounting Change. In June 1997, the FASB issued SFAS No. 130 "Reporting Comprehensive Income" and SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information" which are effective for fiscal years beginning after December 15, 1997. Accordingly, Registrant plans to adopt SFAS No. 130 and SFAS No. 131 with the fiscal year beginning January 1, 1998. SFAS No. 130 and SFAS No. 131 do not have any impact on the financial results or financial condition of Registrant, but will result in the disclosure of the components of comprehensive income.

Impact of Year 2000. During early 1997, Registrant completed the conversion to new accounting and financial software that identifies the date by using four digits for the year. Registrant at this time believes that the new software installed will eliminate its internal exposure to Year 2000 problems.

Registrant is in the process of initiating formal communications with all of its significant suppliers and large customers to determine the extent to which Registrant's systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. No assurances can be given that the systems of other companies on which Registrant's systems rely will be timely converted and will not have an adverse effect on the Registrant's systems.

Financial Condition. Registrant's cash, cash equivalents and short-term investments totaled approximately $18,165,000 at December 31, 1997, a decrease of 13% from the corresponding amount at the end of 1996. Working capital at the end of 1997 was $24,518,000, which is comparable to 1996's working capital. Working capital uses during the year were for capital expenditures, expansion of the cattle herd, purchase of the cattle feedlot and the payment of dividends. Registrant has a revolving line of credit of $6,000,000 that as of December 31, 1997, had a balance of $5,897,000 bearing interest at the rate of 8.25%. Registrant also has an outstanding short-term borrowing with an investment banking firm with a balance of $4,827,000 at December 31, 1997 at an interest rate of 6.50%. The feedlot Registrant acquired also has a short-term revolving line of credit with a local bank for $4,000,000. The outstanding balance at December 31, 1997 was $1,231,000, with an interest rate approximating the Bank's prime lending rate of 8.25%. The revolving lines of credit are used as a short-term cash management tools and for the financing of customer cattle and feed receivables at the feedlot.

The principal uses of cash and cash equivalents during 1997, 1996, and 1995 consisted of capital expenditures, expansion of the cattle herd, purchase of the cattle feedlot, purchase of land, payments of long-term debt and the payment of dividends.

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

During 1998, $8,994,000 has been budgeted for capital expenditures, which includes new equipment and improvements to existing facilities. Registrant is currently expanding its farming operations with two new farming developments, will continue the expansion of the cattle herd, and is investing approximately $5.7 million in the infrastructure and off-site improvements related to the Travel Plaza joint venture and industrial park. These new projects will be funded from current cash resources and Registrant's excess borrowing capacity.

Registrant has traditionally funded its growth and capital additions from internally generated funds. Management believes that the combination of short-term investments, excess borrowing capacity, and capital presently available to it will be sufficient for its near term operations.

Item 8. Financial Statements and Supplementary Data.

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

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information as to the directors of Registrant is incorporated by reference from the definitive proxy statement to be filed by Registrant with the Securities and Exchange Commission with respect to its 1998 Annual Meeting of Stockholders. Information as to the Executive Officers of Registrant is set forth in Part I, Item 1 under "Executive Officers of Registrant."

Item 11. Executive Compensation.

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by Registrant with the Securities and Exchange Commission with respect to its 1998 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by Registrant with the Securities and Exchange Commission with respect to its 1998 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions.

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by Registrant with the Securities and Exchange Commission with respect to its 1998 Annual Meeting of Stockholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Documents filed as part of this report: Page Number

1. Consolidated Financial Statements:



2. Supplemental Financial Statement Schedules:

None.

3. Exhibits:

| | | |
|---|---|---|
| 3.1 | Restated Certificate of Incorporation | * |
| 3.2 | By-Laws | * |
| 10.1 | Water Service Contract with Wheeler Ridge-Maricopa Water Storage District (without exhibits), amendments originally filed under Item 11 to Registrant's Annual Report on Form 10K | ** |
| 10.3 | Lease Agreement for Mr. San Olen | ** |
| 10.4 | Asset Purchase Agreement dated March 10, 1997 for purchase of feedlot assets | *** |
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(b) Report on Form 8-K filed during the last quarter of the period covered by this report:

None.

(c) Exhibits

* This document, filed with the Securities Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to Registrant's Annual Report on Form 10-K for year ended December 31, 1987, is incorporated herein by reference.

** This document, filed with the Securities Exchange Commission in Washington D.C. (file Number 1-7183) under item 14 to Registrant's Annual Report on Form 10-K for year ended December 31, 1994, is incorporated herein by reference.

*** This document, filed with the Securities Exchange Commission in Washington D.C. (file Number 1-7183) under item 14 to Registrant's Annual Report on Form 10-K for year ended December 31, 1996, is incorporated herein by reference.

(d) Financial Statement Schedules -- The response to this portion of Item 14 is submitted as a separate section of this report.

SIGNATURES

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

TEJON RANCH CO.

DATED: March 20, 1998 BY:
Robert A. Stine
President and Chief Executive Officer
(Principal Executive Officer)

DATED: March 20, 1998 BY:
Allen E. Lyda
Vice President, Finance & Treasurer
(Principal Financial and Accounting Officer)

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

| Name | Capacity | Date |
|---|---|---|
| Otis Booth, Jr. | Director | March 23, 1998 |
| Craig Cadwalader | Director | March 23, 1998 |
| Dan T. Daniels | Director | March 23, 1998 |
| Rayburn S. Dezember | Director | March 23, 1998 |
| Robert F. Erburu | Director | March 23, 1998 |
| Clayton W. Frye, Jr. | Director | March 23, 1998 |
| Donald Haskell | Director | March 23, 1998 |
| Norman Metcalfe | Director | March 23, 1998 |
| Robert Ruocco | Director | March 23, 1998 |

| | | |
|---|---|---|
| Robert A. Stine | Director | March 23, 1998 |
| Martin Whitman | Director | March 23, 1998 |
| Phillip L. Williams | Director | March 23, 1998 |

Annual Report on Form 10-K

Item 8, Item 14(a)(1) and (2),(c) and (d)

List of Financial Statements and Financial Statement Schedules

Financial Statements

Certain Exhibits

Year Ended December 31, 1997

Tejon Ranch Co.

Lebec, California

Form 10-K - Item 14(a)(1) and (2)

Tejon Ranch Co. and Subsidiaries

Index to Financial Statements and Financial Statement Schedules

ITEM 14(a)(1) - FINANCIAL STATEMENTS

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



ITEMS 14(a)(2) - FINANCIAL STATEMENT SCHEDULES

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

## Report of Independent Auditors

Stockholders and Board of Directors
Tejon Ranch Co.

We have audited the consolidated balance sheets of Tejon Ranch Co. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tejon Ranch Co. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Los Angeles, California
February 11, 1998

## Tejon Ranch Co. and Subsidiaries

## Consolidated Balance Sheets

| | December 31 1997 | 1996 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 976,000 | $ 693,000 |
| Marketable securities | 17,189,000 | 20,127,000 |
| Accounts receivable | 8,448,000 | 4,303,000 |
| Inventories | 12,222,000 | 3,430,000 |
| Prepaid expenses and other current assets | 1,659,000 | 1,319,000 |
| Total current assets | 40,494,000 | 29,872,000 |
| Property and equipment, net | 21,778,000 | 16,270,000 |
| Other assets: | | |
| Breeding herd, net of accumulated depreciation of $134,000 in 1997 and $133,000 in 1996 | 1,147,000 | 1,054,000 |
| Other assets | 274,000 | 173,000 |
| | 1,421,000 | 1,227,000 |
| Total assets | $63,693,000 | $47,369,000 |

See accompanying notes.

| | December 31 | |
|---|---|---|
| | 1997 | 1996 |
| Liabilities and Stockholders' equity | | |
| Current liabilities: | | |
| Trade accounts payable | $ 2,889,000 | $ 488,000 |
| Other accrued liabilities | 390,000 | 569,000 |
| Current deferred income | 292,000 | 265,000 |
| Income taxes payable | --- | 856,000 |
| Short-term note | 11,955,000 | 2,808,000 |
| Current portion of long-term debt | 450,000 | 200,000 |
| Total current liabilities | 15,976,000 | 5,186,000 |
| Long-term debt, less current portion | 3,925,000 | 1,800,000 |
| Deferred income taxes | 3,304,000 | 2,651,000 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common Stock, $.50 par value per share: | | |
| Authorized shares - 30,000,000 | | |
| Issued and outstanding shares - and 12,682,244 in 1996 | 6,343,000 | 6,341,000 |
| Additional paid-in capital | 385,000 | 387,000 |
| Unrealized gains on available-for-sale securities, net of taxes | 109,000 | 7,000 |
| Defined benefit plan-funding adjustment, net of taxes | --- | (256,000) |
| Retained earnings | 33,651,000 | 31,253,000 |
| Total stockholders' equity | 40,488,000 | 37,732,000 |
| Total liabilities and stockholders' | $63,693,000 | $47,369,000 |

See accompanying notes

Tejon Ranch Co. and Subsidiaries

Consolidated Statements of Income

| | Year Ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Revenues: | | | |
| Livestock | $ 24,555,000 | $ 4,573,000 | $ 6,748,000 |
| Farming | 9,173,000 | 9,107,000 | 7,973,000 |
| Resource Management | 2,696,000 | 2,508,000 | 2,188,000 |
| Real Estate | 3,403,000 | 1,464,000 | 1,271,000 |
| Interest income | 1,159,000 | 1,308,000 | 1,374,000 |
| | 40,986,000 | 18,960,000 | 19,554,000 |
| Costs and expenses: | | | |
| Livestock | 23,056,000 | 4,161,000 | 6,707,000 |
| Farming | 6,546,000 | 5,973,000 | 6,162,000 |
| Resource Management | 1,368,000 | 1,152,000 | 947,000 |
| Real Estate | 2,400,000 | 2,305,000 | 2,533,000 |
| Corporate expenses | 2,346,000 | 2,266,000 | 2,046,000 |
| Interest expense | 747,000 | 295,000 | 436,000 |
| | 36,463,000 | 16,152,000 | 18,831,000 |
| Income before income taxes | 4,523,000 | 2,808,000 | 723,000 |
| Income taxes | 1,491,000 | 1,123,000 | 289,000 |
| Net income | $ 3,032,000 | $ 1,685,000 | $ 434,000 |
| Net income per share, basic | $0.24 | $0.13 | $0.03 |
| Net income per share, diluted | $0.24 | $0.13 | $0.03 |

See accompanying notes.

Tejon Ranch Co. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Three years ended December 31, 1997

| | Common Stock | Additional Paid-In Capital | Unrealized Gains (Losses) | Benefit Plan Funding Adjustment | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance, January 1, 1995 | $6,341,000 | $387,000 | $(372,000) | --- | $30,402,000 | $36,758,000 |
| Net income | --- | --- | --- | --- | 434,000 | 434,000 |
| Cash dividends paid- $.05 per share | --- | --- | --- | --- | (634,000) | (634,000) |
| Change in unrealized gains (losses) on available-for-sale securities, net of a tax benefit of $164,000 | --- | --- | 411,000 | --- | --- | 411,000 |
| Balance December 31, 1995 | 6,341,000 | 387,000 | 39,000 | --- | 30,202,000 | 36,969,000 |
| Net income | --- | --- | --- | --- | 1,685,000 | 1,685,000 |
| Cash dividends paid- $.05 per share | --- | --- | --- | --- | (634,000) | (634,000) |
| Defined benefit plan funding adjustments,net of taxes of $170,000 | --- | --- | --- | (256,000) | --- | (256,000) |
| Changes in unrealized gains (losses) on available-for-sale securities, net of taxes of $21,000 | --- | --- | (32,000) | --- | --- | (32,000) |
| Balance December 31, 1996 | 6,341,000 | 387,000 | 7,000 | (256,000) | 31,253,000 | 37,732,000 |
| Net Income | --- | --- | --- | --- | 3,032,000 | 3,032,000 |
| Cash dividends paid- $.05 per share | --- | --- | --- | --- | (634,000) | (634,000) |
| Defined benefit plan funding adjustments, net of taxes of $170,000 | --- | --- | --- | 256,000 | --- | 256,000 |
| Changes in unrealized gains (losses) on available-for-sale securities, net of taxes of $73,000 | --- | --- | 102,000 | --- | --- | 102,000 |
| Exercise of stock options | 2,000 | (2,000) | --- | --- | --- | --- |
| Balance, December 31,1997 | $6,343,000 | $385,000 | $ 109,000 | $ --- | $33,651,000 | $40,488,000 |

See accompanying notes.

Tejon Ranch Co. and Subsidiaries

Consolidated Statements of Cash Flows

| | Year ended December 31 | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| Operating activities | | | |
| Net income | $ 3,032,000 | $ 1,685,000 | $ 434,000 |
| Items not affecting cash: | | | |
| Depreciation and amortization | 1,729,000 | 1,221,000 | 1,017,000 |
| Deferred income taxes | 585,000 | 134,000 | (196,000) |
| (Gains) losses on sales of investments | 3,000 | --- | (7,000) |
| Current deferred income | 27,000 | (208,000) | 71,000 |
| Changes in certain current assets and current liabilities: | | | |
| Accounts receivable | (4,145,000) | 184,000 | (2,362,000) |
| Inventories | (8,434,000) | (603,000) | 301,000 |
| Prepaid expenses and other current assets | (100,000) | (93,000) | 57,000 |
| Trade accounts payable and other accrued liabilities | 2,222,000 | (355,000) | (251,000) |
| Income taxes payable | (856,000) | 592,000 | (292,000) |
| Net cash provided by (used in) operating activities | (5,937,000) | 2,557,000 | (1,228,000) |
| Investing activities | | | |
| Acquisition of Champion Feeders | (3,874,000) | --- | --- |
| Maturities of marketable securities | 8,415,000 | 9,859,000 | 8,754,000 |
| Funds invested in marketable securities | (5,310,000) | (9,784,000) | (4,657,000) |
| Net change in breeding herd | (174,000) | (168,000) | (125,000) |
| Property and equipment expenditures | (3,600,000) | (2.343,000) | (3,263,000) |
| Net book value of property and equipment disposals | --- | --- | 528,000 |
| Other | (125,000) | 36,000 | (24,000) |
| Net cash provided by (used in) investing | (4,668,000) | (2,400,000) | 1,213,000 |
| Financing activities | | | |
| Proceeds from revolving line of credit | 30,435,000 | 15,824,000 | 9,792,000 |
| Payments on revolving line of credit | (21,288,000) | (14,698,000) | (9,017,000) |
| Borrowing of long-term debt | 2,500,000 | --- | 2,000,000 |
| Repayments of long-term debt | (125,000) | --- | (2,150,000) |
| Cash dividends paid | (634,000) | (634,000) | (634,000) |

| | | | |
|---|---|---|---|
| Net cash provided by (used in) financing activities | 10,888,000 | 492,000 | (9,000) |
| Increase (decrease) in cash and cash equivalents | 283,000 | 649,000 | (24,000) |
| Cash and cash equivalents at beginning of year | 693,000 | 44,000 | 68,000 |
| Cash and cash equivalents at end of year | $ 976,000 | $ 693,000 | $ 44,000 |

See accompanying notes

Tejon Ranch Co. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1997

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Cash Equivalents

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

Marketable Securities

The Company considers those investments not qualifying as cash equivalents, but which are readily marketable, to be marketable securities. The Company classifies all marketable securities as available-for-sale, which are stated at fair value with the unrealized gains (losses), net of tax, reported in a separate component of stockholders' equity.

Credit Risk

The Company grants credit to customers, principally large cattle purchasers, feedlot customers, co-ops, wineries, nut marketing companies, and lessees of Company facilities, all of which are located in California. The Company performs periodic credit evaluations of its customer's financial condition and generally does not require collateral.

During 1997, 1996 and 1995 the following customers accounted for more than 10% of the Company's consolidated revenues, Golden State Vintners (14% in 1997, 21% in 1996, and 18% in 1995), Harris Ranch (18% in 1996), and Timmerman Cattle (26% in 1995).

Farm Inventories

Costs of bringing crops to harvest are capitalized when incurred. Such costs are expensed when the crops are sold. Farm inventories held for sale are valued at the lower of cost (first-in, first-out method) or market.

Cattle Inventories and Breeding Herd

Cattle raised on the Ranch are stated at the accumulated cost of developing such animals for sale or transfer to a productive function and purchased cattle are stated at cost plus development costs. All cattle held for sale are valued at the lower of cost (first-in, first-out method) or market and are included in the caption inventories. Purchased bulls and cows, included in the breeding herd and used for breeding, are depreciated using the straight-line method over five to seven years.

Commodity Contracts Used to Hedge Price Fluctuations

The Company enters into futures and option contracts to hedge its exposure to price fluctuations on its stocker cattle and its cattle feed costs. The goal of the Company is to protect or create a future price for its cattle and feed that will provide a profit once the cattle are sold and all costs are deducted. Realized gains, losses, and costs associated with closed contracts are included in prepaid assets and are recognized in cost of sales expense at the time the hedged cattle are sold or feed is used.

Property and Equipment

Property and equipment accounts are stated on the basis of cost, except for land acquired upon organization in 1936 which is stated on the basis (presumed to be at cost) carried by the Company's predecessor. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. Buildings and improvements are depreciated over a 10 year to 27.5 year life. Machinery and equipment is depreciated over a 3 year to 10 year life depending on the type of equipment. Vineyards and orchards are generally depreciated over a 20 year life with irrigation systems over a 10 year life. Oil, gas and mineral reserves have not been appraised, so no value has been assigned to them.

Vineyards and Orchards

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

At the time crops are harvested and delivered to buyers and revenues are estimatable, revenues and related costs are recognized, which traditionally occurs during the third and fourth quarters of each year. Orchard revenues are based upon estimated selling prices, 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. Actual final orchard crop selling prices are not determined for several months following the close of the Company's 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 $693,000 in 1997, decreased farming revenue $129,000 in 1996, increased farming revenue by $124,000 in 1995.

The California Almond Board has the authority to require producers of almonds to withhold a portion of their annual production from the marketplace. At December 31, 1997, 1996 and 1995, no such withholding was mandated.

Net Income Per Share

Effective December 31, 1997, the Company adopted SFAS 128 "Earnings Per Share" which replaced primary and fully diluted earnings per share with basic and diluted earnings per share.
Basic net income per share is based upon the weighted average number of shares of common stock outstanding during the year (12,683,497 in 1997,12,682,244 in 1996 and 12,682,244 in 1995). Diluted net income per share is based upon the weighted average number of shares of common stock outstanding, and the average shares outstanding assuming the issuance of common stock for stock options using the treasury stock method (12,726,729 in 1997, 12,683,760 in 1996, and 12,684,105 in 1995). The weighted average of dilutive stock options were 43,232 in 1997, 1,516 in 1996, and 1,861 in 1995.

In March 1992, the Company's Board of Directors adopted the 1992 Stock Option Plan providing for the granting of options to purchase a maximum of 230,000 shares of the Company's common stock to employees, advisors, and consultants of the Company. Since the adoption of the Plan, the Company has granted options to purchase 179,000 shares at a price equal to fair market value at date of grant.

Long-Lived Assets

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company records impairment losses on long-lived assets held and used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. SFAS No. 121 had no impact on the Company's consolidated financial position and results of operations in the current year.

Environmental

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Company's commitment to a formal plan of action. No liabilities for environmental costs have been recorded at December 31, 1997, 1996 or 1995.

Use of Estimates

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management. Actual results could differ from these estimates.

New Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 130 "Reporting Comprehensive Income" and SFAS No. 131" Disclosure about Segments of an Enterprise and Related Information" which are effective for fiscal years beginning after December 15, 1997. Accordingly, the Company plans to adopt SFAS No. 130 and SFAS No. 131 with the fiscal year beginning January 1, 1998. SFAS No. 130 and SFAS No. 131 do not have any impact on the financial results or financial condition of the Company, but will result in the disclosure of the components of comprehensive income.

2. Marketable Securities

Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that an enterprise classify all debt securities as either held-to-maturity, trading, or available-for-sale. The Company has elected to classify its securities as available-for-sale and therefore, is required to adjust securities to fair value at each reporting date.

The following is a summary of available-for-sale securities at December 31:

| | 1997 | | 1996 | |
|---|---|---|---|---|
| | Cost | Estimated Fair Value | Cost | Estimated Fair Value |
| Marketable securities: | | | | |
| U.S. Treasury and agency notes | $9,770,000 | $9,947,000 | $13,156,000 | $13,158,000 |
| Corporate notes | 7,237,000 | 7,242,000 | 6,960,000 | 6,969,000 |
| | $17,007,000 | $17,189,000 | $20,116,000 | $20,127,000 |

As of December 31, 1997, the cumulative fair value adjustment to stockholders' equity is an unrealized gain of $109,000, net of a tax expense of $73,000. The Company's gross unrealized holding gains equal $220,000, while gross unrealized holding losses equal $38,000. On December 31, 1997, the average maturity of U.S. Treasury and agency securities was one year and corporate notes was 1.7 years. Currently, the Company has no securities with a weighted average life of greater than five years. During 1997, the Company recognized losses of $3,000 on the sale of $2.0 million of securities, carried at historical cost adjusted for amortization and accretion. There were no sales of securities during 1996.

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

3. Inventories

Inventories at December 31, 1997 and 1996 consist principally of cattle held for sale.

4. Property and Equipment

Property and equipment consists of the following at December 31:

| | 1997 | 1996 |
|---|---|---|
| Land and land improvements | $ 4,040,000 | $ 3,877,000 |
| Buildings and improvements | 10,875,000 | 7,639,000 |
| Machinery, water pipelines, furniture, fixtures, and other equipment | 6,480,000 | 4,254,000 |
| Vineyards and orchards | 16,478,000 | 15,068,000 |
| | 37,873,000 | 30,838,000 |
| Less allowance for depreciation | (16,095,000) | (14,568,000) |
| | $ 21,778,000 | $ 16,270,000 |

5. Line of Credit and Long-Term Debt

The Company may borrow up to $6,000,000 on a short-term unsecured revolving line of credit at interest rates approximating the bank's prime rate (8.25% at December 31, 1997). The revolving line expires in September 1999. At December 31, 1997, there was $5,897,000 of outstanding debt under the line of credit agreement. The Company also has an outstanding short-term borrowing with an investment banking company, with an outstanding balance of $4,827,000 at December 31, 1997, at an interest rate of 6.50%. The Company's acquired feedlot also has a short-term revolving line of credit with a local bank for $4,000,000. The outstanding balance at December 31, 1997 was $1,231,000, with the interest rate approximating the bank's prime lending rate of 8.25%.

At December 31, 1996, the Company had outstanding short-term borrowing under a line of credit with a banking company. The short-term borrowing was in the amount of $2,808,000 at an interest rate of 8.25%.

Long-term debt consists of the following at December 31:

| | 1997 | 1996 |
|---|---|---|
| Notes payable to a bank | $4,375,000 | $2,000,000 |
| Less current portion | (450,000) | (200,000) |
| | $3,925,000 | $1,800,000 |

One note payable with an outstanding balance of $2,000,000 to a bank provides for interest at an average rate of 7.91% per annum, payable monthly, on amounts outstanding. Principal is payable in semi-annual installments of $100,000, with the remaining balance due December 31, 1999. Amounts borrowed under the agreement are unsecured.

The second note payable with an outstanding balance of $2,375,000 to a bank provides for interest at an average rate of 8.57% per annum, payable monthly, on amounts outstanding. Principal is payable quarterly in amounts of $62,500, with the remaining balance due December 31, 2003. Amounts borrowed are secured by land and assets of the acquired feedlot.

The line of credit and long-term debt instruments listed above approximate fair value.

Interest paid approximated interest expense incurred for each of the three years in the period ended December 31, 1997.

Maturities of long-term debt at December 31, 1997 are $450,000 in 1998, $2,050,000 in 1999, and $250,000 per year for 2000 through 2002 and $1,125,000 thereafter.

6. Common Stock and Stock Option Information

The Company has elected to follow Accounting Principles Board Opinion No 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employees', advisors', and consultants' stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of stock options granted by the Company equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The 1992 Stock Option Plan provides for the granting of options to purchase a maximum of 230,000 shares of the Company's common stock at 100% of the fair market value as of the date of grant. The compensation committee of the board of directors administers the plan. 179,000 options have been granted under the 1992 Stock Option Plan with 159,000 options at a grant price of $16 per share and 20,000 options at a grant price of $15 per share.

During 1996, 100,000 shares were granted at an exercise price of $17.88, which was the market price at the date of grant. These options have a ten-year period to exercise and vest over a one-to-five-year period from the date of grant. These options along with 59,000 options granted in 1992 at $20 per share were subsequently amended in 1997. On April 7, 1997 159,000 shares were amended to lower the previously existing exercise price to $16.00 per share, which was the market price at the amended date of grant. These options have a ten-year period to exercise and vest over a one-to-five-year period from the grant date. The exercise period and vesting period of these options run from the original grant date. The original grant date for 59,000 options is 1992 and 100,000 options have an original grant date of May 1, 1996.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the fair value method of the statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997: Risk-free interest rate of 5.80%; dividend rate of .20%; volatility factor of the expected market price of the Company's common stock of .35; and a weighted average expected life of the options of five years from the option grant date.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in managements opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock option plan.

For proposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information follows:

| | 1997 | 1996 |
|---|---|---|
| Pro forma net income | $ 2,940,000 | $ 1,634,000 |
| Pro forma net income per share, diluted | $0.23 | $0.13 |

A summary of the Company's stock option activity, and related information for the years ended December 31, follows:

| | 1997 | 1996 |
|---|---|---|

| | Options | Weighted-Average Exercise Prices | Options | Weighted-Average Exercise Prices |
|---|---|---|---|---|
| Outstanding beginning of year | 179,000 | $ 17.84 | 93,000 | $ 17.70 |
| Granted | 159,000 | 16.00 | 100,000 | 17.88 |
| Exercised | (6,822) | 15.33 | --- | --- |
| Forfeited | (159,000) | 18.66 | (14,000) | 11.88 |
| Outstanding end of year | 172,178 | $ 15.91 | 179,000 | $ 17.84 |
| Weighted-average fair value of options granted | $ 6.34 | | $ 6.31 | |

The above options were exercised with a net 3,750 shares of common stock issued by the Company as 3,072 of the options were given back by the grantees as consideration for the exercise price of the options.

Exercise prices for options outstanding as of December 31, 1997 ranged from $15.00 to $16.00. The weighted-average remaining contractual life of those options is approximately six years.

7. Commodity Contracts Used to Hedge Price Fluctuations

The Company uses commodity derivatives to hedge its exposure to price fluctuations on its purchased stocker cattle and its cattle feed costs. The objective is to protect or create a future price for stocker cattle that will protect a profit or minimize a loss once the cattle are sold and all costs are deducted and protect the Company against a disastrous cattle market decline. To help achieve this objective the Company uses both the futures commodity markets and options commodity markets. A futures contract is an obligation to make or take delivery at a specific future time of a specifically defined, standardized unit of a commodity at a price determined when the contract is executed. Options are contracts that give their owners the right, but not the obligation, to buy or sell a specified item at a set price on or before a specified date. The Company continually monitors any open futures and options contracts to determine the appropriate hedge based on market movement of the underlying asset. The options and futures contracts used typically expire on a quarterly or semi-annual basis and are structured to expire close to or during the month the stocker cattle and feed are scheduled to be sold or purchased. The risk associated with hedging for the Company is that hedging limits or caps the potential profits if cattle prices begin to increase dramatically or can add additional costs for feed if grain prices fall dramatically.

Payments received and paid related to outstanding options contracts are deferred in prepaid and other current assets and were approximately $12,000 at December 31, 1997. Futures contracts are carried off-balance sheet until the contracts are settled because there is no exchange of cash until settlement. Realized gains, losses, and costs associated with closed contracts are included in prepaid and other assets and will be recognized in cost of sales expense at the time the hedged stocker cattle are sold. At December 31, 1997 there was $181,000 of hedging costs associated with closed contracts included in prepaid and other assets. During 1997, the Company recognized approximately $360,000 in net losses from hedging activity as an increase in cost of sales. In 1996 and 1995, the Company recognized approximately $577,000 and $215,000, respectively, in net gains from hedging activity as a reduction in cost of sales.

The following table identifies the futures contract amounts and options contract costs outstanding at December 31, 1997:

| Cattle Hedging Activity Commodity Future/Option Description | No. Contracts | Original Contract/Cost (Bought) Sold | Estimated Fair Value at Settlement (Buy) Sell | Estimated Gain(Loss) at Settlement |
|---|---|---|---|---|
| Corn futures bought 1,000 bushels per contract | 1,220 | $ (3,637,000) | $ 3,346,000 | $(291,000) |
| Cattle options bought 40,000 lbs. per contract | 50 | (12,000) | 38,000 | 26,000 |

The above futures contracts and options contracts expire between February 1998 and September 1998. Estimated fair value at settlement is based upon quoted market prices at December 31, 1997.

8. Income Taxes

The Company accounts for income taxes using SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

The provision for income taxes consists of the following at December 31:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 691,000 | $ 746,000 | $ 176,000 |
| Deferred | 486,000 | 106,000 | 70,000 |
| | 1,177,000 | 852,000 | 246,000 |
| State: | | | |
| Current | 182,000 | 248,000 | 65,000 |
| Deferred | 132,000 | 23,000 | (22,000) |
| | 314,000 | 271,000 | 43,000 |
| | $1,491,000 | $1,123,000 | $ 289,000 |

The reasons for the difference between total income tax expense and the amount computed by applying the statutory Federal income tax rate (34%) to income before taxes are as follows at December 31:

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Income tax at the statutory rate | $1,538,000 | $955,000 | $ 246,000 |
| State income taxes, net of Federal benefit | 123,000 | 179,000 | 29,000 |
| Other, net | (170,000) | (11,000) | 14,000 |
| | $1,491,000 | $1,123,000 | $ 289,000 |

Deferred income taxes result from temporary differences in the financial and tax bases of assets and liabilities. The net current deferred asset is included with prepaid expenses and other assets on the statement of financial position. Significant components of the Company's deferred tax liabilities and assets are as follows at December 31:

| Deferred tax assets: | 1997 | 1996 |
|---|---|---|
| Accrued expenses | $ 126,000 | $ 147,000 |
| Prepaid revenues | 44,000 | 147,000 |
| Other | 65,000 | 50,000 |
| Total deferred tax assets | 235,000 | 344,000 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | 1,458,000 | 1,460,000 |
| Involuntary conversion-land | 1,339,000 | 363,000 |
| Other | 507,000 | 828,000 |
| Total deferred tax liabilities | 3,304,000 | 2,651,000 |
| Net deferred tax liabilities | $3,069,000 | $2,307,000 |

The Company made net payments of income taxes of $1,317,000, $531,000 and $721,000 during 1997, 1996 and 1995, respectively.

9. Operating Leases

The Company is lessor of certain property pursuant to various commercial lease agreements having terms ranging up to 60 years. The cost and accumulated depreciation of buildings and improvements subject to such leases were $2,699,000 and $998,000, respectively, at

December 31, 1997. Income from commercial rents, included in real estate revenue was $985,000 in 1997, $928,000 in 1996, and $936,000 in 1995. Future minimum rental income on noncancelable operating leases as of December 31, 1997 is: $1,035,000 in 1998, $921,000 in 1999, $830,000 in 2000, $826,000 in 2001, $826,000 in 2002, and $5,718,000 for years thereafter.

10. Commitments and Contingencies

A total of 6,200 acres of the Company's land is subject to water contracts requiring minimum future annual payments for as long as the Company owns such land. The estimated minimum payments for 1998 are $1,300,000, whether or not water is available or is used. Minimum payments made under these contracts were approximately $1,215,000 in 1997, $1,277,000 in 1996, and $1,109,000 in 1995. Approximately 4,600 acres of these lands are subject to contingent assessments of approximately $817,000 to service water district bonded indebtedness, if water district revenues are insufficient to cover bond interest and redemptions when due.

The Company leases land to National Cement Company of California, Inc. (National) for the purpose of manufacturing portland cement from limestone deposits on the leased acreage. National, Lafarge Corporation (the parent company of the previous operator) and the Company have been ordered to cleanup and abate an old industrial waste landfill site and the cement kiln dust pile on the leased premises. The cleanup order for the kiln dust piles now requires only site stabilization measures of the sort previously undertaken by National, and does not call for transporting the large piles offsite. Under both orders, the Company is secondarily liable and will be called upon to perform work only if National and Lafarge fail to do so. Under the lease agreements with National and Lafarge, both companies are required to indemnify the Company for any costs and liabilities incurred in connection with the cleanup order. Due to the financial strength of National and Lafarge, the Company believes that a material effect to the Company is remote at this time.

11. Retirement Plan

The Company has a retirement plan which covers substantially all employees. The benefits are based on years of service and the employee's five year final average salary. Contributions are intended to provide for benefits attributable to service both to date and expected to be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA).

The following accumulated benefit information is as of December 31:

| | 1997 | 1996 |
|---|---|---|
| Accumulated actuarial present value of benefit obligation, including vested benefits of $2,254,000 in 1997 and $2,060,000 in 1996 | $2,315,000 | $2,084,000 |
| Projected benefit obligation for service rendered to date | 2,820,000 | 2,466,000 |
| Plan assets at fair value | 2,323,000 | 1,947,000 |
| Projected benefit obligation in excess of Plan assets | (497,000) | (519,000) |
| Items not yet recognized in earnings: | | |
| Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions | 1,036,000 | 1,084,000 |
| Unrecognized net transition asset being amortized over approximately 17 years | (118,000) | (138,000) |
| Adjustment required to recognize minimum liability | --- | (564,000) |
| Prepaid (accrued) pension cost | $ 421,000 | $ (137,000) |

In accordance with the provisions of Financial Accounting Standard No. 87, the Company recorded a minimum pension liability representing the excess of the accumulated benefit obligation over the fair value of plan assets and accrued pension liabilities during 1996. The liability was offset by intangible assets to the extent possible. Because the asset recognized may not exceed the amount of unrecognized past service cost, the balance of the liability at the end of 1996 was reported as a separate reduction of stockholders' equity, net of applicable deferred income taxes.

Plan assets consist of equity, debt, and short-term money market investment funds. The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of projected benefits obligation was 6.5% in 1997 and 1996. The expected long-term rate of return on plan assets was 7.5% in 1997 and 1996.

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

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Cost components: | | | |
| Service cost-benefits earned during the period | $(81,000) | $(74,000) | $ (80,000) |
| Interest cost on projected benefit obligation | (155,000) | (136,000) | (136,000) |
| Actual return on plan assets | 543,000 | (89,000) | 305,000 |
| Net amortization and deferral | (422,000) | 214,000 | (209,000) |
| Total net periodic pension cost | $(115,000) | $(85,000) | $(120,000) |

12. Business Segments

The Company operates principally in four industries: livestock, farming, resource management, and real estate use. The livestock segment includes the production and sale of beef cattle and operation of a feedlot. The farming segment involves those operations related to permanent crops, leasing farmland, and the supervision of farming activities. The resource management and the real estate segments collect rents and royalties from lessees of Company-owned properties, and the real estate operation entitles and develops Company-owned properties.

Information pertaining to the Company's business segments follows for each of the years ended December 31

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Segment profits: | | | |
| Livestock | $ 1,499,000 | $ 412,000 | $ 41,000 |
| Farming | 2,627,000 | 3,134,000 | 1,811,000 |
| Resource management | 1,328,000 | 1,356,000 | 1,241,000 |
| Real Estate | 1,003,000 | (841,000) | (1,262,000) |
| Segment profits | 6,457,000 | 4,061,000 | 1,831,000 |
| Interest income | 1,159,000 | 1,308,000 | 1,374,000 |
| Corporate expenses | (2,346,000) | (2,266,000) | (2,046,000) |
| Interest expense | (747,000) | (295,000) | (436,000) |
| Operating profit | $ 4,523,000 | $ 2,808,000 | $ 723,000 |

| | Identifiable Assets | Depreciation and Amortization | Capital Expenditures |
|---|---|---|---|
| 1997 | | | |
| Livestock | $24,215,000 | $ 588,000 | $4,109,000 |
| Farming | 10,176,000 | 737,000 | 1,287,000 |
| Resource management | 363,000 | 21,000 | 25,000 |
| Real Estate | 5,933,000 | 328,000 | 1,571,000 |
| Corporate | 23,006,000 | 55,000 | 84,000 |
| Total | $63,693,000 | $1,729,000 | $7,076,000 |
| 1996 | | | |
| Livestock | $ 5,554,000 | $ 307,000 | $ 98,000 |
| Farming | 10,545,000 | 626,000 | 1,051,000 |
| Resource Management | 259,000 | 1,000 | --- |
| Real Estate | 2,874,000 | 183,000 | 901,000 |
| Corporate | 28,137,000 | 104,000 | 293,000 |
| Total | $47,369,000 | $1,221,000 | $2,343,000 |
| 1995 | | | |
| Livestock | $ 5,533,000 | $ 303,000 | $ 270,000 |
| Farming | 10,370,000 | 477,000 | 2,287,000 |
| Resource Management | 258,000 | 1,000 | --- |
| Real Estate | 2,713,000 | 133,000 | 557,000 |
| Corporate | 26,329,000 | 103,000 | 149,000 |
| | $45,203,000 | $1,017,000 | $3,263,000 |

Intersegment sales are not significant. Segment profits are total revenues less operating expenses, excluding interest and corporate expenses. Identifiable assets by segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist primarily of cash and cash equivalents, refundable and deferred income taxes, land and buildings. Land is valued at cost for acquisitions since 1936. Land acquired in 1936, upon organization of the Company, is stated on the basis (presumed to be at cost) carried by the Company's predecessor.

13. Unaudited Quarterly Operating Results

The following is a tabulation of unaudited quarterly operating results for the years indicated (in thousands of dollars, except per share amounts):

| | Total Revenue(1) | Segment Profit (Loss) | Net Income (Loss) | Earnings (Loss) Per Share(2) |
|---|---|---|---|---|
| 1997 | | | | |
| First quarter | $ 3,037 | $ (93) | $ (288) | $(0.02) |
| Second quarter | 6,265 | 251 | (6) | 0.00 |
| Third quarter | 16,163 | 2,830 | 1,432 | 0.11 |
| Fourth quarter (3) | 15,521 | 3,469 | 1,894 | 0.15 |
| | $40,986 | $6,457 | $3,032 | $ 0.24 |
| 1996 | | | | |
| First quarter | $ 1,518 | $ (408) | $ (364) | $(0.03) |
| Second quarter | 4,312 | 416 | 57 | 0.01 |
| Third quarter | 5,824 | 1,982 | 918 | 0.07 |
| Fourth quarter | 7,306 | 2,071 | 1,074 | 0.08 |
| | $18,960 | $4,061 | $1,685 | $ 0.13 |

(1) Includes interest income.

(2) Earnings per share on a diluted basis.

(3) Includes receipt of one time payment of $2,050,000 ($1,353,000 net of tax or $.11 per share) from a pipeline company for acquisition of easement rights.

14. Acquisition of Assets

On March 10, 1997, the Company completed the purchase of certain assets from Champion Feeders, Inc., a cattle feedlot company in western Texas. The assets purchased include land, a feed mill, cattle pins, office and shop buildings, and all rolling stock. No debt or material liabilities of Champion Feeders, Inc. were assumed in the purchase of these assets. The purchase price for these assets was $3.5 million plus inventory and other assets of $374,000, as of February 28, 1997 and has been accounted for as a purchase. The purchase price of assets was based upon a dollar value per head of capacity at the feedyard and the fair market value of assets purchased. The excess of the purchase price over the fair market value of tangible assets acquired was immaterial.

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

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the acquisition had occurred as of January 1, 1997, and does not purport to be indicative of what would have occurred had the acquisition actually been made as of such date or of results that may occur in the future. The pro forma information provided is for the year ended December 31:

| | 1997 | 1996 |
|---|---|---|
| Pro forma Statement of Income | | |
| Revenues | $43,646,000 | $34,059,000 |
| Net Operating Income | 4,854,000 | 3,228,000 |
| Net Income | 3,286,000 | 1,937,000 |
| Earnings Per Share, diluted | $0.26 | $0.15 |

5

(Amounts in thousands)
This schedule contains summary financial information extracted from the balance sheet, income statement, and footnotes and is qualified in its entirety by reference to such financial statements.

12-MOS
DEC-31-1997
DEC-31-1997
976
17,189
8,448
0
12,222
40,494
37,873
(16,095)
63,693
15,976
0
0
0
6,343
34,145
63,693
40,986
40,986
33,370
33,370
2,346
0
747
4,523
1,491
3,032
0
0
0
3,032
.24
.24

EXHIBIT 10.6

TEJON RANCH CO.
AMENDED AND RESTATED STOCK OPTION AGREEMENT
Pursuant to the
1992 EMPLOYEE STOCK INCENTIVE PLAN

This Incentive Stock Option Agreement ("Agreement") is made and entered into as of the Date of Grant indicated below by and between Tejon Ranch Co., a Delaware corporation (the "Company"), and the person named below as Optionee.

WHEREAS, Optionee is an employee, officer or director of the Company and/or one or more of its subsidiaries;

WHEREAS, pursuant to the Company's 1992 Employee Stock Incentive Plan (the "1992 Plan"), the Compensation Committee of the Board of Directors of the Company administering the 1992 Plan (the "Committee") approved the grant to Optionee of an option to purchase shares of the Common Stock, par value $.50 per share, of the Company (the "Common Stock"), on the terms and conditions set forth in a Stock Option Agreement entered into by Optionee and the Company as of the Date of Grant; and

WHEREAS, on April 7, 1997 the terms of said option were amended to change the date when it becomes exercisable and to change the Exercise Price per share set forth in Section 1 to an amount equal to the Fair Market Value per share of Common Stock (as defined in Section 2) on April 7, 1997;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants set forth herein, the parties hereto hereby amend and restate their agreement as so amended:

1. Grant of Option; Certain Terms and Conditions. The Company hereby grants to Optionee, and Optionee hereby accepts, as of the Date of Grant indicated below, an option (the "Option") to purchase the number of shares of Common Stock indicated below (the "Option Shares") at the Exercise Price per share indicated below. The Option shall become exercisable on and after the Vesting Dates indicated below as to the number of shares indicated with respect to each such Vesting Date, except as otherwise provided in Section 3. The Option shall expire at 5:00 p.m., Los Angeles, California time, on the Expiration Date indicated below and shall be subject to all of the terms and conditions set forth in this Agreement.

Optionee:
Date of Grant:
Number of shares purchasable:
Exercise Price per share:
Expiration Date:
Vesting Dates:

2. Incentive Stock Option; Internal Revenue Code Requirements. The Option is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code") except to the extent that the aggregate Fair Market Value (determined as of the Date of Grant) of the shares of Common Stock with respect to which the Option is exercisable for the first time by Optionee during any calendar year (under the 1992 Plan and all other stock option plans of the Company and its subsidiaries) exceeds $100,000. Such excess shares are intended to be treated as shares issued pursuant to an Option that is not an incentive stock option described in Section 422 of the Code, in accordance with Section 422(d) of the Code. The number of such excess shares as to which this option is not intended to be treated as an incentive option is 3,750.

The "Fair Market Value" of a share of Common Stock or other security on any day shall be equal to the last sale price, regular way, per share or unit of such other security on such day or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the American Stock Exchange or, if the shares of Common Stock or such other security are not listed or admitted to trading on the American Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock or such other security are listed or admitted to trading or, if the shares of Common Stock or such other securities are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use or, if on any such date the shares of Common Stock or such other security are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in shares of Common Stock or such other security selected by the Board of Directors.

3. Acceleration and Termination of Option.

(a) Termination of Employment.

(i) Definition of Termination. In the event that Optionee shall cease to be an employee of the Company or any of its subsidiaries voluntarily or involuntarily or for any reason whatever, such event is referred to in this Agreement as a "Termination" of Optionee's "Employment."

(ii) Normal Termination. If Optionee's Employment is Terminated for any reason other than those enumerated in this Section 3(a)(ii), then the Option shall terminate three (3) months from the date of such Termination of Employment but in no event later than the Expiration Date. During such three month period, the Option shall be exercisable only if the date of Termination of Employment is after the ninth anniversary of the Date of Grant.

(iii) Death or Permanent Disability. In the event of a Termination of Optionee's Employment by reason of the death of Permanent Disability (as hereinafter defined) of Optionee, the Option shall terminate on the first anniversary of the date of such Termination of Employment or the Expiration Date, whichever is earlier.

"Permanent Disability" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The Optionee shall not be deemed to have a Permanent Disability unless proof of the existence thereof shall have been furnished to the Committee in such form and manner, and at such times, as the Committee may require. Any determination by the Committee that Optionee does or does not have a Permanent Disability shall be final and binding upon the Company and Optionee.

(b) Death or Permanent Disability Following Termination of Employment. Notwithstanding anything to the contrary in this Agreement, if Optionee shall die or suffer a Permanent Disability at any time after the Termination of his or her Employment and prior to the Expiration Date, then to the extent that the Option was exercisable on the date of such death or Permanent Disability the Option shall terminate on the earlier of the Expiration Date or the first anniversary of the date of such death.

(c) Acceleration of Option Upon a Change of Control. The Option shall become fully exercisable with respect to all Option Shares in the event of a Change of Control. A "Change of Control" shall mean the first to occur of the following events:

(i) a reorganization, merger or consolidation of the Company, the issuance or transfer of securities of the Company in one transaction or series of related transactions or any other transaction or series of related transactions in each case if and only if as a result of the transaction or transactions persons other than the shareholders immediately prior to such transaction or transactions shall own 80% or more of the voting securities of the Company or its successor after the transaction;

(ii) the sale or transfer by the Company of all or substantially all of its property and assets in a single transaction or series of related transactions; or

(iii) the dissolution or liquidation of the Company.

(d) Discretionary Acceleration. The Committee, in its sole discretion, may accelerate the exercisability of the Option for any reason, including without limitation in the event of death or disablement of Optionee or termination of employment of Optionee by the Company other than for cause.

(e) Other Events Causing Termination of Option. Notwithstanding anything to the contrary in this Agreement, the Option shall terminate in the event of the occurrence of an event referred to in clause (ii) or (iii) of paragraph (c) above or a merger or consolidation referred to in clause (i) of paragraph (c) above (a "Termination Event") (even if such Termination Event occurs after an event referred to in clause (i) of said paragraph (c) above which is not a Terminating Event) unless the terms of any such transaction constituting the Terminating Event otherwise provide. Such termination shall occur on the 30th day following any such Terminating Event (or such later date as the Board of Directors or the Committee shall determine) unless the Board of Directors or the Committee (i) sets an earlier date which is at least ten days prior to the occurrence of the Terminating Event, (ii) notifies the Optionee in writing at least ten days before the occurrence of the Terminating Event of the setting of such date and (iii) accelerates the exercisability of the Option to the extent it would otherwise be exercisable for any part of the thirty day period after such event pursuant to Section 1 or pursuant to paragraph (c) above so that, to such extent, the Option could be exercised for a period of at least ten days prior to the occurrence of the Terminating Event. In such event where the requirements of clauses (i), (ii) and (iii) of the preceding sentence are met, the Option shall expire immediately upon the occurrence of the Terminating Event.

4. Adjustments. In the event that the outstanding securities of the class then subject to the Option are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of securities, or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, reclassification, dividend (other than a cash dividend paid out of earned surplus) or other distribution, stock split, reverse stock split or the like, or in the event that substantially all of the property and assets of the Company are sold, then, the Committee shall make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may thereafter be acquired upon the exercise of the Option; provided, however, that any such adjustments in the Option shall be made without changing the aggregate Exercise Price of the then unexercised portion of the Option.

5. Exercise. The Option shall be exercisable during Optionee's lifetime only by Optionee or by his or her guardian or legal representative, and after Optionee's death only by the person or entity entitled to do so under Optionee's last will and testament or applicable intestate law. The Option may only be exercised by the delivery to the Company of a written notice of such exercise pursuant to the notice procedures set forth in Section 7 hereof, which notice shall specify the number of Option Shares to be purchased (the "Purchased Shares") and the aggregate Exercise Price for such shares (the "Exercise Notice"), together with payment in full of such aggregate Exercise Price as follows:

(a) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock power, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(b) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock.

The balance of the Exercise Price not paid by an exchange of shares pursuant to (a) or (b) above shall be paid in cash or by a cashier's or certified bank check payable to the Company.

The Optionee will be obligated to pay the Exercise Price in the manner contemplated by (a) and/or (b) above and will be permitted to pay the Exercise Price in cash only to the extent that it cannot be paid in the manner provided in (a) and (b) above. Notwithstanding the foregoing, the Optionee shall be obligated to pay the Exercise Price in the manner contemplated by (a) above only to the extent that he or she owns shares of Common Stock beneficially, has the power to dispose of those shares and such disposition contemplated by (a) above would not constitute a "disqualifying disposition" of shares resulting in a loss of the special tax treatment afforded incentive stock options.

6. Payment of Withholding Taxes.

(a) If the Company is obligated to withhold an amount on account of any federal, state or local tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax, then Optionee shall, concurrently with such exercise, pay such amount (the "Withholding Liability") to the Company in cash or by a cashier's or certified bank check payable to the Company; provided, however, that, in the discretion of the Committee, the Optionee may, pursuant to an irrevocable election of Optionee (a "Withholding Election") made on or prior to the date of such exercise, instead pay all or any part of the Withholding Liability in the following manner:

(i) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock powers, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(ii) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock.

(b) The Committee shall have sole discretion to approve or disapprove any Withholding Election and may adopt such rules and regulations as are consistent with and necessary to implement the foregoing. The Committee may permit Optionee to make a Withholding Election to pay withholding taxes in excess of the minimum amount required by law, provided that the amount of withholding taxes so paid does not exceed the estimated total federal, state and local tax liability of Optionee attributable to such exercise.

7. Notices. Any notice given to the Company shall be addressed to the Company at P.O. Box 1000, Lebec, California 93243, Attention: President, or at such other address as the Company may hereinafter designate in writing to Optionee. Any notice given to Optionee shall be sent to the address set forth below Optionee's signature hereto, or at such other address as Optionee may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when delivered personally or five days after mailing by prepaid certified or registered mail return receipt requested.

8. Stock Exchange Requirements; Applicable Laws. Notwithstanding anything to the contrary in this Agreement, no shares of stock issuable upon exercise of the Option, and no certificate representing all or any part of such shares, shall be purchased, issued or delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to incur liability under any federal, state or other securities law, or any requirement of any stock exchange listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

9. Restrictions on Transferability.

(a) Neither the Option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution.

(b) By accepting the Option, the Optionee for himself or herself and his or her transferees by will or the laws of descent and distribution, represent and agree that all shares of Common Stock purchased upon exercise of the Option will be acquired for investment and not with a view to the distribution thereof unless they have been registered under the Securities Act of 1933, and will otherwise be acquired, held and disposed of and held in accordance with the restrictions of said Act and the rules and regulations of the Securities and Exchange Commission thereunder, that the Company may instruct its transfer agent to restrict further transfer of said shares in its records except upon receipt of satisfactory evidence that such restrictions have been satisfied, that upon each exercise of any portion of the Option, the certificates evidencing the purchased shares shall bear an appropriate legend on the face thereof evidencing such restrictions, and that the person entitled to exercise the same shall furnish evidence satisfactory to the Company (including a written and signed representation) to the effect that the shares are being acquired subject to such restrictions.

10.  1992 Plan.  The Option is granted pursuant to the 1992 Plan, as in effect on the Date of Grant, and is subject to all the terms and conditions of the 1992 Plan, as the same may be amended from time to time; provided, however, that no such amendment shall deprive Optionee, without his or her consent, of the Option or of any of Optionee's rights under this Agreement. The interpretation and construction by the Committee of the 1992 Plan, this Agreement, the Option and such rules and regulations  as may be adopted by the Committee for the purpose of administering the 1992 Plan shall be final and binding upon Optionee.  Until the Option shall expire, terminate or be exercised in full, the Company shall, upon written request therefor, send a copy of the 1992 Plan, in its then-current form, to Optionee or any other person or entity then entitled to exercise the Option.

11.  Stockholder Rights.  No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Option Shares until the Option shall have been duly exercised to purchase such Option Shares in accordance with the provisions of this Agreement and the Option Shares have been issued.

12.  Employment Rights.  No provision of this Agreement or of the Option granted hereunder shall (a) confer upon Optionee any right to continue in the employ of the Company or any of its subsidiaries, (b) affect the right of the Company and each of its subsidiaries to terminate the employment of Optionee, with or without cause, or (c) confer upon Optionee any right to participate in any employee welfare or benefit plan or other program of the Company or any of its subsidiaries other than the 1992 Plan.  The Optionee hereby acknowledges and agrees that the Company and each of its subsidiaries may terminate the employment of Optionee at any time and for any reason, or for no reason, unless Optionee and the Company or such subsidiary are parties to a written employment agreement that expressly provides otherwise.

13.  Effect on Other Agreement.  This Agreement supersedes the Stock Option Agreement between the Optionee and the Company previsouly entered into with respect to the Option and dated as of the Date of Grant.

14.  Governing Law.  This Agreement and the Option granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the Company and Optionee have duly executed this Agreement as of the Date of Grant.

TEJON RANCH CO.     OPTIONEE
By: ________________________________
Name:
Title:    ____________________________________
Signature ____________________________________
Street Address _______________________________
City, State and Zip Code______________________
Social Security Number

EXHIBIT 10.7

SEVERANCE AGREEMENT

This Severance Agreement is entered into this ____ day of July, 1997 between Tejon Ranch Co., a Delaware corporation (the "Company") and _______ (the "Executive").

R E C I T A L S

The Company considers it essential and in the best interest of its stockholders to foster the continuous employment of key management personnel. The Company further recognizes that, as in the case of many publicly held corporations, the possibility of a change of control of the Company may exist and that such possibility, and the uncertainty and questions which it may raise among management, may create concerns for, and the distraction of, management personnel and may even result in departures which might have otherwise not have taken place, all to the detriment of the Company and its stockholders. The Company now desires to take steps to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change of control of the Company.

A G R E E M E N T

1. Payment of Severance Benefits Upon Change of Control. In the event of a Change of Control of the Company (as defined in Section 3) during the two-year period from the date of this Agreement, Executive shall be entitled to the Severance Benefits set forth in Section 2, but only if:

(a) the Executive's employment by the Company or the successor owner of its business is terminated by the Company or such successor without Cause (as defined in Section 4) during the two years after the occurrence of the Change of Control;

(b) the Executive terminates his or her employment with the Company or its successor for Good Reason (as defined in Section 5) during the two years after the occurrence of the Change of Control;

(c) the Executive's employment by the Company is terminated by the Company within three months prior to the Change in Control and such termination (i) was at the request of a third party who had taken steps to effect the Change in Control at the time of the request or (ii) otherwise arose in connection with or in anticipation of the Change in Control; or

(d) the Executive terminates his or her employment with the Company for Good Reason during the period commencing three months prior to the Change in control and the event referred to in Section 5(a), (b) or (c) constituting Good Reason (i) occurs at the request of a third party who had taken steps to effect the Change in Control at the time of the request or (ii) otherwise arose in connection with or in anticipation of the Change in Control.

Any resignation by the Executive at the request of the Board of Directors shall be treated as a termination by the Company pursuant to (a) or (c) above (whichever is applicable) but shall not necessarily mean that the requirements of (c)(i) or (ii) have been satisfied. The effective date of any termination of employment referred to in (a) or (c) above shall be the date specified by the Company or the successor owner of its business, and the effective date of any termination of employment referred to in (b) or (d) above shall be the date specified in the notice of termination delivered pursuant to Section 5 or, if no date is specified in the notice, the date specified by the Executive orally or, if no such date is specified orally, the date the Executive ceases working for the Company or the successor owner of its business on a full time basis.

2. Definition of Severance Benefits.

2.1 Amount of Benefits. Except as provided in Section 2.2, the Severance Benefits referred to in Section 1 shall include and be limited to the following:

(a) continuation of payments equal to the Executive's base salary (at the greater of the rate in effect immediately prior to the Change in Control or the rate in effect immediately prior to the termination of his or her employment) for a period of 30 full months after the effective date of termination of the Executive's employment as described in Section 1, such payments to be made on the same dates the Executive's salary would have been paid if his or her employment had not terminated;

(b) payments equal to the Executive's Three-Year Average Bonus (as defined in Section 6), for each of the two full fiscal years commencing after the effective date of the termination of his or her employment plus a payment equal to [up to one-half] of the Executive's Three-Year Average Bonus for the third full fiscal year commencing after such termination, such payments to be made on the dates the Executive's bonuses for those years would have been paid if his or her employment had not terminated;

(c) a payment equal to either (i) a prorated portion of the Executive's bonus for the year in which the effective date of termination of the Executive's employment occurs based upon the number of days in the year prior to such termination of employment as compared to the full year, but only if all performance and other criteria for earning the bonus have been satisfied as of the date of termination (other than the criterion that the Executive continue to be employed)

or (ii) if such performance criteria have not been established or satisfied as of the effective date of termination, then such prorated portion of the Executive's Three-Year Average Bonus, such payment to be made in the case of either (i) or (ii) above on the date the Executive's bonus for the year of termination would have been paid if his or her employment had not terminated;

(d) continuation of the Company's contribution to health and life insurance benefits for the period from the effective date of termination of employment until the earlier of expiration of the period of salary continuation referred to in (a) above or the date the Executive becomes employed on a full-time basis by another employer and is covered by a medical plan provided by such employer with no remaining applicable exclusions for pre-existing conditions;

(e) if the Executive has the right to use of a Company car or a country club membership at the expense of the Company, continuation of such use for a period of three months after the effective date of termination of the Executive's employment; and

(f) if the Executive's principal residence is a house owned and provided by the Company, continuation of the use of such residence rent-free for a period of three months after termination of Executive's employment, the right to rent such residence for an additional three months at a monthly rent of $750 and the right to rent such residence for an additional two months at a monthly rental of $1,500.

In addition to the foregoing Severance Benefits, the Executive will continue to be entitled to his or her benefits under the Company's existing Pension Plan and Supplemental Executive Retirement Plan as determined in accordance with the terms of those plans taking into account the termination of the Executive's employment. If the Executive has been credited with more than 15 years of service under such plans as of the effective date of termination of his or her employment, he or she shall also be credited with additional years of service under the plans for the period of salary continuation referred to in (a) above to the extent such credit is permitted by the plans.

Notwithstanding (a) through (f) above, in the case of a termination of employment prior to the occurrence of a Change of Control, the Company shall have no obligation to pay or provide any Severance Benefits prior to the occurrence of the Change of Control and, to the extent Section 1(c) or (d) applies, the amount of Severance Benefits shall be determined as if the Executive's employment terminated effective upon the occurrence of the Change of Control, except that the Company shall have no obligation to provide the benefits in (e) or (f) above to the extent that, upon the occurrence of the Change in Control, those benefits would have already terminated had they commenced on the date of termination of employment..

Notwithstanding (b) and (c) above, the benefits set forth in those subparagraphs shall not be payable if the Executive had been advised, prior to the Change in Control, that he or she would not be eligible to earn a bonus for the year in which the termination of employment becomes effective.

2.2 Reduction of Amount of Severance Benefits In the event the Company determines that payment of any of the Severance Benefits would result in the imposition of any tax imposed by Section 4999 of the Internal Revenue Code of 1986 (or any successor statute) and the regulations thereunder, the Severance Benefits shall be reduced to such extent as the Company determines is necessary to avoid the imposition of any such tax. Such reductions shall first be made in the bonus payments referred to in Section 2.1(b) in reverse chronological order and thereafter, if necessary, to the payments referred to in Section 2.1(c) and the salary payments referred to in Section 2 (a) in that order of priority and each in reverse chronological order.

2.3 Resolution of Disagreements. The Company shall make its determination as to whether any reduction in Severance Benefits is required pursuant to Section 2.2 within 15 days after the termination of the employment of the Executive and again promptly after the Executive exercises any stock options and shall deliver to the Executive written notice of the determination together with the Company's detailed calculations supporting its conclusion. If the Executive does not agree with the Company's determination, he or she shall notify the Company in writing of that disagreement within 30 days after receipt of the Company's notice and detailed calculations. Failure to give such notice of disagreement shall be deemed to constitute acceptance of the determination by the Company and such determination shall become final and binding on the parties. The notice by the Executive shall set forth in reasonable detail why the Executive disagrees with the determination made by the Company and shall be accompanied by the Executive's detailed calculations supporting his or her conclusion. If the Company and the Executive have not resolved their disagreement within ten days after the Company receives the Executive's notice and detailed calculations, the Company and the Executive shall refer the matter to the firm then serving as the independent certified public accountants of the Company, whose determination shall be final and binding on both parties. The Company will endeavor to cause the accounting firm to give both the Executive and the Company written notice of its determination accompanied by its detailed calculations. If the Company does not then have a firm serving as its independent certified public accountants or if the firm then serving in that capacity refuses to resolve the matter or fails to provide written notice of its determination accompanied by its detailed calculations within 30 days after the matter is referred to it, then either party will have the right to commence an arbitration pursuant to Section 13 to resolve the matter. The fees and expenses of the accounting firm will be paid by the Company.

If the Company determines that payment of the full Severance Benefits will result in the imposition of a tax as provided above, the Company will have the right to withhold from the payment of Severance Benefits the amount of any reduction determined by it in accordance with Section 2.2. If the Executive disagrees with the determination by the Company, the Company shall have the right to continue to withhold the payments of such amounts until the matter is finally resolved. If such resolution indicates that the Company's determination was incorrect, the Company shall promptly pay to the Executive any amount of Severance Benefits which should not have been withheld, with interest for the period that the payment was withheld at the reference rate then in effect of the Bank of America National Trust and Savings Association. If such final resolution indicates that the Company did not withhold sufficient funds from the payment of Severance Benefits, the Executive shall promptly refund to the Company any amount which should have been withheld with interest determined as provided above.

3. Definition of Change of Control.

3.1 Events Constituting Change of Control. For purposes of this Agreement, a "Change of Control" of the Company shall be deemed to have occurred if any one of the following events occurs:

(a) except as provided in Section 3.3, the acquisition by any person or group of beneficial ownership of 28% or more of the outstanding shares of Common Stock of the Company or, if there are then outstanding any other voting securities of the Company, such acquisition of 28% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, but only if at the time of the acquisition or within one year thereafter the Board of Directors of the Company (if the Company continues to own its business), or the Board of Directors of any successor owner of its business consists of a majority of directors who are not Incumbent Directors;

(b) the Company sells all or substantially all of its assets (or consummates any transaction having a similar effect) or the Company merges or consolidates with another entity or completes a reorganization, except that:

(i) no such transaction shall be deemed to constitute a Change of Control if the holders of the voting securities of the Company outstanding immediately prior to the transaction own immediately after the transaction in approximately the same proportions more than 72% of the combined voting power of the voting securities of the entity purchasing the assets or surviving the merger or consolidation or, in the case of a reorganization, more than 72% of the combined voting power of the voting securities of the Company; and

(ii) no such transaction shall be deemed to constitute a Change of Control if:

(A) the holders of the voting securities of the Company outstanding immediately prior to the transaction own immediately after the transaction in approximately the same proportions less than 72% but more than 50% of the combined voting power of the voting securities of the entity purchasing the assets or surviving the merger or consolidation or, in the case of a reorganization, less than 72% and more than 50% of the combined voting power of the voting securities of the Company unless

(B) at the time of the acquisition or within one year thereafter the Board of Directors of the Company (if the Company continues to own its business), or the Board of Directors of any successor owner of its business consists of a majority of directors who are not Incumbent Directors;

(c) the Company is liquidated; or

(d) The Board of Directors of the Company (if the Company continues to own its business) or the board of directors or comparable governing body of any successor owner of its business (as a result of a transaction which is not itself a Change of Control) consists of a majority of directors or members who are not Incumbent Directors.

For purposes of this Agreement, any Change of Control as a result of an event described in (a), (b), (c) or (d) above will be deemed to have occurred upon the occurrence of the event unless in the case of (a) or (b)(ii) the requisite change in the majority of the Board of Directors of the Company or the successor owner of its business does not occur at that time, in which event the Change of Control, if any, will be deemed to occur upon such change in the majority of such Board of Directors (provided that such change occurs within the one year period referred to above).

3.2 Definition of Incumbent Directors. For purposes of Section 3.1 and subject to the last sentence of this Section 3.2, "Incumbent Directors" includes only those persons who are:
(i) serving as directors of the Company on the date of this Agreement,
(ii) elected by a majority of the directors referred to in (i) or selected by a majority of such directors to be nominated for election by the stockholders and are elected or
(iii) elected by a majority of the directors referred to in (i) and (ii) or selected by a majority of such directors to be nominated for election by the stockholders and are elected.

Notwithstanding the foregoing, directors elected or selected as provided in (ii) or (iii) above after an event described in Section 3.1 (a) or 3.1(b)(ii) shall not be Incumbent Directors unless they satisfy all of the following requirements:
(A) they were elected to fill a vacancy resulting from the resignation of or the failure to re-nominate a director who is then 70 years of age or older or to replace a director who has died or ceases to be a director (by resignation, removal or otherwise) as a result of physical or mental disability;
(B) they are not, officers, directors or employees of (or hold any comparable position with respect to), or have record or beneficial ownership of more than one percent (1%) of the outstanding shares or other equity interests of, any person or member of any group which acquires Common Stock or other voting securities of the Company as described in Section 3.1(a) or 3.1(b)(ii) or any affiliate of any such person or member, or a spouse or relative of any such officer, director, employee, record or beneficial owner, person, member of a group or affiliate;
(C) during the five years prior to their becoming directors, they have not had any relationship with any person or member of any group which acquires Common Stock or other voting securities of the Company as described in Section 3.1(a) or 3.1(b)(ii) or any affiliate of any such person or member that would be required by Item 404(b) of Regulation S-K or any successor provision to be disclosed in a proxy statement for such person, member or affiliate if such person, member or affiliate were subject to the rules of the Securities and Exchange Commission applicable to the solicitation of proxies and had solicited proxies for a fiscal year while, or the fiscal year immediately after, such relationship existed; and
(D) they have not been suggested, designated or selected for nomination as a director by any officer, director, employee, record or beneficial owner, person, member of a group, affiliate, spouse or relative referred to in (B) above (except that merely participating as a director of the Company in a vote of the directors of the Company to elect, nominate or designate for nomination a candidate for a directorship shall not mean that the candidate was "suggested, designated or selected for nomination" by such director within the meaning of this Clause D).

3.3 Exception for Certain Acquisitions of Stock. Section 3.1(a) shall not include any acquisition of beneficial ownership of Common Stock or other voting securities of the Company (i) directly from the Company or (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any entity controlled by the Company. In the event of the redemption of outstanding shares of Common Stock or other voting securities by the Company, any resulting increase in the percentage of outstanding shares or other voting securities beneficially owned by any person or group shall be taken into account in determining whether the percentage in Section 3.1(a) has been met or exceeded except as provided in the following sentence. No acquisition of additional outstanding shares of Common Stock or other voting securities of the Company by Ardell Investment Company, M.H. Sherman Company, The Times Mirror Company or the Times Mirror Foundation and no increase in the percentage of outstanding shares or other voting securities beneficially owned by any of them resulting from any redemption of shares or other voting securities by the Company shall result in a Change of Control pursuant to Section 3.1(a) unless, in either case, the resulting increase in the percentage of beneficial ownership of Ardell Investment Company and M. H. Sherman Company in the aggregate or by The Times Mirror Company and the Times Mirror Foundation in the aggregate exceeds 10%.

3.4 Definition of Person, Acquisition, Group and Beneficial

Ownership. For purposes of this Agreement the term "person" shall have the meaning set forth in the Securities Exchange Act of 1934 and the terms "acquisition," "group, " and "beneficial ownership" shall have the meanings set forth in Rules 13d-3 and 13d-5 of the Rules of the Security and Exchange Commission adopted under the Securities Exchange Act of 1934.

4. Definition of Termination for Cause. The Executive's employment shall be deemed to have been terminated for "Cause" if such employment terminates as a result of:

(a) the death of the Executive;

(b) the Executive becoming unable to perform the essential duties of his or her position, even with reasonable accommodation, as a result of any physical or mental condition for a period of more than ninety (90) consecutive days or for ninety (90) nonconsecutive days in any three hundred sixty five (365) day period; or

(c) the Executive's professional dishonesty; willful misconduct; breach of fiduciary duty involving self-dealing or personal profits; intentional failure to perform duties or abide by Company policies, in each case to the extent such duties or policies have been communicated to the Executive in writing or their existence is otherwise known to the Executive and the Executive has not cured such failure within a reasonable time after notice of such failure is given to him or her; conviction, entry of a plea of guilty or nolo contendere in connection with any alleged violation or an actual violation of any law, rule, regulation (other than traffic violations or similar offenses) or any cease-and-desist or other court order; involvement in any legal proceeding which, in the opinion of legal counsel to the Company, would be required to be disclosed pursuant to Item 401(d) of Regulation S-K of the Securities and Exchange Commission; any non-prescription use of any controlled substance or the use of alcohol or any other non-controlled substance which the Board of Directors of the Company reasonably determines renders the Executive unfit to serve in his or her capacity as an officer of the Company; or any act or omission which has a material adverse effect on the public image, reputation or integrity of the Company.

5. Definition of "Good Reason." For purposes of this Agreement the Executive shall be deemed to have terminated his or her employment for "Good Reason" if such a termination results from:

(a) a substantial reduction in the duties and responsibilities of the Executive below those he or she had in the position he or she held immediately prior to the Change in Control;

(b) the Company shall require the Executive to have as his or her principal location of work any location which is not within 75 miles of Lebec, California;

(c) the Company shall (i) reduce the base salary of the Executive by more than 5% or (ii) change the objective criteria for calculating the annual bonus that can be earned by the Executive or, if no such objective criteria exist, change the amount of the annual bonus such that, in either case, the Executive cannot reasonably be expected to earn in salary and bonus combined (taking into account any reduction in salary referred to in (i) above) at least 90% of the average amount he or she had earned in salary and bonus combined for the last three full fiscal years preceding the year for which the bonus is changed or such lesser number of full fiscal years during which the Executive has been employed by the Company; or

(d) the Company fails to require a successor to expressly assume this Agreement as required in Section 9 below.

If objective criteria for calculating the amount of the annual bonus of the Executive are not established prior to or during the year for which the bonus is paid, then the calculatlion in (c)(ii) above shall be based on the actual amount of the bonus when it is determined and the 180 day period referred in the following paragraph shall not begin to run until the amount of the bonus is known to the Executive.

Notwithstanding the foregoing, none of the events referred to in (a) through (c) above shall constitute Good Reason unless the Executive gives written notice to the Company of his or her election to terminate his or her employment for such reason within 180 days after he or she becomes aware of the existence of facts or circumstances constituting Good Reason. Such notice shall set forth in reasonable detail the facts and circumstances constituting the Good Reason and, if the Good Reason is a curable condition, shall provide the Company with 30 days to cure such condition. The notice shall also specify the date when the termination of employment is to become effective (if the Good Reason is not curable or is curable and not cured within the 30 days), which date shall be not less than 60 days and not more than 180 days from the date the notice is given.

6. Definition of "Three-Year Average Bonus." For purposes of determining the amount of the Severance Benefit referred to in Section 2.1(b) and (c) (subject to the last paragraph of Section 2.1), an Executive's "Three-Year Average Bonus" shall be deemed to be the average of the bonuses paid for the three most recent full fiscal years preceding the date of termination of the Executive's employment, or, if the Executive was not an executive officer of the Company during such three year period or could not have earned a bonus during such three year period, then (subject to the last paragraph of Section 2.1) the average annual bonus for such shorter time that he or she was an executive officer of the Company and could have earned a bonus. Notwithstanding the foregoing, if all performance and other criteria for earning the bonus for the year in which termination of the Executive's employment occurs have been satisfied as of the effective date of such termination (other than the criterion that the Executive continued to be employed), then the full bonus for that year and the two most recent full fiscal years shall be averaged to determine the Three-Year Average Bonus.

7. Employment At Will. The employment relationship contemplated by this Agreement is an at will relationship under which either the Executive or the Company has the right at any time to terminate the employment relationship with or without Cause or Good Reason and without notice, subject only to the payment of the Severance Benefits set forth in Section 2 to the extent that they become payable under the terms of this Agreement. Nothing in this Agreement is intended to create a term of employment for a period of years or otherwise.

8. Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any Severance Benefit provided for in this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer, except as provided in Section 2.1(d). Notwithstanding the foregoing, in the event that the Executive is entitled, by operation of any applicable law, to unemployment compensation benefits or benefits under the Worker Adjustment and Retraining Act of 1988 (known as the "WARN" Act) in connection with the termination of his or her employment in addition to those required to be paid to him or her under this Agreement, then to the extent permitted by applicable statutory law governing severance payments or notice of termination of employment, the Company shall be entitled to offset the amounts payable hereunder by the amounts of any such statutorily mandated payments.

9. Assumption of Agreement. The Company will require any successor (whether by purchase of assets, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform all of the obligations of the Company under this Agreement.

10. Assignment and Successors in Interest. This Agreement is personal to the Executive and is not assignable by him or her. This Agreement shall inure to the benefit of and be enforceable by the Executive and his or her personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees.

11. Withholding Taxes. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law.

12. Covenants of Executive. During the period that Executive is receiving payments described in Section 1(a) above, he or she will not solicit any employees to accept employment for any other person or entity and will not disclose to any person or entity, except as necessary to enforce this Agreement or as required by law, any information concerning the Company or its business that Executive knows to be of a confidential or non-public nature.

13. Notice. All notices, requests, demands and other

communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered, in the case of the Company to an executive officer other than the Executive, or when mailed by United States mail, postage prepaid, return receipt requested, addressed, in the case of the Company to 4436 Lebec Road, Lebec, California 93243 or, in the case of the Executive to the address set forth beneath his or her signature hereto, or such other address as may be provided by either party as to himself, herself or itself in the manner set forth above.

14. Arbitration. Except as provided in Section 2.3, all disputes or controversies arising under or in connection with this Agreement shall be settled exclusively by arbitration in Los Angeles or Bakersfield, California in accordance with the rules of the American Arbitration Association then in effect, provided that the arbitrator or arbitrators shall decide the dispute or controversy in accordance with California law as applied to this Agreement. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

15. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California applicable to the agreements between residents of California to be performed entirely within California.

16. Attorneys' Fees. In the event of any litigation or arbitration arising out of or relating to this Agreement, the prevailing party shall be entitled to recover his, her or its reasonable attorneys' fees incurred in connection therewith.

17. Entire Agreement. This Agreement sets forth the entire agreement of the parties with respect to the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, commitments, communications, representations, or warranties, whether oral or written.

18. Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by parties hereto. No waiver by either party hereto at any time of any breach by the other party or of any right or remedy under this Agreement shall constitute a waiver of any other breach, right or remedy, whether or not similar in nature.

19. Counterparts. This Agreement may be executed in two counterparts each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

TEJON RANCH CO. By: (Address)

EXHIBIT 10.8

# TEJON RANCH CO.

## DIRECTOR COMPENSATION PLAN

### Annual Retainer

Each director of Tejon Ranch Co. (the "Company") who is not an employee of the Company will be paid an annual retainer of $24,000 for service as a director for each calendar year commencing with 1998 and continuing through 2002. Unless a director otherwise elects as set forth below, one-half of the $24,000 will be paid in cash and the other half will be paid in the form of the grant of a stock option having the terms and valued as provided below. Any non-employee director will have the right to elect to take all of his or her annual retainer compensation in the form of stock options instead of taking one-half of such compensation in cash by delivering written notice of his or her election to do so to the Company prior to December 31 of each year with respect to compensation for the following year, except that the election for 1998 must be made by January 31, 1998.

Any non-employee director who is affiliated with a person or entity owning beneficially 5% or more of the outstanding shares of Common Stock of the Company (including anyone who is an employee of any such stockholder) will have the right to take his or her entire annual retainer compensation in cash. For this purpose, beneficial ownership will be determined in accordance with Rule 13d-3 of the Securities and Exchange Commission adopted under the Securities Exchange Act of 1934. Such election shall be made by delivering written notice thereof to the Company within the time period referred to above.

If a director makes any such election (either to take all retainer compensation in options or all such compensation in cash), such election shall remain in effect for all subsequent years of the Plan unless it is changed by another election made within the applicable time period for a subsequent year.

The cash portion of the annual retainer compensation will be paid on or before December 31 of each calendar year with respect to services during that calendar year and stock options representing the option portion of such compensation will be granted on the second Tuesday of January of each calendar year with respect to service during that year, except that options for 1998 will be granted on February 2, 1998. In the event any director serves for only a portion of any such calendar year, the amount of the cash portion of the annual retainer shall be reduced prorata (based upon the number of days during the year through December 15 not served divided by the number of days in the period from January 1 through December 15) and the option portion shall terminate as to a similarly prorated number of shares.

### Other Compensation of Directors

In addition to the annual retainer compensation, non-employee directors of the Company will be entitled to receive the following amounts of cash:

$1,000 per meeting of the Board of Directors attended by such director, whether attended in person or by telephone conference call;

$500 per committee meeting attended by such director on the day of a Board meeting, whether in person or by telephone conference call;

$1,000 per committee meeting attended on a day when the Board of Directors is not meeting, whether attended in person or by telephone conference call.

All such other compensation of directors shall be paid on the next regular payday of the Company following any such Board or committee meeting. Directors shall also be compensated for their out-of-pocket costs of travel to attend Board meetings upon submission of customary documentation of such costs.

Terms of Stock Options

The stock options granted as part of the annual retainer compensation shall be granted under the Company's Non-employee Director Stock Incentive Plan (the "Stock Incentive Plan") to be adopted by the Board of Directors of the Company and submitted to the stockholders of the Company for approval at the 1998 Annual Meeting of Stockholders. In the event the Stock Incentive Plan is not approved by the stockholders, options granted under the Stock Incentive Plan for 1998 compensation will terminate and the entire amount of the annual retainer compensation referred to above shall be paid in cash for 1998 and all subsequent years through 2002 unless this Plan is otherwise amended or is repealed by the Board of Directors. Options granted under the Stock Incentive Plan shall have an exercise price equal to the fair market value of the shares on the date of grant, shall have a term of ten years, shall be fully exercisable commencing on December 15 of the calendar year in which they are granted and shall be non-transferable by the director except in connection with his death or disability. The death, disability or termination of the grantee's status as a director shall not cause any option granted under the Stock Incentive Plan to terminate, except that if a director ceases to serve in that capacity at any time during the year for which the option is granted, the option shall terminate as to the prorated number of shares referred to above.

Valuation of Options

To determine the number of shares to be granted under the Stock Incentive Plan to satisfy the Company's obligation to pay annual retainer compensation, the value per share of the options will be determined using the Black-Scholes method as of the date of grant. The number of shares subject to the option to be granted each director will then be determined by dividing the amount of annual retainer compensation to be paid to such director in the form of options by the per share value of the options so determined.

Retention of Ownership of Stock

The Board of Directors has adopted a policy urging each director to retain ownership of shares of stock issued upon exercise of options issued under the Stock Incentive Plan. Such continuing ownership is intended to more closely align the interest of each director with those of the stockholders of the Company. This policy is not intended to limit transfers by a director to his or her spouse or to lineal descendants or to any trust, partnership or other similar entity in which they have a substantial beneficial interest. This policy is not intended to be legally binding, is not reflected in the terms of the Stock Incentive Plan and will not be reflected in the terms of options granted under the Stock Incentive Plan.

Duration of Director Compensation Plan

This Director Compensation Plan shall commence effective February 1, 1998 and shall continue until December 31, 2002 unless it is amended or repealed by the Board of Directors prior to that date. Participation in the Director Compensation Plan does not confer upon any person any right to continue as a director of the Company.

EXHIBIT 10.9

# TEJON RANCH CO.

## NON-EMPLOYEE DIRECTOR STOCK INCENTIVE PLAN

### Section 1. PURPOSE OF PLAN

The purpose of this Non-Employee Director Stock Incentive Plan (this "Plan") of Tejon Ranch Co., a Delaware corporation (the "Company"), is to enable the Company to attract, retain and motivate its non-employee directors by providing for or increasing the proprietary interests of such persons in the Company.

### Section 2. PERSONS ELIGIBLE UNDER PLAN

Any person who is a director of the Company and is not a full-time employee of the Company or any of its wholly-owned or majority owned subsidiaries (a "Grantee") shall be eligible to be considered for the grant of Awards (as hereinafter defined) under this Plan. For purposes of this Plan directors who work as employees part time or full time on a temporary basis (as determined by the Board of Directors) shall be eligible to be considered for the grant of Awards under this Plan.

### Section 3. AWARDS

(a) The Board of Directors of the Company (the "Board") or the Committee (as hereinafter defined) may authorize and direct one or more officers of the Company to enter into, on behalf of the Company, any type of arrangement with a Grantee that is not inconsistent with the provisions of this Plan and that, by its terms, involves or might involve the issuance of (i) shares of Common Stock, par value $.50 per share, of the Company (the "Common Shares") or (ii) a Derivative Security (as such term is defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as such Rule may be amended from time to time) with an exercise or conversion privilege at a price related to the Common Shares or with a value derived from the value of the Common Shares. The entering into of any such arrangement is referred to herein as the "grant" of an "Award."

(b) Awards are not restricted to any specified form or structure and may include, without limitation, sales or bonuses of stock, restricted stock, stock options, reload stock options, stock purchase warrants, other rights to acquire stock, securities convertible into or redeemable for stock, stock appreciation rights, limited stock appreciation rights, phantom stock, dividend equivalents, performance units or performance shares, and an Award may consist of one such security or benefit, or two or more of them in tandem or in the alternative.

(c) Common Shares may be issued pursuant to an Award for any lawful consideration as determined by the Board or the Committee, including, without limitation, services rendered by the recipient of such Award.

(d) The exercise period for awards granted in the form of options shall be not more than 120 months from the date the option is granted.

(e) Awards granted in the form of options shall provide that neither the option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution or any transfer to a guardian or other personal representative in connection with the disability of the Grantee.

(f) Awards granted in the form of options shall be exercisable at such times and in such amounts as are determined by the Board of Directors or the Committee.

(g) Subject to the other specific provisions of this Plan, the Board or the Committee, in its sole and absolute discretion, shall determine all of the terms and conditions of each Award granted under this Plan, which terms and conditions may include, among other things, a provision permitting the recipient of such Award, including any recipient who is a director or officer of the Company, to pay the purchase price of the Common Shares or other property issuable pursuant to such Award, or such recipient's tax withholding obligation with respect to such issuance, in whole or in part, by any one or more of the following:

(i) the delivery of previously owned shares of capital stock of the Company or other property,

(ii) a reduction in the amount of Common Shares or other property otherwise issuable pursuant to such Award,

(iii) the delivery of a promissory note, the terms and conditions of which shall be determined by the Board, and/or

(iv) cash in the form of a personal or cashier's or bank certified check.

Section 4. STOCK SUBJECT TO PLAN

(a) At any time, the aggregate number of Common Shares issued and issuable pursuant to all Awards granted under this Plan shall not exceed 200,000 ( the "Share Limitation"), subject to adjustment as provided in Section 7 hereof.

(b) For purposes of Section 4(a) hereof, the aggregate number of Common Shares issued and issuable pursuant to Awards granted under this Plan shall at any time be deemed to be equal to the sum of the following:

(i) the number of Common Shares which were issued prior to such time pursuant to Awards granted under this Plan excluding shares which were reacquired by the Company pursuant to provisions in the Awards with respect to which those shares were issued giving the Company the right to reacquire such shares upon the occurrence of certain events; plus

(ii) the number of Common Shares which are or may be issuable at or after such time pursuant to outstanding Awards granted under this Plan prior to such time.

Section 5. DURATION OF PLAN

No Awards shall be granted under this Plan after December 31, 2002. Although Common Shares may be issued after December 31, 2002 pursuant to Awards granted on or prior to such date, no Common Shares shall be issued under this Plan after December 31, 2012.

Section 6. ADMINISTRATION OF PLAN

(a) This Plan shall be administered by the Board or a committee thereof (the "Committee") consisting of two or more directors.

(b) Subject to the provisions of this Plan, the Board or the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation, the following:

(i) adopt, amend and rescind rules and regulations relating to this Plan;

(ii) determine which persons meet the requirements of Section 2 hereof for eligibility under this Plan and to which of such eligible persons, if any, Awards shall be granted hereunder;

(iii) grant Awards to eligible persons and determine the terms and conditions thereof, including the number of Common Shares issuable pursuant thereto;

(iv) determine whether, and the extent to which adjustments are required pursuant to Section 7 hereof; and

(v) interpret and construe this Plan and the terms and conditions of any Award granted hereunder.

Section 7. ADJUSTMENTS

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of shares or securities or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, reclassification, dividend (other than a dividend paid out of earned surplus), or other distribution, stock dividend, stock split, reverse stock split or the like, or in the event that substantially all of the assets of the Company are sold, then, unless the terms of such transaction or document evidencing an Award shall provide otherwise, the Committee may make appropriate and proportionate adjustments in (a) the number and type of shares or other securities of the Company that may be acquired pursuant to Awards theretofore granted under this Plan and (b) the maximum number and type of shares or other securities of the Company that may be issued pursuant to Awards thereafter granted under this Plan.

Section 8. AMENDMENT AND TERMINATION OF PLAN

The Board may amend or terminate this Plan at any time and in any manner.

Section 9. EFFECTIVE DATE OF PLAN

This Plan shall be effective as of January 26, 1998, the date upon which it was approved by the Board; provided, however, that no Common Shares may be issued under this Plan until it has been approved by a majority vote of the holders of the outstanding shares of Common Stock of the Company at a meeting duly held or by written consent in accordance with the laws of the State of Delaware. If an Award granted under this Plan takes the form of an option, it shall be rescinded if such stockholder approval is not obtained within 12 months after the date set forth above upon which this Plan was approved by the Board.

Section 10. STOCK EXCHANGE REQUIREMENTS; APPLICABLE LAWS

Notwithstanding anything to the contrary in this Plan, no Common Shares purchased upon exercise of an Award, and no certificate representing all or any part of such shares, shall be issued or delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to incur liability under any Federal, state or other securities law, or any requirement of any listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

EXHIBIT 10.9(1)

# TEJON RANCH CO.
# STOCK OPTION AGREEMENT
# PURSUANT TO THE
# NON-EMPLOYEE DIRECTOR STOCK INCENTIVE PLAN

This Stock Option Agreement (this "Agreement") is made and entered into as of the Date of Grant indicated below by and between Tejon Ranch Co., a Delaware corporation (the "Company"), and the person named below as Optionee.

WHEREAS, Optionee is a director of the Company eligible to receive awards under the Company's Non-Employee Director Stock Incentive Plan (the "Plan"); and

WHEREAS, pursuant to the Plan the Board of Directors of the Company or a committee thereof administering the Plan (the "Committee") approved the grant to Optionee of an option to purchase shares of the Common Stock, par value $.50 per share, of the Company (the "Common Stock"), on the terms and conditions to be set forth in a stock option agreement in the form of this Agreement;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants set forth herein, the Company and the Optionee hereby agree as follows::

1. Grant of Option; Certain Terms and Conditions. The Company hereby grants to Optionee, and Optionee hereby accepts, as of the Date of Grant indicated below, an option (the "Option") to purchase the number of shares of Common Stock indicated below (the "Option Shares") at the Exercise Price per share indicated below. Subject to the provisions of Section 2, the Option shall be exercisable in whole or from time to time in part commencing on December 15 of the year of the Date of Grant as to any whole number of shares not exceeding the number set forth below in the aggregate for all such exercises. The Option shall expire at 5:00 p.m., California time, on the Expiration Date indicated below (except as provided in Section 2) and shall be subject to all of the terms and conditions set forth in this Agreement.

Optionee:

Date of Grant:

Number of shares purchasable:

Exercise Price per share:

Expiration Date:

Period for Which Option is Granted:

2. Termination of Option. The Option shall terminate upon the first to occur of any of the following:

(i) a reorganization, merger or consolidation of the Company as a result of which the outstanding securities of the class then subject to the Option are exchanged for or converted into cash, property and/or securities not issued by the Company unless provision is made in writing in connection with any such transaction for the assumption of the Option or the substitution for the Option of a new option covering the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; or

(ii) the sale or transfer by the Company of all or substantially all of its property and assets in a single transaction or series of related transactions; or

(iii) the dissolution or liquidation of the Company.

The death or disability of Optionee, termination of Optionee's status as a director or the Optionee becoming an employee of the Company on terms that would make him or her ineligible to receive awards under the Plan will not result in the termination or otherwise affect the Option, except that, if Grantee ceases to be a director of the Company eligible to receive awards under the Plan at any time during the Period to Which the Option is Granted (as defined in Section 1), the Option shall terminate as to that number of shares that is proportional to the portion of such Period after which Grantee has ceased to be such a director (determined on the basis of the number of days elapsed).

3. Adjustments. In the event that the outstanding securities of the class then subject to the Option are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of securities, or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, reclassification, dividend (other than a cash dividend paid out of earned surplus) or other distribution, stock split, reverse stock split or the like, or in the event that substantially all of the property and assets of the Company are sold, then, unless the terms of such transaction otherwise provide, the Board of Directors or the Committee shall make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may thereafter be acquired upon the exercise of the Option; provided, however, that any such adjustments in the Option shall be made without changing the aggregate Exercise Price of the then unexercised portion of the Option.

4. Exercise. The Option shall be exercisable during Optionee's lifetime only by Optionee or by his or her guardian or legal representative, and after Optionee's death only by the person or entities entitled to do so under Optionee's last will and testament or applicable intestate law. The Option may only be exercised by the delivery to the Company of a written notice of such exercise pursuant to the notice procedures set forth in Section 6 hereof, which notice shall specify the number of Option Shares to be purchased (the "Purchased Shares") and the aggregate Exercise Price for such shares (the "Exercise Notice"), together with payment in full of such aggregate Exercise Price, which may be made in any of the following ways or in any combination thereof:

(a) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock power, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof (as defined below) on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock;

(b) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(c) by payment in cash by wire transfer or by a cashier's or bank certified check payable to the Company (unless the Company is willing to accept a personal check).

The "Fair Market Value" of a share of Common Stock or any other security on a day shall be equal to the last sale price, regular way, per share or unit of such other security on such day or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in each case as reported on the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the American Stock Exchange or, if the shares of Common Stock or such other security are not listed or admitted to trading on the American Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock or such other security are listed or admitted to trading or, if the shares of Common Stock or such other securities are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market as reported by the Nasdaq Stock Market or such other system then in use or, if on any such date the shares of Common Stock or such other security are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in shares of Common Stock or such other security selected by the Board of Directors or the Committee.

5. Payment of Withholding Taxes.

(a) If the Company is obligated to withhold an amount on account of any federal, state or local tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax, then Optionee shall, concurrently with such exercise, pay such amount (the "Withholding Liability") to the Company in cash by wire transfer or by a cashier's or certified bank check (unless the Company is willing to accept a personal check) payable to the Company; provided, however, that, in the discretion of the Company, the Optionee may, pursuant to an irrevocable election of Optionee (a "Withholding Election") made on or prior to the date of such exercise, instead pay all or any part of the Withholding Liability in the following manner:

(i) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock powers, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(ii) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock.

(b) The Board and the Committee shall have sole discretion to approve or disapprove any Withholding Election and may adopt such rules and regulations as are consistent with and necessary to implement the foregoing. The Board or the Committee may permit Optionee to make a Withholding Election to pay withholding taxes in excess of the minimum amount required by law, provided that the amount of withholding taxes so paid does not exceed the estimated total federal, state and local tax liability of Optionee attributable to such exercise.

6. Notices. Any notice given to the Company shall be addressed to the Company at P.O. Box 1000, Lebec, California 93243, Attention: President, or at such other address as the Company may hereinafter designate in writing to Optionee. Any notice given to Optionee shall be sent to the address set forth below Optionee's signature hereto, or at such other address as Optionee may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when delivered personally or five days after mailing by prepaid certified or registered mail return receipt requested.

7. Stock Exchange Requirements; Applicable Laws. Notwithstanding anything to the contrary in this Agreement, no shares of stock issuable upon exercise of the Option, and no certificate representing all or any part of such shares, shall be purchased, issued or delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to

incur liability under any federal, state or other securities law, or any requirement of any stock exchange listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

8. Restrictions on Transferability.

(a) Neither the Option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution.

(b) By accepting the Option, the Optionee for himself or herself and his or her transferees by will or the laws of descent and distribution, represents and agrees that all shares of Common Stock purchased upon exercise of the Option will be acquired for investment and not with a view to the distribution thereof unless they have been registered under the Securities Act of 1933, and will otherwise be acquired and disposed of and held in accordance with the restrictions of said Act and the rules and regulations of the Securities and Exchange Commission thereunder, that the Company may instruct its transfer agent to restrict further transfer of said shares in its records except upon receipt of satisfactory evidence that such restrictions have been satisfied, that upon each exercise of any portion of the Option, the certificates evidencing the purchased shares shall bear an appropriate legend on the face thereof evidencing such restrictions, and that the person entitled to exercise the same shall furnish evidence satisfactory to the Company (including a written and signed representation) to the effect that the shares are being acquired subject to such restrictions.

9. The Plan. The Option is granted pursuant to the Plan, as in effect on the Date of Grant, and is subject to all the terms and conditions of the Plan, as the same may be amended from time to time; provided, however, that no such amendment shall deprive Optionee, without his or her consent, of the Option or of any of Optionee's rights under this Agreement. The interpretation and construction by the Board of Directors of the Plan, this Agreement, the Option and such rules and regulations as may be adopted by the Board for the purpose of administering the Plan shall be final and binding upon Optionee. Until the Option shall expire, terminate or be exercised in full, the Company shall, upon written request therefor, send a copy of the Plan, in its then-current form, to Optionee or any other person or entity then entitled to exercise the Option.

10. Stockholder Rights. No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Option Shares until the Option shall have been duly exercised to purchase such Option Shares in accordance with the provisions of this Agreement and the Option Shares have been issued.

11. Rights as a Director. No provision of this Agreement or of the Option granted hereunder shall confer upon Optionee any right to continue as a director of the Company.

12. Entire Agreement. This Agreement sets forth the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings and commitments of any kind. This Agreement cannot be amended except in a writing signed by the parties hereto, and no right or obligation of any party hereto may be waived except in a writing singed by the party making the waiver.

13. Governing Law. This Agreement and the Option granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the Company and Optionee have duly executed this Agreement as of the Date of Grant.

| | |
|---|---|
| TEJON RANCH CO. | OPTIONEE |
| By: | |
| Name: | Signature |
| Title: | |

Street Address

City, State and Zip Code

Social Security Number

EXHIBIT 10.10

TEJON RANCH CO.

1998 STOCK INCENTIVE PLAN

Section 1. PURPOSE OF PLAN

The purpose of this 1998 Stock Incentive Plan ( this "Plan") of Tejon Ranch Co., a Delaware corporation (the "Company"), is to enable the Company and its subsidiaries to attract, retain and motivate their employees, consultants and advisers by providing for or increasing the proprietary interests of such persons in the Company.

Section 2. PERSONS ELIGIBLE UNDER PLAN

Any person, including any director of the Company, who is an employee, consultant or adviser of the Company or any of its subsidiaries (a "Grantee") shall be eligible to be considered for the grant of Awards (as hereinafter defined) hereunder; provided, however, that only those Grantees who are employees of the Company or any of its subsidiaries shall be eligible to be considered for the grant of Incentive Stock Options (as hereinafter defined) hereunder.

Section 3. AWARDS

(a) The Board of Directors of the Company (the "Board") or the Committee (as hereinafter defined), on behalf of the Company, is authorized under this Plan to enter into any type of arrangement with a Grantee that is not inconsistent with the provisions of this Plan and that, by its terms, involves or might involve the issuance of (i) shares of Common Stock, par value $.50 per share, of the Company (the "Common Shares") or (ii) a Derivative Security (as such term is defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as such Rule may be amended from time to time) with an exercise or conversion privilege at a price related to the Common Shares or with a value derived from the value of the Common Shares. The entering into of any such arrangement is referred to herein as the "grant" of an "Award."

(b) Awards are not restricted to any specified form or structure and may include, without limitation, sales or bonuses of stock, restricted stock, stock options, reload stock options, stock purchase warrants, other rights to acquire stock, securities convertible into or redeemable for stock, stock appreciation rights, limited stock appreciation rights, phantom stock, dividend equivalents, performance units or performance shares, and an Award may consist of one such security or benefit, or two or more of them in tandem or in the alternative.

(c) Common Shares may be issued pursuant to an Award for any lawful consideration as determined by the Board or Committee, including, without limitation, services rendered by the recipient of such Award.

(d) The exercise period for Awards granted in the form of options shall not be more than 120 months from the date the option is granted.

(e) Awards granted in the form of options shall provide that neither the option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution or any transfer to a guardian or other personal representative in connection with the disability of the Grantee.

(f) Awards granted in the form of options shall be exercisable at such times and in such amounts as are determined by the Board of Directors or the Committee, except that in no event shall any Award be granted to any one person in any one calendar year with respect to more than 400,000 Common Shares.

(g) Subject to the provisions of this Plan, the Board or the Committee, in its sole and absolute discretion, shall determine all of the terms and conditions of each Award granted under this Plan, which terms and conditions may include, among other things:

(i) a provision permitting the recipient of such Award, including any recipient who is a director or officer of the Company, to pay the purchase price of the Common Shares or other property issuable pursuant to such Award, or such recipient's tax withholding obligation with respect to such issuance, in whole or in part, by any one or more of the following:

(A) the delivery of previously owned shares of capital stock of the Company or other property,

(B) a reduction in the amount of Common Shares or other property otherwise issuable pursuant to such Award,

(C) the delivery of a promissory note, the terms and conditions of which shall be determined by the Board or the Committee, or

(D) cash in the form of a personal, cashier's or certified bank check;

(ii) a provision conditioning or accelerating the receipt of benefits pursuant to such Award, either automatically or in the discretion of the Committee, upon the occurrence of specified events, including, without limitation, a change of control of the Company, an acquisition of a specified percentage of the voting power of the Company, the dissolution or liquidation of the Company, a sale of substantially all of the property and assets of the Company or an event of the type described in Section 7 hereof; or

(iii) a provision required in order for such Award to qualify as an incentive stock option under Section 422 of the Internal Revenue Code (an "Incentive Stock Option").

Section 4. STOCK SUBJECT TO PLAN

(a) The aggregate number of Common Shares that may be issued and issuable pursuant to all Awards, including Incentive Stock Options granted under this Plan, shall not exceed 800,000 (subject to adjustment as provided in Section 7). Such maximum number does not include the number of Common Shares subject to the unexercised portion of any Awards granted in the form of options, including Incentive Stock Options, under this Plan that expires or is terminated. Such maximum number of Common Shares is subject to adjustment as provided in Section 7 hereof (and is referred to herein as the "Share Limitation").

(b) For purposes of Section 4(a) hereof, the aggregate number of Common Shares issued and issuable pursuant to Awards granted under this Plan shall at any time be deemed to be equal to the sum of the following:

(i) the number of Common Shares which were issued prior to such time pursuant to Awards granted under this Plan excluding (except for purposes of computing the Share Limitation applicable to Incentive Stock Options granted under this Plan) shares which were reacquired by the Company pursuant to provisions in the Awards with respect to which those shares were issued giving the Company the right to reacquire such shares upon the occurrence of certain events; plus

(ii) the number of Common Shares which are or may be issuable at or after such time pursuant to outstanding Awards granted under this Plan prior to such time.

Section 5. DURATION OF PLAN

No Awards shall be granted under this Plan after January 25, 2008. Although Common Shares may be issued after

January 25, 2008 pursuant to Awards granted prior to such date, no Common Shares shall be issued under this Plan after January 25, 2018.

Section 6. ADMINISTRATION OF PLAN

(a) This Plan shall be administered by the Board or a committee thereof (the "Committee") consisting of two or more directors.

(b) Subject to the provisions of this Plan, the Board or the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation, the following:

(i) adopt, amend and rescind rules and regulations relating to this Plan;

(ii) determine which persons meet the requirements of Section 2 hereof for eligibility under this Plan and to which of such eligible persons, if any, Awards shall be granted hereunder;

(iii) grant Awards to eligible persons and determine the terms and conditions thereof, including the number of Common Shares issuable pursuant thereto;

(iv) determine whether, and the extent to which adjustments are required pursuant to Section 7 hereof; and

(v) interpret and construe this Plan and the terms and conditions of any Award granted hereunder.

Section 7. ADJUSTMENTS

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of shares or securities, or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, dividend (other than a dividend paid out of earned surplus) or other distribution, stock dividend, stock split, reverse stock split or the like, or in the event that substantially all of the assets of the Company are sold, unless the terms of such transaction or document evidencing an Award shall provide otherwise, the Committee may make appropriate and proportionate adjustments in (a) the number and type of shares or other securities that may thereafter be acquired pursuant to Incentive Stock Options and other Awards theretofore granted under this Plan and (b) the maximum number and type of shares or other securities of the Company that may be issued pursuant to Incentive Stock Options and other Awards thereafter granted under this Plan.

Section 8. AMENDMENT AND TERMINATION OF PLAN

The Board may amend or terminate this Plan at any time and in any manner; provided, however, that (a) no such amendment or termination shall deprive the recipient of any Award theretofore granted under this Plan, without the consent of such recipient, of any of his or her rights thereunder or with respect thereto; and (b) no such amendment shall increase the aggregate number of Common Shares that may be issued pursuant to all Incentive Stock Options granted under this Plan (except pursuant to Section 7 hereof) or change, alter or modify the employees or class of employees eligible to receive Incentive Stock Options under this Plan without the approval of the stockholders of the Company, which approval must be obtained within 12 months after the adoption of such amendment by the Board and prior to the issuance of any increased number of shares or the issuance of shares to any person not eligible under the terms of this Plan before any such change.

Section 9. EFFECTIVE DATE OF PLAN

This Plan shall be effective as of January 26, 1998, the date upon which it was approved by the Board; provided, however, that no Common Shares may be issued under this Plan until it has been approved, directly or indirectly, by a majority vote of the holders of the outstanding Common Shares of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with the laws of the State of Delaware. If an Award granted under this Plan takes the form of an option, it shall be rescinded if such stockholder approval is not obtained within 12 months after the date set forth above upon which this Plan was approved by the Board.

Section 10.STOCK EXCHANGE REQUIREMENTS; APPLICABLE LAWS

Notwithstanding anything to the contrary in this Plan, no Common Shares purchased upon exercise of an Award, and no certificate representing all or any part of such shares, shall be issued or delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to incur liability under any Federal, state or other securities law, or any requirement of any listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

EXHIBIT 10.10(1)

TEJON RANCH CO.
STOCK OPTION AGREEMENT
Pursuant to the
1998 STOCK INCENTIVE PLAN

This Incentive Stock Option Agreement ("Agreement") is made and entered into as of the Date of Grant indicated below by and between Tejon Ranch Co., a Delaware corporation (the "Company"), and the person named below as Optionee.

WHEREAS, Optionee is an employee, consultant or advisor of the Company and/or one or more of its subsidiaries;

WHEREAS, pursuant to the Company's 1998 Stock Incentive Plan (the "Plan"), the Compensation Committee of the Board of Directors of the Company administering the Plan (the "Committee") approved the grant to Optionee of an option to purchase shares of the Common Stock, par value $.50 per share, of the Company (the "Common Stock"), on the terms and conditions set forth in a Stock Option Agreement entered into by Optionee and the Company as of the Date of Grant;

NOW, THEREFORE, in consideration of the foregoing recitals and the covenants set forth herein, the parties hereto agree as follows:

1. Grant of Option; Certain Terms and Conditions. The Company hereby grants to Optionee, and Optionee hereby accepts, as of the Date of Grant indicated below, an option (the "Option") to purchase the number of shares of Common Stock indicated below (the "Option Shares") at the Exercise Price per share indicated below. The Option shall become exercisable as to 20% of the Number of Shares Purchasable set forth below on _____________ of each of the five years commencing ___________, 2001, except as otherwise provided in Section 3. The Option shall expire at 5:00 p.m., Los Angeles, California time, on the Expiration Date indicated below and shall be subject to all of the terms and conditions set forth in this Agreement.

Optionee:

Date of Grant:

Number of Shares Purchasable:

Exercise Price per share:

Expiration Date:

2. Incentive Stock Option; Internal Revenue Code Requirements. The Option is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code") except to the extent that the aggregate Fair Market Value (determined as of the Date of Grant) of the shares of Common Stock with respect to which the Option is exercisable for the first time by Optionee during any calendar year (under the Plan and all other stock option plans of the Company and its subsidiaries) exceeds $100,000. Such excess shares are intended to be treated as shares issued pursuant to an Option that is not an incentive stock option described in Section 422 of the Code, in accordance with Section 422(d) of the Code. The number of such excess shares as to which the option is not intended to be treated as an incentive option is ______.

The "Fair Market Value" of a share of Common Stock or other security on any day shall be equal to the last sale price, regular way, per share or unit of such other security on such day or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the American Stock Exchange or, if the shares of Common Stock or such other security are not listed or admitted to trading on the American Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock or such other security are listed or admitted to trading or, if the shares of Common Stock or such other securities are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market as reported by Nasdaq Stock Market or such other system then in use or, if on any such date the shares of Common Stock or such other security are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in shares of Common Stock or such other security selected by the Board of Directors.

3. Acceleration and Termination of Option.

(a) Termination of Employment.

(i) Definition of Termination. In the event that Optionee shall cease to be an employee of the Company or any of its subsidiaries voluntarily or involuntarily or for any reason whatever, such event is referred to in this Agreement as a "Termination" of Optionee's "Employment."

(ii) Normal Termination. If Optionee's Employment is Terminated for any reason other than those specifically enumerated in Section 3(a)(iii), (b) or (d), then the Option shall terminate three (3) months from the date of such Termination of Employment but in no event later than the Expiration Date. During such period, the Option shall be exercisable only to the extent it was exercisable on the date of Termination of Employment.

(iii) Death or Permanent Disability. In the event of a Termination of Optionee's Employment by reason of the death or Permanent Disability (as hereinafter defined) of Optionee, the Option shall terminate on the first anniversary of the date of such Termination of Employment or the Expiration Date, whichever is earlier.

"Permanent Disability" shall mean the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The Optionee shall not be deemed to have a Permanent Disability unless proof of the existence thereof shall have been furnished to the Committee in such form and manner, and at such times, as the Committee may require. Any determination by the Committee that Optionee does or does not have a Permanent Disability shall be final and binding upon the Company and Optionee.

(b) Death or Permanent Disability Following Termination of Employment. Notwithstanding anything to the contrary in this Agreement, if Optionee shall die or suffer a Permanent Disability at any time after the Termination of his or her Employment and prior to the Expiration Date, then to the extent that the Option was exercisable on the date of such death or Permanent Disability the Option shall terminate on the earlier of the Expiration Date or the first anniversary of the date of such death.

(c) Acceleration of Option Upon a Change of Control. The Option shall become fully exercisable with respect to all Option Shares in the event of a Change of Control. "Change of Control" shall mean the first to occur of the following events:

(i) a merger or consolidation of the Company if and only if as a result of the transaction persons other than the shareholders immediately prior to such transaction shall own 80% or more of the voting securities of the Company or its successor after the transaction;

(ii) the sale or transfer by the Company of all or substantially all of its property and assets in a single transaction or series of related transactions; or

(iii) the dissolution or liquidation of the Company.

Nothing in this Agreement shall limit or otherwise affect any other contractual right now existing or hereafter entered into relating to the acceleration of the dates upon which the Option may be exercised.

(d) Other Events Causing Termination. Notwithstanding anything else to the contrary in this Agreement, the Option shall terminate in the event of the occurrence of an event referred to in clause (iii) of paragraph (c) above or a merger or consolidation referred to in clause (i) or sale or transfer of assets referred to in clause (ii) of said paragraph (c) above (a "Terminating Event") unless the terms of such transaction constituting the Terminating Event otherwise provide. Such termination shall occur on the 30th day following any such Terminating Event (or such later date as the Board of Directors or the Committee shall determine) unless the Board of Directors or the Committee (i) sets an earlier date which is at least ten days prior to the occurrence of the Terminating Event, (ii) notifies the Optionee in writing at least ten days before the occurrence of the Terminating Event of the setting of such date and (iii) accelerates the exercisability of the Option to the extent it would otherwise be exercisable for any part of the thirty day period after such event pursuant to Section 1 above so that, to such extent, the Option could be exercised for a period of at least ten days prior to the occurrence of the Terminating Event. In such event where the requirements of clauses (i), (ii) and (iii) of the preceding sentence are met, the Option shall expire immediately upon the occurrence of the Terminating Event.

(e) Discretionary Acceleration. The Committee, in its sole discretion, may accelerate the exercisability of the Option for any reason, including without limitation in the event of death or disability of Optionee.

4. Adjustments. In the event that the outstanding securities of the class then subject to the Option are increased, decreased or exchanged for or converted into cash, property and/or a different number or kind of securities, or cash, property and/or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, reclassification, dividend (other than a cash dividend paid out of earned surplus) or other distribution, stock dividend stock split, reverse stock split or the like, or in the event that substantially all of the property and assets of the Company are sold, then, the Committee shall make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may thereafter be acquired upon the exercise of the Option; provided, however, that any such adjustments in the Option shall be made without changing the aggregate Exercise Price of the then unexercised portion of the Option.

5. Exercise. The Option shall be exercisable during Optionee's lifetime only by Optionee or by his or her guardian or legal representative, and after Optionee's death only by the person or entity entitled to do so under Optionee's last will and testament or applicable intestate law. The Option may only be exercised by the delivery to the Company of a written notice of such exercise pursuant to the notice procedures set forth in Section 7 hereof, which notice shall specify the number of Option Shares to be purchased (the "Purchased Shares") and the aggregate Exercise Price for such shares (the "Exercise Notice"), together with payment in full of such aggregate Exercise Price in one or more of the following ways at the option of the Grantee:

(a) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock power, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(b) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair

Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(c) delivery of a cashier's or certified bank check or, if the Company so elects, a personal check, in each case payable to the Company.

6. Payment of Withholding Taxes.

(a) If the Company is obligated to withhold an amount on account of any federal, state or local tax imposed as a result of the exercise of the Option, including, without limitation, any federal, state or other income tax, or any F.I.C.A., state disability insurance tax or other employment tax, then Optionee shall, concurrently with such exercise, pay such amount (the "Withholding Liability") to the Company in cash or by a cashier's or certified bank check or, if the Company so elects, a personal check, in each case payable to the Company; provided, however, that, in the discretion of the Board or the Committee, the Optionee may, pursuant to an irrevocable election of Optionee (a "Withholding Election") made on or prior to the date of such exercise, instead pay all or any part of the Withholding Liability in the following manner:

(i) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock powers, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

(ii) by reducing the number of shares of Common Stock to be issued and delivered to Optionee upon such exercise (such reduction to be valued on the basis of the aggregate Fair Market Value (determined on the date of such exercise) of the additional shares of Common Stock that would otherwise have been issued and delivered upon such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock.

(b) The Board or the Committee shall have sole discretion to approve or disapprove any Withholding Election and may adopt such rules and regulations as are consistent with and necessary to implement the foregoing. The Board or the Committee may permit Optionee to make a Withholding Election to pay withholding taxes in excess of the minimum amount required by law, provided that the amount of withholding taxes so paid does not exceed the estimated total federal, state and local tax liability of Optionee attributable to such exercise.

7. Notices. Any notice given to the Company shall be addressed to the Company at P.O. Box 1000, Lebec, California 93243, Attention: General Counsel, or at such other address as the Company may hereinafter designate in writing to Optionee. Any notice given to Optionee shall be sent to the address set forth below Optionee's signature hereto, or at such other address as Optionee may hereafter designate in writing to the Company. Any such notice shall be deemed duly given when delivered personally or five days after mailing by prepaid certified or registered mail return receipt requested.

8. Stock Exchange Requirements; Applicable Laws. Notwithstanding anything to the contrary in this Agreement, no shares of stock issuable upon exercise of the Option, and no certificate representing all or any part of such shares, shall be purchased, issued or delivered if (a) such shares have not been admitted to listing upon official notice of issuance on each stock exchange upon which shares of that class are then listed or (b) in the opinion of counsel to the Company, such issuance or delivery would cause the Company to be in violation of or to incur liability under any federal, state or other securities law, or any requirement of any stock exchange listing agreement to which the Company is a party, or any other requirement of law or of any administrative or regulatory body having jurisdiction over the Company.

9. Restrictions on Transferability.

(a) Neither the Option nor any interest therein may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner other than by will or the laws of descent and distribution.

(b) By accepting the Option, the Optionee for himself or herself and his or her transferees by will or the laws of descent and distribution, represent and agree that all shares of Common Stock purchased upon exercise of the Option will be acquired for investment and not with a view to the distribution thereof unless they have been registered under the Securities Act of 1933, and will otherwise be acquired, held and disposed of and held in accordance with the restrictions of said Act and the rules and regulations of the Securities and Exchange Commission thereunder, that the Company may instruct its transfer agent to restrict further transfer of said shares in its records except upon receipt of satisfactory evidence that such restrictions have been satisfied, that upon each exercise of any portion of the Option, the certificates evidencing the purchased shares shall bear an appropriate legend on the face thereof evidencing such restrictions, and that the person entitled to exercise the same shall furnish evidence satisfactory to the Company (including a written and signed representation) to the effect that the shares are being acquired subject to such restrictions.

10. The Plan. The Option is granted pursuant to the Plan, as in effect on the Date of Grant, and is subject to all the terms and conditions of the Plan, as the same may be amended from time to time; provided, however, that no such amendment shall deprive Optionee, without his or her consent, of the Option or of any of Optionee's rights under this Agreement. The interpretation and construction by the Board or the Committee of the Plan, this Agreement, the Option and such rules and regulations as may be adopted by the Committee for the purpose of administering the Plan shall be final and binding upon Optionee. Until the Option shall expire, terminate or be exercised in full, the Company shall, upon written request therefor, send a copy of the Plan, in its then-current form, to Optionee or any other person or entity then entitled to exercise the Option.

11. Stockholder Rights. No person or entity shall be entitled to vote, receive dividends or be deemed for any purpose the holder of any Option Shares until the Option shall have been duly exercised to purchase such Option Shares in accordance with the provisions of this Agreement and the Option Shares have been issued.

12. Employment Rights. No provision of this Agreement or of the Option granted hereunder shall (a) confer upon Optionee any right to continue in the employ of the Company or any of its subsidiaries, (b) affect the right of the Company and each of its subsidiaries to terminate the employment of Optionee, with or without cause, or (c) confer upon Optionee any right to participate in any employee welfare or benefit plan or other program of the Company or any of its subsidiaries other than the 1992 Plan. The Optionee hereby acknowledges and agrees that the Company and each of its subsidiaries may terminate the employment of Optionee at any time and for any reason, or for no reason, unless Optionee and the Company or such subsidiary are parties to a written employment agreement that expressly provides otherwise.

13. Governing Law. This Agreement and the Option granted hereunder shall be governed by and construed and enforced in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the Company and Optionee have duly executed this Agreement as of the Date of Grant.

TEJON RANCH CO. OPTIONEE

By:

Name: Signature
Title:

Street Address

City, State and Zip Code

Social Security Number

EXHIBIT 10.11

April 10, 1996

Mr. Robert Stine
PO Box 2261
Ranch Santa Fe, CA 92067

Dear Bob:

I am writing to confirm the terms of the agreement between you and Tejon Ranch Co. (the "Company") as to the terms of your employment. Those terms are as follows:

1 Position. You will be employed as the President and Chief Executive Officer of the Company, subject to the direction and control of and reporting to the Board of Directors or a committee thereof. You will also be elected as a member of the Board of Directors. You agree to devote your full business time and energies to the business and affairs of the Company, to use your best efforts, skill and abilities to promote the Company's interests and to perform your duties in accordance with policies and practices established from time to time by the Board of Directors. Your duties may include serving as an officer and/or director of subsidiaries or other affiliates of the Company. While employed by the Company, you agree that you will not render services to others or engage in any other activities that would interfere with or prevent your fulfilling your obligations to the Company. The Company agrees that you can continue to serve on the Board of Directors of Rancho Santa Fe National Bank and that you may participate in civic and charitable activities in the Bakersfield area that do not interfere with or prevent you from performing your obligations to the Company. You agree that you will not serve on any other boards of directors without the prior approval of the Company's Board of Directors, which will not be unreasonably withheld.

2. Salary. Your base salary will be at the annual rate of $275,000 per annum but will be pro rated for the calendar year 1996 based upon a start date of May 1, 1996. This means that the annual compensation for calendar year 1996 will in fact be $183,333 if you start on that date. Your salary will be payable on the same date as salaries to other executives of the Company are paid. The amount of your salary will be subject to review from time to time by the Board of Directors or a committee thereof (expected to be the Compensation Committee), but not before November 1997.

3. Incentive Compensation. In addition to your salary, you will be paid a bonus within 45 days after the end of each full fiscal year of the Company that you are employed pursuant to this Agreement in an amount to be determined by the Board of Directors or a committee thereof ranging between 0 and 50% of your salary for the relevant year, except that the bonus for 1996 will be guaranteed at 20% of your base salary, i.e., $36,667 for the period from May 1, 1996 to December 31, 1996. For 1997 and thereafter, the bonus will be based upon performance criteria determined by the Board of Directors or a committee thereof.

4. Equity Participation. At or about the date you begin working, the Company will grant you an option to purchase 100,000 shares of its Common Stock under its 1992 Stock Option Plan at an exercise price equal to the fair market value of the shares on the date of grant determined in accordance with the Plan. The option will have a term of 10 years and will vest (i.e., become exercisable) as to the following number of shares on the anniversaries of the date you begin work as set forth below:

| | | |
|---|---|---|
| First Anniversary | - | 10,000 shares |
| Second Anniversary | - | an additional 15,000 shares |
| Third Anniversary | - | an additional 15,000 shares |
| Fourth Anniversary | - | an additional 30,000 shares |
| Fifth Anniversary | - | an additional 30,000 shares |

Except as provided in Section 8 below, if your employment terminates you will have the right to exercise the option to the extent that it was exercisable on the date of termination at any time within three months after the date of termination. In the case of termination of employment as a result of death or disability, the three-month period shall be extended to one year.

The option is intended to constitute an "incentive stock option" under Section 422 of the Internal Revenue Code, except to the extent that the aggregate fair market value of shares with respect to which incentive stock options are exercisable for the first time by you during any calendar year under all plans of the Company and its parents and subsidiaries exceeds $100,000, all as determined pursuant to Section 422(d) of the Internal Revenue Code.

In order to permit a so called "cashless exercise" of your option, the Company will cooperate with you to permit you to exercise the option (to the extent it is then exercisable), immediately sell the shares and apply the proceeds of sale to the exercise price but only to the extent the Company can do so without violating any applicable provision of law and only if the shares purchased are at the time registered under the Securities Act of 1933 and can be sold by you under Rule 144 of the Securities and Exchange Commission or any successor provision.

5. Relocation Benefits. The Company will reimburse you for the sales commission and for standard escrow fees, title insurance premiums and other closing costs typically paid by sellers with respect to the sale of your present home. In addition, the Company will pay the reasonable costs of moving your furniture and personal effects to Bakersfield The "other closing costs" referred to above shall include such items as recording costs and costs of obtaining lenders' beneficiary statements but shall not include any cost of any improvements to your property (or the payment of cash in lieu thereof) or any amounts payable with respect to representations, warranties and other similar obligations incurred in connection with the sale or any prepayment penalties. In addition, the Company will make available to you the use of Residence No. 7 on the Ranch until your residence in Rancho Santa Fe is sold and you have arranged for permanent housing in Bakersfield, although the period for your use of this housing shall not exceed eight months.

6. Perquisites. The Company will provide you with a 4-wheel drive vehicle costing approximately $35,000 and will reimburse you for your insurance, normal maintenance and repair and fuel expenses while you are employed. In addition, the Company will provide you with a membership at the Stockdale Country Club, and will pay the dues with respect to that membership while you are employed as the President and Chief Executive Officer of the Company. You will also participate in the health insurance, life insurance and retirement programs made available from time to time by the Company to other executive officers, and you will be entitled to the same vacation benefits made available from time to time to other executive officers of the Company. The Company will reimburse you for all reasonable out-of-pocket business expenses incurred in performing the services contemplated by this agreement in accordance with then prevailing Company policies, provided that reasonable documentation of such expenses is provided by you.

7. Death and Disability. If you become disabled and are unable to perform your duties, the Company will continue to pay your salary and provide the perquisites referred to in Section 6 for the period of such disability up to a maximum of 90 days, and the Company will have the right to terminate this agreement effective upon the expiration of said 90-day period. Thereafter you will be entitled to receive benefits under any then-existing disability insurance program of the Company. "Disability" means any physical or mental condition which renders you unable to perform the essential functions of your position, even with reasonable accommodation. In the event of your death, this Agreement shall automatically terminate.

8. Severance Benefits. In the event of termination of your employment by the Company without cause at any time during the first two years of your employment, the Company will continue to pay you, as a severance benefit, the amount of your salary then in effect (less appropriate withholding amounts) for a period of two years after such termination. Such payments will

be made on the normal salary payment days of the Company. In the event of termination by the Company without cause after the first two years, the Company will continue to pay your salary as provided above for a period of one year after such termination. In addition, if your employment is terminated by the Company without cause, the option referred to in Section 4 will fully vest (i.e., become exercisable as to all of the shares) but remain subject to the requirement referred to in Section 4 that it be exercised within three months of such termination.

For purposes of this Section 8, termination for cause shall include termination for personal dishonesty; willful misconduct; breach of fiduciary duty involving self-dealing or personal profit; intentional failure to perform duties or abide by Company policies, in each case to the extent such duties or policies have been communicated to you in writing or their existence is otherwise known to you, and you have not cured such failure within a reasonable time after written notice of such failure is given to you: conviction, entry of a plea of guilty or nolo contendere in connection with any alleged violation, or any actual violation, of any law, rule, regulation (other than traffic violations or similar offenses) or any cease-and-desist or other court order; involvement in any legal proceeding which, in the opinion of legal counsel to the Company, would be required to be disclosed pursuant to Item 401(f) of Regulation S-K of the Securities and Exchange Commission (a copy of which is attached to this agreement), other than proceedings under federal bankruptcy laws or state insolvency laws involving entities in which you have less than a 50% interest; any material breach of this agreement; non-prescription use of any controlled substance or the use of alcohol or any other non-controlled substance which the Board reasonably determines renders you unfit to serve in your capacity as an officer of the Company; and any act or omission which has a material adverse effect on the public image, reputation or integrity of the Company.

If you voluntarily resign or your employment is terminated by the Company for cause or your employment terminates as a result of your death or disability, you will not be entitled to any severance benefits pursuant to the first paragraph of this Section 8 except as provided in Section 7 with respect to disability pay and disability insurance and except in the case of death for any life insurance benefits. Also, in such event the exercise dates of your option will not be accelerated, although your option will still be exercisable during the three month or one year period specified in Section 4 (whichever is applicable) with respect to the number of shares as to which it had become exercisable on the date of termination (determined without any acceleration of the exercise dates) In the event that a voluntary resignation by you is caused by a reduction in your duties and responsibilities below those appropriate for a senior executive of the Company or any other material change in the circumstances of your employment made by the Company for the purpose and with the intention of causing you to resign, you will be treated as having been terminated by the Company.

9. Employment at Will. The employment relationship contemplated by this agreement is an at-will relationship under which you and the Company each has the right at any time to terminate the relationship with or without cause and without notice, subject only to the severance benefits set forth in Section 8 above in the event the Company terminates the relationship without cause. Nothing in this agreement is intended to create a term of employment for a period of years or otherwise.

10. Nondisclosure. You agree that, for so long as you remain in the employ of the Company and thereafter, you will not disclose to any person or entity or otherwise use or exploit any proprietary or confidential information of the Company, including without limitation trade secrets, processes, proposals, reports, methods, computer software or programming or budgets or other financial information regarding the Company, its business, properties, customers or affairs obtained by you while you are employed by the Company, except to the extent required by you to perform your duties pursuant to this agreement. Information will not be deemed to be confidential for purposes of this agreement if it is or becomes generally available to the public other than as a result of a disclosure by you. You will have the right to use any such confidential information to the extent necessary to assert any right or defend against any claim arising under this

agreement or pertaining to confidential information or its use and to the extent necessary to comply within the applicable provision of law. All files, records, documents, computer recorded information, specifications and other similar items relating to the business of the Company, whether prepared by you or otherwise coming into your possession, shall remain the exclusive property of the Company and shall not be removed from the premises of the Company except when (and only for the period) necessary to carry out your duties. If removed, all such materials shall be immediately returned to the Company upon any terminatin of your employment, and no copies thereof shall be kept by you, except that you shall be entitled to retain documents reasonably related to your rights as an optionholder, stockholder and former employee of the Company. You acknowledge and agree that the remedy for any breach of the provisions of this Section 10 may be inadequate in that the Company may, in addition to all other remedies that may be available to it at law, seek injunctive relief prohibiting any such breach.

11. Noninterference with Business. During the period of your employment and for any two-year period thereafter (regardless of the reason for termination of employment) you agree that you will not participate with or advise in any capacity any person or entity in any negotiation between such person or entity and the Company or any affiliate of the Company. In addition, during such period you agree that you will not, directly or indirectly, solicit or induce (or assist in or encourage the solicitation of) any employee of the Company or its affiliated entities to leave the employ of the Company for purposes of accepting employment with any other person or entity. For purposes of this agreement "affiliate" means the corporation or other entity controlled by the Company, directly or indirectly, through stock ownership or any other means.

12. Assignment. This agreement is personal to you and is not assignable by you under any circumstances. Likewise, the Company will not have the right to assign this agreement to any other person or entity except for any corporation or entity into which the Company may be merged or consolidated or any person or entity which may acquire all or a substantial portion of the assets of the Company.

13. Attorneys Fees. In the event of any litigation brought to enforce the provisions of this agreement, the prevailing party will have the right to recover his or its reasonable attorneys' fees incurred in connection therewith.

14. Entire Agreement. This agreement sets forth the entire understanding of you and the Company with respect to the subject matter hereof and supersedes all prior agreements, memoranda, discussions and understandings of any kind. This agreement cannot be amended except in a writing signed by you and the Company, and no course of dealing contrary to its terms shall constitute an amendment. No right or obligation hereunder can be waived except in a writing signed by the party making the waiver.

15. Partial Invalidity. If any provision of this agreement is invalid or unenforceable in any jurisdiction that provision shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any way affecting the remaining provisions of this agreement.

16. Governing Law. This agreement shall be construed and enforced in accordance with the substantive law of the State of California without regard to provisions relating to choice of law or conflict of laws.

If this letter correctly sets forth the terms of our agreement with respect to your employment, please execute this letter and the enclosed copy in the place indicated and return the copy to me, and thereupon this letter shall become a binding and enforceable agreement between you and the Company.

Sincerely,

Donald Haskell, Chairman

AGREED:

Robert A. Stine

Dated:  April 10, 1996

EXHIBIT 22

(22) Subsidiaries of Registrant

A. Registrant: Tejon Ranch Co.

B. Subsidiaries of Registrant

  a. Tejon Ranchcorp (100% of whose Common Stock is owned by Registrant);
  b. Laval Farms Corporation, formerly Tejon Agricultural Corporation (100% of whose Common Stock is owned by Tejon Ranchcorp);
  c. Tejon Farming Company (100% of whose Common Stock is owned by Tejon Ranchcorp);
  d. Tejon Marketing Company; (100% of whose Common Stock is owned by Tejon Ranchcorp);
  e. Tejon Ranch Feedlot, In. (100% of whose Common Stock is owned by Tejon Ranchcorp);
  f. White Wolf Corporation (100% of whose Common Stock is owned by Tejon Ranchcorp);
  g. Tejon Development Company; (100% of whose Common Stock is owned by Tejon Ranchcorp).

C. Each of the aforesaid subsidiaries is included in Registrant's Consolidated Financial Statement set forth in answer to Item 14(a)(1) hereof.

D. Each of the aforesaid subsidiaries was organized and incorporated under the laws of the State of California.

E. Each of the aforesaid subsidiaries does business under its name, as shown. Tejon Ranchcorp also does business under the names Tejon Ranch, Fireside Oak Co. and Grapevine Center.

In addition to the foregoing, Laval Farms Limited Partnership, formerly Tejon Agricultural Partners, a California limited partnership, may be deemed to be a "subsidiary" of Registrant within the meaning of the Rules under the Securities Exchange Act of 1934 by reason of the fact that the sole general partner of said partnership is Laval Farms Corporation, a wholly-owned subsidiary of Registrant.

EXHIBIT 23

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-33491) pertaining to the Tejon Ranch Company 1992 Stock Option Plan of our report dated March 27, 1998, with respect to the consolidated financial statements and schedules of Tejon Ranch Company included in the Form 10-K for the year ended December 31, 1997.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 27, 1998