UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

Or

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

For the transition period from to

Commission File Number: 1-7183

TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

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

P.O. Box 1000, Tejon Ranch, California 93243
(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ☐

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

Large accelerated filer ☐	Accelerated filer x
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of the Company's outstanding shares of Common Stock on October 31, 2018 was 25,967,829.

TEJON RANCH CO. AND SUBSIDIARIES
TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Real estate - commercial/industrial	$ 2,445	$ 2,432	$ 6,788	$ 6,704
Mineral resources	1,355	1,142	11,986	4,662
Farming	10,836	7,466	12,573	9,398
Ranch operations	796	868	2,624	2,809
Total revenues	15,432	11,908	33,971	23,573
Costs and Expenses:				
Real estate - commercial/industrial	1,678	1,315	4,385	4,960
Real estate - resort/residential	471	271	1,319	1,401
Mineral resources	574	528	5,400	2,381
Farming	6,541	7,921	9,570	10,502
Ranch operations	1,353	1,153	4,090	4,107
Corporate expenses	2,100	2,223	7,296	7,342
Total expenses	12,717	13,411	32,060	30,693
Operating income (loss)	2,715	(1,503)	1,911	(7,120)
Other Income:				
Investment income	351	91	980	289
Other loss, net	(16)	(2)	(40)	(291)
Total other income (loss)	335	89	940	(2)
Income (loss) from operations before equity in earnings of unconsolidated joint ventures	3,050	(1,414)	2,851	(7,122)
Equity in earnings of unconsolidated joint ventures, net	1,592	1,724	2,411	3,512
Income (loss) before income tax expense	4,642	310	5,262	(3,610)
Income tax expense (benefit)	1,155	336	1,333	(1,468)
Net income (loss)	3,487	(26)	3,929	(2,142)
Net loss attributable to non-controlling interest	(1)	(4)	(19)	(42)
Net income (loss) attributable to common stockholders	$ 3,488	$ (22)	$ 3,948	$ (2,100)
Net income (loss) per share attributable to common stockholders, basic	$ 0.13	$ —	$ 0.15	$ (0.10)
Net income (loss) per share attributable to common stockholders, diluted	$ 0.13	$ —	$ 0.15	$ (0.10)

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ 3,487	$ (26)	$ 3,929	$ (2,142)
Other comprehensive income (loss):				
Unrealized (loss) gain on available-for-sale securities	47	18	(323)	73
Benefit plan adjustments	—	—	—	1,139
SERP liability adjustments	—	—	—	487
Unrealized gain on interest rate swap	449	95	2,305	217
Other comprehensive income before taxes	496	113	1,982	1,916
Provision for income taxes related to other comprehensive income items	(104)	(40)	(416)	(771)
Other comprehensive income	392	73	1,566	1,145
Comprehensive income (loss)	3,879	47	5,495	(997)
Comprehensive loss attributable to non-controlling interests	(1)	(4)	(19)	(42)
Comprehensive income (loss) attributable to common stockholders	$ 3,880	$ 51	$ 5,514	$ (955)

See accompanying notes.

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

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,174	$ 20,107
Marketable securities - available-for-sale	69,381	70,868
Accounts receivable	10,897	7,608
Inventories	5,598	2,469
Prepaid expenses and other current assets	3,915	2,849
Total current assets	99,965	103,901
Real estate and improvements - held for lease, net	18,841	19,115
Real estate development (includes $98,203 at September 30, 2018 and $94,271 at December 31, 2017, attributable to Centennial Founders, LLC, Note 15)	280,355	267,336
Property and equipment, net	45,712	45,332
Investments in unconsolidated joint ventures	27,660	30,031
Net investment in water assets	48,717	47,130
Deferred tax assets	1,145	1,562
Other assets	3,616	3,792
TOTAL ASSETS	$ 526,011	$ 518,199
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$ 2,976	$ 3,545
Accrued liabilities and other	4,419	1,810
Deferred income	1,855	1,118
Current maturities of long-term debt	4,081	4,004
Total current liabilities	13,331	10,477
Long-term debt, less current portion	62,737	65,816
Long-term deferred gains	3,405	3,405
Other liabilities	12,048	11,691
Total liabilities	91,521	91,389
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, $.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 25,960,262 at September 30, 2018 and 25,894,773 at December 31, 2017	12,980	12,947
Additional paid-in capital	322,319	320,167
Accumulated other comprehensive loss	(3,698)	(5,264)
Retained earnings	74,340	70,392
Total Tejon Ranch Co. Stockholders' Equity	405,941	398,242
Non-controlling interest	28,549	28,568
Total equity	434,490	426,810
TOTAL LIABILITIES AND EQUITY	$ 526,011	$ 518,199

See accompanying notes.

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

	Nine Months Ended September 30,	
	2018	2017
Operating Activities		
Net income (loss)	$ 3,929	$ (2,142)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,284	3,422
Amortization of premium of marketable securities	57	236
Equity in earnings of unconsolidated joint ventures	(2,411)	(3,512)
Non-cash retirement plan expense	123	404
Gain on sale of property plant and equipment	94	93
Deferred income taxes	1	46
Stock compensation expense	2,601	2,571
Excess tax benefit from stock-based compensation	18	143
Distribution of earnings from unconsolidated joint ventures	4,800	7,200
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(6,784)	(1,337)
Current liabilities	3,117	778
Net cash provided by operating activities	8,829	7,902
Investing Activities		
Maturities and sales of marketable securities	24,558	5,274
Funds invested in marketable securities	(23,451)	(255)
Real estate and equipment expenditures	(16,183)	(15,579)
Communities Facilities District and other reimbursements	1,385	—
Investment in unconsolidated joint ventures	—	(252)
Distribution of equity from unconsolidated joint ventures	1,835	3,018
Investments in long-term water assets	(2,659)	(4,567)
Other	—	—
Net cash used in investing activities	(14,515)	(12,361)
Financing Activities		
Borrowings of short-term debt	—	13,300
Repayments of short-term debt	—	(4,000)
Repayments of long-term debt	(3,018)	(2,901)
Rights offering costs	(166)	—
Taxes on vested stock grants	(1,063)	(540)
Net cash (used in) provided by financing activities	(4,247)	5,859
(Decrease) increase in cash and cash equivalents	(9,933)	1,400
Cash and cash equivalents at beginning of period	20,107	1,258
Cash and cash equivalents at end of period	$ 10,174	$ 2,658
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	$ 347	$ 792
Non cash capital contribution to unconsolidated joint venture	$ —	$ 1,339

See accompanying notes.

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

	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
Balance, December 31, 2017	25,894,773	$ 12,947	$ 320,167	$ (5,264)	$ 70,392	$ 398,242	$ 28,568	$ 426,810
Net income (loss)	—	—	—	—	3,948	3,948	(19)	3,929
Other comprehensive income	—	—	—	1,566	—	1,566	—	1,566
Rights offering costs	—	—	(166)	—	—	(166)	—	(166)
Restricted stock issuance	110,907	56	(55)	—	—	1	—	1
Stock compensation	—	—	3,413	—	—	3,413	—	3,413
Shares withheld for taxes and tax benefit of vested shares	(45,418)	(23)	(1,040)	—	—	(1,063)	—	(1,063)
Balance September 30, 2018	25,960,262	$ 12,980	$ 322,319	$ (3,698)	$ 74,340	$ 405,941	$ 28,549	$ 434,490

See accompanying notes.

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

1. BASIS OF PRESENTATION

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

The periods ending September 30, 2018 and 2017 include the consolidation of Centennial Founders, LLC's statement of operations within the resort/residential real estate development segment and statements of cash flows. The Company's September 30, 2018 and December 31, 2017 balance sheets and statements of changes in equity and noncontrolling interests are presented on a consolidated basis, including the consolidation of Centennial Founders, LLC.

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

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

For further information and a summary of significant accounting policies, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Recent Accounting Pronouncements

Lease Accounting

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-02, "Leases." From the lessee's perspective, the new standard establishes a right-of-use, or ROU, model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor doesn't convey risks and rewards or control, an operating lease results.

The ASU is effective no later than January 1, 2019, with early adoption permitted. The ASU requires the identification of lease and non-lease components of a lease agreement. This ASU will govern the recognition of revenue for lease components. Revenue related to non-lease components under our lease agreements will be subject to the new revenue recognition standard effective upon adoption of the new

lease accounting standard. The Securities and Exchange Commission, or Commission, addressed a similar issue and concluded that registrants should discuss the potential effects of adoption of recently issued accounting standards in registration statements and reports filed with the Commission. The Commission staff believes that this disclosure guidance applies to all accounting standards which have been issued but not yet adopted by the registrant unless the impact on its financial position and results of operations is not expected to be material. The Company concludes that the adoption of this ASU on the Company's consolidated financial statements will not be material.

Newly Adopted Accounting Pronouncements

Postretirement Benefits

In March 2017, the FASB issued ASU 2017-07 "Compensation - Retirement Benefits (Topic 715)", which requires employers who offer defined benefit pension plans or other post-retirement benefit plans to report the service cost component within the same income statement caption as other compensation costs arising from services rendered by employees during the period. The ASU also requires the other components of net periodic benefit cost to be presented separately from the service cost component, in a caption outside of a subtotal of income from operations. Additionally, the ASU provides that only the service cost component is eligible for capitalization. As a result of the adoption, the Company reclassified $54,000 and $374,000 from Corporate expenses to Other income, net for the three and nine months ended September 30, 2017.

Other Income

In February 2017, the FASB issued ASU 2017-05 "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)", effective for the annual reporting period beginning after the December 15, 2017, including the interim reporting period within that period. This update provides guidance on the recognition of gains and losses on transfers of nonfinancial assets and in substance nonfinancial assets to counterparties that are not customers.

As of January 1, 2018, the Company began accounting for non financial assets under Subtopic 610-20 which provides for revenue recognition based on transfer of ownership.

The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company selected the modified retrospective transition method. The adoption of the standard did not result in a cumulative adjustment recognized as of January 1, 2018 and the standard did not have any impact on the Company's prior period financial statements. During the nine months ended September 30, 2018, the Company had no sales or transfers of nonfinancial assets to counterparties that are not customers.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, "Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which requires equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. There will no longer be an available-for-sale classification for equity securities with readily determinable fair values.

We adopted the new ASU during the first quarter of 2018. The ASU requires the use of the modified retrospective transition method, under which cumulative unrealized gains and losses related to equity investments with readily determinable fair values will be reclassified from accumulated other comprehensive income to retained earnings on January 1, 2018 upon adoption of this ASU. The guidance related to equity investments without readily determinable fair values will be applied prospectively to all investments that exist as of the date of adoption. The adoption of this new ASU did not impact the

Company's investment portfolio as it is comprised of fixed income investments and not equity investments.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 supersedes the former revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant future reversal will not occur, (iv) allocate the transaction price to the respective performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." ASU 2016-08 provides specific guidance to determine whether an entity is providing a specified good or service itself or is arranging for the good or service to be provided by another party.

During the first quarter of 2018, we adopted the revenue recognition ASU using the full retrospective method. Under this method, all periods presented were restated upon adoption to conform to the new standard and a cumulative adjustment for effects on periods prior to 2016 was recorded to retained earnings as of January 1, 2016.

Based on our evaluation of all contracts within scope, under previous accounting standards, and under the new revenue recognition ASU, we noted no significant differences in the amounts recognized or the pattern of recognition. Management however noted that the application of Topic 606 impacts the accounting for land sales where the Company has continued involvement or performance obligations that are essential to the land sale. Previous guidance required the Company to recognize revenue from land sales with continued involvement using a percentage completion method based on the total cost of the performance obligations. After adopting Topic 606, the Company was required to allocate the transaction price, on land sales with multiple performance obligations, to the performance obligations in proportion to their standalone selling prices (i.e., on a relative standalone selling price basis) and not total costs.

During 2016, the Company sold a land parcel to a third party. Under the terms of the purchase and sale agreement, the Company was obligated to complete specific infrastructure and landscaping adjacent to the land parcel that were deemed essential to the third party. When applying the guidance under Topic 606, the purchase price allocated to the multiple performance obligations yielded a different result than when applying the guidance in effect during that period.

In applying the accounting principles under Topic 606, the Company appropriately applied the full retrospective method to this land sale during the nine-months ended September 30, 2017 results of operations and recognized $73,000 and $9,000 of revenues and profit from the sale of land, respectively.

No other differences were noted during our evaluation.

Please also refer to Critical Accounting Policies in Part I, Item 2 of this report for discussion on changes to critical accounting policies.

2. EQUITY

Earnings Per Share (EPS)

Basic net income per share attributable to common stockholders is based upon the weighted average number of shares of common stock outstanding during the year. Diluted net income per share attributable to common stockholders is based upon the weighted-average number of shares of common stock outstanding and the weighted average number of shares outstanding assuming the vesting of restricted stock grants per ASC 260, “Earnings Per Share.”

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average number of shares outstanding:				
Common stock	25,959,546	20,864,470	25,941,243	20,849,325
Common stock equivalents	20,881	30,003	31,716	43,951
Diluted shares outstanding	25,980,427	20,894,473	25,972,959	20,893,276

3. MARKETABLE SECURITIES

ASC 320, “Investments – Debt and Equity Securities” requires that an enterprise classify all debt securities as either held-to-maturity, trading or available-for-sale. The Company has elected to classify its securities as available-for-sale and therefore is required to adjust securities to fair value at each reporting date. All costs and both realized and unrealized gains and losses on securities are determined on a specific identification basis. The following is a summary of available-for-sale securities at:

($ in thousands)		September 30, 2018		December 31, 2017	
Marketable Securities:	Fair Value Hierarchy	Cost	Fair Value	Cost	Fair Value
Certificates of deposit					
with unrecognized losses for less than 12 months		$ 5,237	$ 5,183	$ 6,238	$ 6,222
with unrecognized losses for more than 12 months		1,087	1,085	102	100
with unrecognized gains		—	—	2,088	2,089
Total Certificates of deposit	Level 1	6,324	6,268	8,428	8,411
U.S. Treasury and agency notes					
with unrecognized losses for less than 12 months		29,766	29,528	29,741	29,669
with unrecognized losses for more than 12 months		234	233	137	135
with unrecognized gains		3	4	152	153
Total U.S. Treasury and agency notes	Level 2	30,003	29,765	30,030	29,957
Corporate notes					
with unrecognized losses for less than 12 months		21,453	21,304	18,230	18,159
with unrecognized losses for more than 12 months		3,063	3,047	2,804	2,788
with unrecognized gains		1,125	1,125	—	—
Total Corporate notes	Level 2	25,641	25,476	21,034	20,947
Municipal notes					
with unrecognized losses for less than 12 months		6,770	6,717	10,298	10,288
with unrecognized losses for more than 12 months		1,074	1,065	999	987
with unrecognized gains		90	90	277	278
Total Municipal notes	Level 2	7,934	7,872	11,574	11,553
		$ 69,902	$ 69,381	$ 71,066	$ 70,868

We evaluate our securities for other-than-temporary impairment based on the specific facts and circumstances surrounding each security valued below its cost. Factors considered include the length of time the securities have been valued below cost, the financial condition of the issuer, industry reports related to the issuer, the severity of any decline, our intention not to sell the security, and our assessment as to whether it is not more likely than not that we will be required to sell the security before a recovery of its amortized cost basis. We then segregate the loss between the amounts representing a decrease in cash flows expected to be collected, or the credit loss, which is recognized through earnings, and the balance of the loss, which is recognized through other comprehensive income. At September 30, 2018, the fair market value of investment securities was $521,000 below the cost basis of securities.

As of September 30, 2018, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflected a decrease in the market value of available-for-sale securities of $323,000, which includes estimated taxes of $69,000. As of September 30, 2018, the Company’s gross unrealized holding gains equaled $1,000 and gross unrealized holding losses equaled $522,000.

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

	September 30, 2018				
($ in thousands)	2018	2019	2020	2021	Total
Certificates of deposit	$ 2,211	$ 2,311	$ 1,799	$ —	$ 6,321
U.S. Treasury and agency notes	3,351	17,574	9,174	—	30,099
Corporate notes	4,325	13,721	7,150	400	25,596
Municipal notes	823	5,111	2,000	—	7,934
	$ 10,710	$ 38,717	$ 20,123	$ 400	$ 69,950

	December 31, 2017				
($ in thousands)	2018	2019	2020	2021	Total
Certificates of deposit	$ 4,306	$ 2,311	$ 1,799	—	$ 8,416
U.S. Treasury and agency notes	6,399	14,599	9,171	—	30,169
Corporate notes	7,954	6,430	6,450	—	20,834
Municipal notes	1,568	6,957	3,003	—	11,528
	$ 20,227	$ 30,297	$ 20,423	$ —	$ 70,947

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

4. REAL ESTATE

($ in thousands)	September 30, 2018	December 31, 2017
Real estate development		
Mountain Village	$ 136,183	$ 132,034
Centennial	98,203	94,271
Grapevine	30,455	28,139
Tejon Ranch Commerce Center	15,514	12,892
Real estate development	280,355	267,336
Real estate and improvements - held for lease		
Tejon Ranch Commerce Center	21,124	21,123
Real estate and improvements - held for lease	21,124	21,123
Less accumulated depreciation	(2,283)	(2,008)
Real estate and improvements - held for lease, net	$ 18,841	$ 19,115

5. LONG-TERM WATER ASSETS

Long-term water assets consist of water and water contracts held for future use or sale. The water is held at cost, which includes the price paid for the water and the cost to pump and deliver the water from the California aqueduct into the water bank. Water is currently held in a water bank on Company land in southern Kern County. Company-banked water costs also include costs related to the right to receive additional acre-feet of water in the future from the Antelope Valley East Kern Water Agency, or AVEK. The Company has also banked water within an AVEK owned water bank.

We have also been purchasing water for future use or sale. In 2008, we purchased 8,393 acre-feet of transferable water and in 2009 we purchased an additional 6,393 acre-feet of transferable water, all of which was held on our behalf by AVEK but is now stored in the Company's water bank. We also have secured State Water Project, or SWP, entitlement under long-term SWP water contracts within the Tulare Lake Basin Water Storage District and the Dudley-Ridge Water District, totaling 3,444 acre-feet of SWP entitlement annually, subject to SWP allocations. These contracts extend through 2035 and have been transferred to AVEK for our use in the Antelope Valley. In 2013, the Company acquired a contract to purchase water that obligates the Company to purchase 6,693 acre-feet of water each year from the Nickel Family, LLC, or Nickel, a California limited liability company that is located in Kern County.

The initial term of the water purchase agreement with Nickel runs to 2044 and includes a Company option to extend the contract for an additional 35 years. The purchase cost of water in 2018 is $738 per acre-foot. The purchase cost is subject to annual increases based on the greater of the consumer price index or 3%.

The water purchased above will ultimately be used in the development of the Company’s land for commercial/industrial real estate development, resort/residential real estate development, and farming. Interim uses may include the sale of portions of this water to third party users on an annual basis until this water is fully allocated to Company uses, as just described.

During the nine months ended September 30, 2018, we sold 7,442 acre-feet of water to three different customers totaling $7,992,000 with a cost of $3,679,000, which was recorded in the mineral resources segment on the unaudited Consolidated Statements of Operations.

The costs assigned to water assets held for future use were as follows ($ in thousands):

	September 30, 2018	December 31, 2017
Banked water and water for future delivery	$ 5,452	$ 5,220
Transferable water	15,725	13,351
Total tangible water	$ 21,177	$ 18,571

Intangible Water Assets

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

	September 30, 2018		December 31, 2017	
	Costs	Accumulated Depreciation	Costs	Accumulated Depreciation
Dudley Ridge water rights	$ 12,203	$ (3,739)	$ 12,203	$ (3,377)
Nickel water rights	18,740	(3,159)	18,740	(2,678)
Tulare Lake Basin water rights	5,857	(2,362)	5,857	(2,186)
	$ 36,800	$ (9,260)	$ 36,800	$ (8,241)
Net intangible water assets	27,540		28,559	
Total tangible water assets	21,177		18,571	
Net investments in water assets	$ 48,717		$ 47,130	

Water contracts with the Wheeler Ridge Maricopa Water Storage District, or WRMWSD, and the Tejon-Castac Water District, or TCWD, are also in place, but were entered into with each district at inception of the contract and not purchased later from third parties, and do not have a related financial value on the
books of the Company. Therefore, there is no amortization expense related to these contracts. Total water resources including recurring annual contract water were as follows:

(in acre-feet, unaudited)	September 30, 2018	December 31, 2017
Water held for future use		
AVEK water bank	13,033	13,033
Company water bank	33,634	31,497
TCWD - Banked water contracted with Company	49,184	49,184
Transferable water	5,889	6,169
Total water held for future use	101,740	99,883
Water contracts - annual availability		
Dudley-Ridge, Nickel and Tulare	10,137	10,137
WRMWSD	15,547	15,547
TCWD	5,749	5,749
Total water contracts	31,433	31,433
Total water held for future use and water contracts	133,173	131,316

Tejon Ranchcorp, or Ranchcorp, a wholly-owned subsidiary of Tejon Ranch Co., entered into a Water Supply Agreement with Pastoria Energy Facility, L.L.C., or PEF in 2015. PEF is the current lessee under the power plant lease. Pursuant to the Water Supply Agreement, PEF may purchase from Ranchcorp up to 3,500 acre-feet of water per year from January 1, 2017 through July 31, 2030, with an option to extend the term. PEF is under no obligation to purchase water from Ranchcorp in any year but is required to pay Ranchcorp an annual option payment equal to 30% of the maximum annual payment. The price of the water under the Water Supply Agreement for 2018 is $1,088 per acre-foot of annual water, subject to 3% annual increases over the life of the contract. The Water Supply Agreement contains other customary terms and conditions, including representations and warranties, which are typical for agreements of this type. The Company's commitments to sell water can be met through current water assets.

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

($ in thousands)	September 30, 2018	December 31, 2017
Accrued vacation	$ 735	$ 824
Accrued paid personal leave	421	494
Accrued bonus	2,013	126
Other	1,250	366
	$ 4,419	$ 1,810

7. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

($ in thousands)	September 30, 2018	December 31, 2017
Revolving line of credit	$ —	$ —
Notes payable	66,881	69,741
Other borrowings	60	218
Total short-term and long-term debt	66,941	69,959
Less: line-of-credit and current maturities of long-term debt	(4,081)	(4,004)
Less: deferred loan costs	(123)	(139)
Long-term debt, less current portion	$ 62,737	$ 65,816

On October 13, 2014, the Company as borrower entered into an Amended and Restated Credit Agreement, a Term Note and a Revolving Line of Credit Note, or collectively the Credit Facility, with Wells Fargo. The Credit Facility added a $70,000,000 term loan, or Term Loan, to the existing $30,000,000 revolving line of credit, or RLC. Funds from the Term Loan were used to finance the Company's purchase of DMB TMV LLC’s interest in TMV LLC. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties.

As of September 30, 2018, and December 31, 2017, the RLC had no outstanding balance. At the Company’s option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR average or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary.

The Term Loan had outstanding balances of $63,393,000 and $66,046,000 as of September 30, 2018 and December 31, 2017, respectively. The interest rate per annum applicable to the Term Loan is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the Term Loan has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Loan required interest-only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Loan at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop

receivables, the power plant lease and lease site, and related accounts and other rights to payment and inventory.

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than $20,000,000. At September 30, 2018 and December 31, 2017, we were in compliance with all financial covenants.

The Credit Facility also contains customary negative covenants that limit the ability of the Company to, among other things, make capital expenditures, incur indebtedness and issue guaranties, consummate certain assets sales, acquisitions or mergers, make investments, pay dividends or repurchase stock, or incur liens on any assets.

The Credit Facility contains customary events of default, including: failure to make required payments; failure to comply with terms of the Credit Facility; bankruptcy and insolvency; and a change in control without consent of the bank (which consent will not be unreasonably withheld). The Credit Facility contains other customary terms and conditions, including representations and warranties, which are typical for credit facilities of this type.

In 2013, we entered into a promissory note agreement, secured by real estate, with CMFG Life Insurance Company to pay a principal amount of $4,750,000 with principal and interest due monthly starting on October 1, 2013. The interest rate on this promissory note is 4.25% per annum, with monthly principal and interest payments of $102,700 ending on September 1, 2028. The proceeds from this promissory note were used to repay debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment. The current balance on the promissory note is $3,488,000. The balance of this long-term debt instrument included in "Notes payable" above approximates the fair value of the instrument.

8. OTHER LIABILITIES

Other liabilities consist of the following:

($ in thousands)	September 30, 2018	December 31, 2017
Pension liability (Note 13)	$ 2,163	$ 2,280
Interest rate swap liability (Note 10)[1]	—	894
Supplemental executive retirement plan liability (Note 13)	7,592	7,759
Excess joint venture distributions and other	2,293	758
Total	$ 12,048	$ 11,691

[1] The Company's interest rate swap had an asset balance of $1.4 million as of September 30, 2018 and is presented under the caption Other Assets on the Consolidated Balance Sheets.

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

9. STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS

The Company’s stock incentive plans provide for the making of awards to employees based upon a service condition or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with service condition vesting; performance share grants that only vest upon the achievement of specified performance conditions, such

as corporate cash flow goals; and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones. The Company has also granted performance share grants that contain both performance-based and market-based conditions. Compensation cost for these awards is recognized based on either the achievement of the performance-based conditions, if they are considered probable, or if they are not considered probable, on the achievement of the market-based condition. Failure to satisfy the threshold performance conditions will result in the forfeiture of shares. Forfeiture of share awards with service conditions or performance-based restrictions results in a reversal of previously recognized share-based compensation expense. Forfeiture of share awards with market-based restrictions does not result in a reversal of previously recognized share-based compensation expense.

The following is a summary of the Company's performance share grants with performance conditions for the nine months ended September 30, 2018:

Performance Share Grants with Performance Conditions	
Below threshold performance	—
Threshold performance	179,211
Target performance	407,950
Maximum performance	619,512

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

	September 30, 2018	December 31, 2017
Stock grants outstanding beginning of the period at target achievement	536,860	386,171
New stock grants/additional shares due to maximum achievement	97,529	295,243
Vested grants	(87,825)	(99,769)
Expired/forfeited grants	(1,842)	(44,785)
Stock grants outstanding end of period at target achievement	544,722	536,860

The unamortized costs associated with unvested stock grants and the weighted average period over which it is expected to be recognized as of September 30, 2018 were $5,228,000 and 19 months, respectively. The fair value of restricted stock with time-based vesting features is based upon the Company’s share price on the date of grant and is expensed over the service period. Fair value of performance share grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company’s stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance share grants that contain a range of shares from zero to a maximum we determine based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance share grants is tied to the achievement of a performance condition, we estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition.

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

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

($ in thousands)	Nine Months Ended September 30,	
Employee Plan:	2018	2017
Expensed	$ 2,072	$ 2,067
Capitalized	812	402
	2,884	2,469
NDSI Plan - Expensed	529	504
Total Stock Compensation Costs	$ 3,413	$ 2,973

10. INTEREST RATE SWAP

During October 2014, the Company entered into an interest rate swap agreement to hedge cash flows tied to changes in the underlying floating interest rate tied to LIBOR for the Term Note as discussed in Note 7 (Line of Credit and Long-Term Debt). The ineffective portion of the change in fair value of our interest rate swap agreement is required to be recognized directly in earnings. During the quarter ended September 30, 2018, our interest rate swap agreement was 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. As of September 30, 2018, the fair value of our interest rate swap agreement exceeds its cost basis and as such is recorded as an asset balance in Other Assets on the Consolidated Balance Sheets.

We had the following outstanding interest rate swap agreement designated as a cash flow hedge of interest rate risk as of September 30, 2018 ($ in thousands):

Effective Date	Maturity Date	Fair Value Hierarchy	Weighted Average Interest Rate	Fair Value	Notional Amount
October 15, 2014	October 5, 2024	Level 2	4.11%	$1,412	$63,393

11. INCOME TAXES

For the nine months ended September 30, 2018, the Company's income tax expense was $1,333,000 compared to income tax benefit of $1,468,000 for the nine months ended September 30, 2017. These represent effective income tax rates of approximately 25% and 41% for the nine months ended September 30, 2018 and, 2017, respectively. The decrease in the effective income tax rate resulted from the Tax Cut Jobs Act which lowered the Company’s U.S. statutory federal income tax rate from 35% to 21% effective January 1, 2018. As of September 30, 2018, we had income tax receivable of $88,000. The Company classifies interest and penalties incurred on tax payments as income tax expense. During the nine months ended September 30, 2018, the Company did not make any income tax payments. The Company did not record a provisional adjustment for the three- and nine-months ended September 30, 2018. As the Company completes its analysis of the accounting for the tax effects of the U.S. Tax Reform, the Company may record additional provisional amounts or adjustments to provisional amounts as discrete items in future periods.

12. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts with minimum annual payments. During the first three quarters of 2018, the Company has paid approximately $10,282,000 relating to these water contracts and does not expect to make any additional payments in 2018. These water contract payments consist of SWP, contracts with Wheeler Ridge Maricopa Water Storage District, Tejon-Castac Water District, or TCWD, Tulare Lake Basin Water Storage District, Dudley-Ridge Water Storage District and the Nickel water contract. The SWP contracts run through 2035, and the Nickel water contract runs through 2044, with an option to extend an additional 35 years. As discussed in Note 5 (Long-Term Water Assets), we purchased the assignment of a contract to purchase water in late 2013. The assigned water contract is with Nickel and obligates us to purchase 6,693 acre-feet of water annually through the term of the contract.

The Company is obligated to make payments of approximately $800,000 per year through 2021 to the Tejon Ranch Conservancy as prescribed in the Conservation Agreement we entered into with five major environmental organizations in 2008. Our advances to the Tejon Ranch Conservancy are dependent on the occurrence of certain events and their timing and are therefore subject to change in amount and period. These amounts are recorded in real estate development for the Centennial, Grapevine and Mountain Village, or MV, projects.

The Company exited a consulting contract during the second quarter of 2014 related to the Grapevine Development and is obligated to pay an earned incentive fee at the time of successful receipt of litigated project entitlements and at a value measurement date five-years after litigated entitlements have been achieved for Grapevine. The final amount of the incentive fees will not be finalized until the future payment dates. The Company believes that net savings from exiting the contract over this future time period will more than offset the incentive payment costs.

The Tejon Ranch Public Facilities Financing Authority, or TRPFFA, is a joint powers authority formed by Kern County and TCWD to finance public infrastructure within the Company’s Kern County developments. For the development of the Tejon Ranch Commerce Center, or TRCC, TRPFFA has created two Community Facilities Districts, or CFDs: the West CFD and the East CFD. The West CFD has placed liens on 420 acres of the Company’s land to secure payment of special taxes related to $28,620,000 of bond debt sold by TRPFFA for TRCC-West. The East CFD has placed liens on 1,931 acres of the Company’s land to secure payments of special taxes related to $55,000,000 of bond debt sold by TRPFFA for TRCC-East. At TRCC-West, the West CFD has no additional bond debt approved for issuance. At TRCC-East, the East CFD has approximately $65,000,000 of additional bond debt authorized by TRPFFA that can be sold in the future.

In connection with the sale of bonds there is a standby letter of credit for $4,468,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years' worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. The Company believes that the letter of credit will never be drawn upon. The letter of credit is for two years and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately $68,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure costs related to the TRCC-West development. At September 30, 2018 there were no additional improvement funds remaining from the West CFD bonds and there are $6,383,000 in improvement funds within the East CFD bonds for reimbursement of public infrastructure costs during 2018 and future years. During 2018 the Company expects to pay approximately $2,570,000 in special taxes. As development continues to occur at TRCC, new owners of land and new lease tenants, through triple net leases, will bear an increasing portion of the

assessed special tax. This amount could change in the future based on the amount of bonds outstanding and the amount of taxes paid by others. The assessment of each individual property sold or leased is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at September 30, 2018.

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

National Cement

The Company leases land to National Cement Company of California Inc., or National, for the purpose of manufacturing Portland cement from limestone deposits on the leased acreage. The California Regional Water Quality Control Board, or RWQCB, for the Lahontan Region issued orders in the late 1990s with respect to environmental conditions on the property currently leased to National.

The Company's former tenant Lafarge Corporation, or Lafarge, and current tenant National, continue to remediate these environmental conditions consistent with the RWQCB orders.

The Company is not aware of any failure by Lafarge or National to comply with directives of the RWQCB. Under current and prior leases, National and Lafarge are obligated to indemnify the Company for costs and liabilities arising out of their use of the leased premises. The remediation of environmental conditions is included within the scope of the National or Lafarge indemnity obligations. If the Company were required to remediate the environmental conditions at its own cost, it is unlikely that the amount of any such expenditure by the Company would be material and there is no reasonable likelihood of continuing risk from this matter.

Antelope Valley Groundwater Cases

On November 29, 2004, a conglomerate of public water suppliers filed a cross-complaint in the Los Angeles Superior Court seeking a judicial determination of the rights to groundwater within the Antelope Valley basin, including the groundwater underlying the Company’s land near the Centennial project. Four phases of a multi-phase trial have been completed. Upon completion of the third phase, the court ruled that the groundwater basin was in overdraft and established a current total sustainable yield. The fourth phase of trial occurred in the first half of 2013 and resulted in confirmation of each party’s groundwater pumping for 2011 and 2012. The fifth phase of the trial commenced in February 2014, and concerned 1) whether the United States has a federal reserved water right to basin groundwater, and 2) the rights to return flows from imported water. The court heard evidence on the federal reserved right but continued the trial on the return flow issues while most of the parties to the adjudication discussed a settlement, including rights to return flows. In February 2015, more than 140 parties representing more than 99% of the current water use within the adjudication boundary agreed to a settlement. On March 4, 2015, the settling parties, including Tejon, submitted a Stipulation for Entry of Judgment and Physical Solution to the court for approval. On December 23, 2015, the court entered Judgment approving the Stipulation for Entry of Judgment and Physical Solution. The Company’s water supply plan for the Centennial project anticipated reliance on, among other sources, a certain quantity of groundwater underlying the Company’s lands in the Antelope Valley. The Company’s allocation in the Judgment is consistent with that amount.

Prior to the Judgment becoming final, on February 19 and 22, 2016, several parties, including the Willis Class and Phelan Pinon Hills Community Services District, filed notices of appeal from the Judgment. The Appeal has been transferred from the Fourth Appellate District to the Fifth Appellate District.

Appellate briefing is expected to occur during the fourth quarter of 2018 or first half of 2019. Notwithstanding the appeals, the parties with assistance from the Court have established the Watermaster Board, hired the Watermaster Engineer and Watermaster Legal Counsel, and begun administering the Physical Solution, consistent with the Judgment.

Summary and Status of Kern Water Bank Lawsuits

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including the CBD (collectively, Central Delta), filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources, or DWR, Kern County Water Agency and a number of “real parties in interest,” including the Company and TCWD. The lawsuit challenges certain amendments to the SWP contracts that were originally approved in 1995, known as the Monterey Amendments. Petitioners in this action also sought to invalidate the 2010 environmental impact report (2010 EIR) regarding the Monterey Amendments prepared pursuant to the California Environmental Quality Act, or CEQA, pertaining to the Kern Water Bank, or KWB.

The trial court concluded that the 2010 EIR for the Monterey Amendments was insufficient with regard to the EIR's evaluation of the potential impacts of the operation of the KWB, particularly on groundwater and water quality and issued a writ of mandate that required DWR to prepare a remedial EIR. DWR approved a remedial EIR (the 2016 EIR).

On October 21, 2016, the Center for Food Safety (CFS) and some of the Central Delta petitioners filed a new lawsuit in Sacramento County Superior Court challenging the 2016 EIR. On October 2, 2017, the Sacramento County Superior Court dismissed the new lawsuit and discharged the writ of mandate relating to the 2016 EIR. The CFS petitioners appealed the Sacramento County Superior Court’s 2017 judgment. The Central Delta and CFS appeals are consolidated for hearing and are pending before the Third Appellate District of the California Court of Appeal. The Central Delta and CFS lawsuits principally challenge (i) the adequacy of the 2010 EIR and 2016 EIR and (ii) validity of DWR’s form of CEQA approval of the Monterey Amendments following certification of the 2010 EIR and the 2016 EIR, and (iii) the validity of the Monterey Amendments on various grounds, including the transfer of the KWB lands, from DWR to the Kern County Water Agency and in turn to the Kern Water Bank Authority, or KWBA, whose members are various Kern and Kings County interests, including TCWD, which has a 2% interest in the KWBA. A parallel lawsuit was also filed by Central Delta in Kern County Superior Court on July 2, 2010, against Kern County Water Agency, also naming the Company and TCWD as real parties in interest, which has been stayed pending the outcome of the other action against DWR. The Company is named on the ground that it “controls” TCWD. This lawsuit has since been moved to the Sacramento County Superior Court. Another lawsuit was filed in Kern County Superior Court on June 3, 2010, by two districts adjacent to the KWB, namely Rosedale Rio Bravo and Buena Vista Water Storage Districts, or Rosedale, asserting that the 2016 EIR did not adequately evaluate potential impacts arising from operations of the KWB, but this lawsuit did not name the Company, only TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit has since been moved to the Sacramento County Superior Court. In an initial favorable ruling on January 25, 2013, the court, in the Central Delta lawsuit, determined that the challenges to the validity of the Monterey Amendments, including the transfer of the KWB lands, were not timely and were barred by the statutes of limitation, the doctrine of laches, and by the annual validating statute. The substantive hearing on the challenges to the 2010 EIR was held on January 31, 2014. On March 5, 2014 the court issued a decision, rejecting all of Central Delta’s CEQA, claims, except the Rosedale claim, joined by Central Delta, that the

2010 EIR did not adequately evaluate future impacts from operation of the KWB, in particular the potential impacts on groundwater and water quality.

On November 24, 2014, the court issued a writ of mandate (the 2014 Writ) that required DWR to prepare a revised EIR regarding the Monterey Amendments evaluating the potential operational impacts of the KWB. The 2014 Writ authorized the continued operation of the KWB pending completion of the 2016 EIR subject to certain conditions, including those described in an interim operating plan negotiated between the KWBA and Rosedale. The 2014 Writ, as revised by the court, required DWR to certify the 2016 EIR and file the return to the 2014 Writ by September 28, 2016. On September 20, 2016, the Director of DWR (a) certified the 2016 EIR prepared by DWR, as in compliance with CEQA, (b) adopted findings, a statement of overriding considerations, and a mitigation, monitoring and reporting program as required by CEQA, (c) made a new finding pertaining to carrying out the Monterey Amendments through continued use and operation of the KWB by the KWBA, and (d) caused a notice of determination to be filed with the Office of Planning and Resources of the State of California on September 22, 2016. On September 28, 2016, DWR filed with the Sacramento Superior Court its return to the 2014 Writ.

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

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

On October 21, 2016, the Central Delta petitioners and a new party, the CFS (CFS Petitioners), filed a new lawsuit (the CFS Petition) against DWR and naming a number of real parties in interest, including KWBA and TCWD (but not including the Company). The new lawsuit challenges DWR’s (i) certification of the Revised EIR, (ii) compliance with the 2014 Writ and CEQA, and (iii) finding concerning the continued use and operation of the KWB by KWBA. In response to a motion filed by the CFS Petitioners, on April 7, 2017, the Superior Court denied the CFS Petitioners’ motion to stay the Superior Court proceedings on the return to the 2014 Writ and CFS Petition pending the appeal in the Central Delta case. The Superior Court subsequently modified the 2014 Writ to authorize the KWBA to construct an additional 190 acres of recharge ponds within the KWB pending the court's consideration of DWR's return to the 2014 Writ and the petition in CFS vs DWR. On August 18, 2017, the Superior Court held a hearing on the return to the 2014 Writ and on the CFS Petition. On October 2, 2017, the Superior Court issued a ruling that the court shall deny the CFS Petition and shall discharge the 2014 Writ. CFS has appealed the Superior Court judgment denying the CFS Petition. The Third Appellate District of the Court of Appeal granted DWR’s motion to consolidate the CFS appeal, for hearing, with the pending appeals in the Central Delta case. Briefing on the appeal of the judgment regarding the CFS Petition is anticipated to be completed in the fourth quarter of 2018.

To the extent there may be an adverse outcome of the claims still pending as described above, the monetary value cannot be estimated at this time.

Grapevine

On December 6, 2016 the Kern County Board of Supervisors granted entitlement approval for the Grapevine project (described below). On January 5, 2017 the CBD, and the CFS, filed an action in Kern County Superior Court pursuant to CEQA, against Kern County and the Kern County Board of Supervisors (collectively, the County) concerning the County’s granting of approvals for the Grapevine

project, including certification of the final EIR and related findings; approval of associated general plan amendments; adoption of associated zoning maps; adoption of Specific Plan Amendment No. 155, Map No. 500; adoption of Special Plan No. 1, Map No. 202; exclusion from Agricultural Preserve No. 19; and adoption of a development agreement, among other associated approvals. The Company and its wholly-owned subsidiary, Ranchcorp, are named as real parties in interest in this action.

The action alleges that the County failed to properly follow the procedures and requirements of CEQA, including failure to identify, analyze and mitigate impacts to air quality, greenhouse gas emissions, biological resources, traffic, water supply and hydrology, growth inducing impacts, failure to adequately consider project alternatives and to provide support for the County's findings and statement of overriding considerations in adopting the EIR and failure to adequately describe the environmental setting and project description. On December 6, 2017, the County served a responsive pleading answering petitioners' allegations and denying that relief should be granted. Petitioners seek to invalidate the County's approval of the project, the environmental approvals and require the County to revise the environmental documentation.

On July 27, 2018 the court held a hearing on the petitioners' claims. At that hearing, the court rejected all of petitioners' claims raised in the litigation, except petitioners' claims that (i) the project description was inadequate and (ii) such inadequacy resulted in aspects of certain environmental impacts being improperly analyzed. As to the claims described in "(i)" and "(ii)" in the foregoing sentence, the court determined that the EIR was inadequate. In that regard, the court determined the Grapevine project description contained in the EIR allowed development to occur in the time and manner determined by the real parties in interest and, as a consequence, such development flexibility could result in the project's internal capture rate (ICR) - the percent of vehicle trips remaining within the project - actually being lower than the projected ICR levels used in the EIR to analyze various environmental impacts.

The court tentatively granted a writ of mandate ordering the County to prepare a supplemental EIR to address potential environmental effects resulting from the Grapevine project's actual ICR being lower than projected in the EIR with respect to traffic, air quality, greenhouse gas emissions, noise, public health and growth inducing impacts. The court did not issue a final ruling at the July 27, 2018 hearing, reserving the scope of the writ for further hearing. While the court initially set a February 15, 2019 hearing to consider and rule on what remedies it may impose as part of a final ruling, including whether to invalidate the Grapevine project approvals, the court subsequently at a September 21, 2018 case management conference advanced the remedy hearing to December 7, 2018. The parties will submit briefs to the court on their respective position as to what remedies should apply. Following the December 7, 2018 hearing, the court will then issue a final judgment issuing a writ of mandate and ordering whatever lawful remedy it deems appropriate. Following issuance of the final ruling, either party may appeal the court's decision.

Proceedings Incidental to Business

From time to time, we are involved in other proceedings incidental to our business, including actions relating to employee claims, real estate disputes, contractor disputes and grievance hearings before labor regulatory agencies.

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows either individually or in the aggregate.

13. RETIREMENT PLANS

The Company has a defined benefit plan that covers many of its employees, or the Benefit Plan. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to-date and expected-to-be provided in the future. The Company funds the Benefit Plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. In April 2017, the Company froze the Benefit Plan as it relates to future benefit accruals for participants. The Benefit Plan was closed to new participants in February 2007. The Company expects to contribute $160,000 to the Benefit Plan during 2018.

Benefit Plan assets consist of equity, debt and short-term money market investment funds. The Benefit Plan's current investment policy changed during the third quarter of 2018. The new policy is a liability driven investment strategy in which the primary focus is to minimize the volatility of the funding ratio. This objective will result in a prescribed asset mix between "return seeking" assets (e.g. stocks) and a bond portfolio (e.g. long duration bonds) according to a pre-determined customized investment strategy based on the Plan's Funded Status as the primary input. This path will be used as a reference point as to the mix of assets, which by design will de-emphasize the return seeking portion as funded status improves. At September 30, 2018, the investment mix was approximately 65% equity, 34% debt, and 1% money market funds but will change in the future as we implement the new investment policy. At December 31, 2017, the Benefit Plan was managed under the prior investment policy and the investment mix was approximately 57% equity, 37% debt, and 6% money market funds. Equity investments consist of a combination of individual equity securities plus value funds, growth funds, large cap funds and international stock funds. Debt investments consist of U.S. Treasury securities and investment grade corporate debt. The weighted average discount rates used in determining periodic pension cost were 3.7% and 3.9% in 2018 and 2017, respectively. The expected long-term rate of return on plan assets is 7.5% in 2018 and 2017. The long-term rate of return on Benefit Plan assets is based on the historical returns within the plan and expectations for future returns.

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

	Nine Months Ended September 30,	
($ in thousands)	2018	2017
Cost components:		
Service cost-benefits earned during the period	$ —	$ (30)
Interest cost on projected benefit obligation	(273)	(292)
Expected return on plan assets	438	397
Net amortization and deferral	(48)	(74)
Total net periodic pension earnings (cost)	$ 117	$ 1

The Company has a Supplemental Executive Retirement Plan, or SERP, to restore to executives designated by the Compensation Committee of the Board of Directors the full benefits under the pension plan that would otherwise be restricted by certain limitations now imposed under the Internal Revenue Code. The SERP is currently unfunded. The Company in April 2017, froze the SERP plan as it relates to the accrual of additional benefits. The pension and retirement expense for the SERP was as follows:

	Nine Months Ended September 30,	
($ in thousands)	2018	2017
Cost components:		
Interest cost on projected benefit obligation	$ (192)	$ (216)
Net amortization and deferral	(48)	(189)
Total net periodic pension cost	$ (240)	$ (405)

14. REPORTING SEGMENTS AND RELATED INFORMATION

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Pastoria Energy Facility	$ 1,231	$ 1,054	$ 3,132	$ 2,779
TRCC Leasing	431	569	1,267	1,488
TRCC management fees and reimbursements	212	373	612	823
Commercial leases	178	179	523	485
Communication leases	215	229	696	603
Landscaping and other	178	28	558	453
Land sale	—	—	—	73
Commercial/industrial revenues	2,445	2,432	6,788	6,704
Equity in earnings from unconsolidated joint ventures	1,592	1,724	2,411	3,512
Total commercial/industrial revenues and equity in earnings from unconsolidated joint ventures	4,037	4,156	9,199	10,216
Profit from commercial/industrial and unconsolidated joint ventures	$ 2,359	$ 2,841	$ 4,814	$ 5,256

The resort/residential real estate development segment is actively involved in the land entitlement and development process internally and through a joint venture. The segment incurs costs and expenses related

to its development activities, but currently generates no revenue. The segment produced losses of $1,319,000 and $1,401,000 for the nine months ended September 30, 2018 and 2017, respectively. The segment produced losses of $471,000 and $271,000 for the three months ended September 30, 2018 and 2017, respectively.

The mineral resources segment receives oil and mineral royalties from exploration and development companies that extract or mine the natural resources from our land in addition to periodic reimbursable costs from lessors. The segment also, as opportunities arise periodically, may generate revenues through water transactions. The revenue components of the mineral resources segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Oil and gas	$ 584	$ 356	$ 1,745	$ 1,161
Cement	481	398	1,309	1,195
Rock aggregate	301	262	847	690
Exploration leases	26	—	77	76
Water Sales	—	—	7,992	1,254
Reimbursables and other	(37)	126	16	286
Total mineral resources revenues	1,355	1,142	11,986	4,662
Profit from mineral resources	$ 781	$ 614	$ 6,586	$ 2,281

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Almonds	$ 1,761	$ 1,778	$ 2,935	$ 2,568
Pistachios	7,042	3,104	7,126	3,672
Wine grapes	1,483	2,161	1,483	2,161
Other	550	423	1,029	997
Total farming revenues	10,836	7,466	12,573	9,398
(Loss) profit from farming	$ 4,295	$ (455)	$ 3,003	$ (1,104)

Ranch operations consists of game management revenues and ancillary land uses such as grazing leases and filming. Within game management we operate our High Desert Hunt Club, a premier upland bird hunting club. The High Desert Hunt Club offers over 6,400 acres and 35 hunting fields, each field providing different terrain and challenges. The hunting season runs from mid-October through March. We sell individual hunting packages as well as memberships. Ranch operations also includes Hunt at Tejon, which offers a wide variety of guided big game hunts including trophy Rocky Mountain elk, deer, turkey and wild pig. We offer guided hunts and memberships for both the Spring and Fall hunting seasons. The revenue components of the segment were as follows:

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Game management	$ 386	$ 277	$ 990	$ 918
Grazing	337	474	1,144	1,292
High Desert Hunt Club	—	—	183	—
Filming and other	73	117	307	599
Total ranch operations revenues	796	868	2,624	2,809
Loss from ranch operations	$ (557)	$ (285)	$ (1,466)	$ (1,298)

15. INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED JOINT VENTURES

The Company maintains investments in joint ventures. The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting unless the venture is a variable interest entity, or VIE, and meets the requirements for consolidation. The Company's investment in its unconsolidated joint ventures at September 30, 2018 was $27,660,000. The equity in the income of the unconsolidated joint ventures was $2,411,000 for the nine months ended September 30, 2018. The unconsolidated joint ventures have not been consolidated as of September 30, 2018, because the Company does not control the investments. The Company's current joint ventures are as follows:

- Petro Travel Plaza Holdings LLC – TA/Petro is an unconsolidated joint venture with TravelCenters of America, LLC for the development and management of travel plazas and convenience stores. The Company has 50% voting rights and shares 60% of profit and losses in this joint venture. It houses multiple commercial eating establishments as well as diesel and gasoline operations in TRCC. The Company does not control the investment due to its having only 50% voting rights, and because our partner in the joint venture is the managing partner and performs all of the day-to-day operations and has significant decision making authority regarding key business components such as fuel inventory and pricing at the facility. At September 30, 2018, the Company had an equity investment balance of $16,447,000 in this joint venture.

- Majestic Realty Co. – Majestic Realty Co., or Majestic, is a privately-held developer and owner of master planned business parks in the United States. The Company partnered with Majestic to form two 50%/50% joint ventures to acquire, develop, manage, and operate industrial real estate at TRCC. The partners have equal voting rights and equally share in the profit and loss of the joint venture. At September 30, 2018, the Company's investment balance in these joint ventures was in deficit position of $2,356,000, based on the reasons discussed below.
    - TRC-MRC 2, LLC was formed to acquire, lease, and maintain a fully occupied warehouse at TRCC-West. The partnership acquired the 651,909 square foot building for $24,773,000 and was largely financed through a promissory note guaranteed by both partners. The promissory note was refinanced on June 1, 2018 with a $25,240,000 promissory note (Note II), also guaranteed by both partners. Note II matures on July 1, 2028 and currently has an outstanding principal balance of $25,150,000. Since inception, we have received excess distributions resulting in a deficit balance of $2,139,888. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of our consolidated balance sheet. We will continue to record our equity in the net income as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on our consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), we will recognize any balance classified as a liability as income immediately.

- TRC-MRC 1, LLC was formed to develop and operate an approximately 480,480 square foot industrial building at TRCC-East. Since inception, we have received excess distributions resulting in a deficit balance of $216,000. In accordance with the applicable accounting guidance, these excess distributions are reclassified to the liabilities section of our consolidated balance sheet. We will continue to record our equity in the net income as a debit to the investment account, and if it becomes positive, it will again be shown as an asset on our consolidated balance sheet. If it becomes obvious that any excess distribution may not be returned (upon joint venture liquidation or otherwise), we will recognize any balance classified as a liability as income immediately. The joint venture currently has borrowings under a $25,000,000 construction loan which has a current balance of $21,963,000. Half of the facility is currently leased to Dollar General. In August of 2018, the joint venture agreed to terms on a lease for the other half of the facility with L'Oréal USA, the largest subsidiary of L'Oréal, that will bring SalonCentric, L'Oréal USA's professional salon distribution operation, to TRCC.

- Rockefeller Joint Ventures – The Company has three joint ventures with Rockefeller Group Development Corporation, or Rockefeller. At September 30, 2018, the Company's combined equity investment balance in these three joint ventures was $11,213,000.

    - Two joint ventures are for the development of buildings on approximately 91 acres and are part of an agreement for the potential development of up to 500 acres of land in TRCC. The Company owns a 50% interest in each of the joint ventures. Currently, the Five West Parcel LLC joint venture owns and leases a 606,000 square foot building to Dollar General, which has options to extend the lease to April 2022. For operating revenue, please see the following table. The Five West Parcel LLC joint venture currently has an outstanding term loan with a balance of $9,307,000 that matures on May 5, 2022. The Company and Rockefeller guarantee the performance of the debt. The second of these joint ventures, 18-19 West LLC, was formed in August 2009 through the contribution of 61.5 acres of land by the Company, which is being held for future development. Both of these joint ventures are being accounted for under the equity method due to both members having significant participating rights in the management of the ventures.

- The third joint venture is the TRCC/Rock Outlet Center LLC joint venture, which was formed in 2013 to develop, own, and manage a net leasable 326,000 square-foot outlet center on land at TRCC-East. The cost of the outlet center was approximately $87,000,000 and was funded through a construction loan for up to 60% of the costs. The remaining 40% was funded through equity contributions from the two members. The Company has 50% of the voting interests of TRCC/Rock Outlet Center LLC, thus it does not control by voting interest alone. The Company is the named managing member, and as such we considered the presumption that a managing member controls the limited liability company. The managing member's responsibilities relate to the routine day-to-day activities of TRCC/Rock Outlet Center LLC. However, all operating decisions during development and operations, including the setting and monitoring of the budget, leasing, marketing, financing and selection of the contractor for any of the project's construction, are jointly made by both members of the joint venture. Therefore, the Company concluded that both members have significant participating rights that are sufficient to overcome the presumption of the Company controlling the joint venture through it being named the managing member. Therefore, the investment in TRCC/Rock Outlet Center LLC is being accounted for under the equity method. The TRCC/Rock Outlet Center LLC joint venture is separate from the aforementioned agreement to potentially develop up to 500 acres of land in TRCC. In 2013, the TRCC/Rock Outlet Center LLC joint venture entered into a construction line of credit agreement with a financial institution for $52,000,000 that, as of September 30, 2018, had an outstanding balance of $47,312,000. The Company and Rockefeller guarantee the performance of the debt.

- Centennial Founders, LLC – Centennial Founders, LLC, or CFL, is a joint venture with TRI Pointe Homes and CalAtlantic that was organized to pursue the entitlement and development of land that the Company owns in Los Angeles County. Based on the Second Amended and Restated Limited Company Agreement of CFL and the change in control and funding that resulted from the amended agreement, CFL qualified as a VIE, beginning in the third quarter of 2009, and the Company was determined to be the primary beneficiary. As a result, CFL has been consolidated into our financial statements beginning in that quarter. Our partners retained a noncontrolling interest in the joint venture. On November 30, 2016, CFL and Lewis Investment Company, or Lewis, entered a Redemption and Withdrawal Agreement, whereby Lewis irrevocably and unconditionally withdrew as a member of CFL, CFL redeemed Lewis' entire interest for no consideration. As a result, our noncontrolling interest balance was reduced by $11,039,000. At September 30, 2018, the Company owned 92.88% of CFL.

The Company’s investment balance in its unconsolidated joint ventures differs from its respective capital accounts in the respective joint ventures. The differential represents the difference between the cost basis of assets contributed by the Company and the agreed upon contribution value of the assets contributed.

Unaudited condensed statement of operations for the nine months ended September 30, 2018 and condensed balance sheet information of the Company's unconsolidated joint ventures as of September 30, 2018 are as follows:

	Three Months Ended September 30,					
	2018	2017	2018	2017	2018	2017
	Joint Venture				TRC	
($ in thousands)	Revenues		Earnings(Loss)		Equity in Earnings(Loss)	
Petro Travel Plaza Holdings, LLC	$ 33,260	$ 31,983	$ 3,531	$ 3,267	$ 2,119	$ 1,960
Five West Parcel, LLC	662	703	180	222	90	111
18-19 West, LLC	4	3	(24)	(25)	(12)	(12)
TRCC/Rock Outlet Center, LLC[1]	1,455	2,012	(958)	(61)	(479)	(30)
TRC-MRC 1, LLC	417	—	(324)	—	(162)	—
TRC-MRC 2, LLC[2]	1,044	935	74	(609)	36	(305)
	$ 36,842	$ 35,636	$ 2,479	$ 2,794	$ 1,592	$ 1,724
Centennial Founders, LLC	$ 199	$ 179	$ (12)	$ 9	Consolidated	

(1) Revenues for TRCC/Rock Outlet Center are presented net of non-cash tenant allowance amortization of $0.4 million and $0.4 million as of September 30, 2018 and 2017, respectively.

(2) Earnings for TRC-MRC 2, LLC include non-cash amortization of purchase accounting adjustments related to in-place leases of $0.2 million and $1.0 million as of September 30, 2018 and 2017, respectively.

	Nine Months Ended September 30,					
	2018	2017	2018	2017	2018	2017
	Joint Venture				TRC	
($ in thousands)	Revenues		Earnings(Loss)		Equity in Earnings(Loss)	
Petro Travel Plaza Holdings, LLC	$ 88,321	$ 89,215	$ 6,375	$ 7,790	$ 3,825	$ 4,674
Five West Parcel, LLC	2,057	2,121	597	722	298	361
18-19 West, LLC	10	8	(77)	(79)	(38)	(39)
TRCC/Rock Outlet Center, LLC[1]	4,962	7,287	(3,312)	(1,152)	(1,656)	(576)
TRC-MRC 1, LLC	556	—	(426)	(2)	(213)	(1)
TRC-MRC 2, LLC[2]	3,001	2,775	391	(1,813)	195	(907)
	$ 98,907	$ 101,406	$ 3,548	$ 5,466	$ 2,411	$ 3,512
Centennial Founders, LLC	$ 210	$ 180	$ (224)	$ (308)	Consolidated	

(1) Revenues for TRCC/Rock Outlet Center are presented net of non-cash tenant allowance amortization of $1.2 million and $1.4 million as of September 30, 2018 and 2017, respectively.

(2) Earnings for TRC-MRC 2, LLC include non-cash amortization of purchase accounting adjustments related to in-place leases of $0.6 million and $3.0 million as of September 30, 2018 and 2017, respectively.

($ in thousands)	September 30, 2018 Joint Venture Assets	Joint Venture Debt	Joint Venture Equity	TRC Equity	December 31, 2017 Joint Venture Assets	Joint Venture Debt	Joint Venture Equity	TRC Equity
Petro Travel Plaza Holdings, LLC	$ 66,317	$ (15,282)	$ 48,079	$ 16,447	$ 67,435	$ (15,280)	$ 49,705	$ 17,422
Five West Parcel, LLC	16,273	(9,307)	6,569	3,100	15,738	(9,711)	5,972	2,802
18-19 West, LLC	4,633	—	4,627	1,744	4,704	—	4,704	1,782
TRCC/Rock Outlet Center, LLC	76,954	(47,312)	28,865	6,369	81,610	(48,769)	32,177	8,025
TRC-MRC 1, LLC	26,586	(21,963)	4,115	—	25,380	(19,433)	4,541	—
TRC-MRC 2, LLC	21,432	(25,150)	(4,243)	—	20,336	(21,080)	(992)	—
Total	$ 212,195	$ (119,014)	$ 88,012	$ 27,660	$ 215,203	$ (114,273)	$ 96,107	$ 30,031
Centennial Founders, LLC	$ 92,158	$ —	$ 91,763	***	$ 89,721	$ —	$ 88,862	***

*** Centennial Founders, LLC is consolidated within the Company's financial statements.

16. RELATED PARTY TRANSACTIONS

TCWD is a not-for-profit governmental entity, organized on December 28, 1965, pursuant to Division 13 of the Water Code, State of California. TCWD is a landowner voting district, which requires an elector, or voter, to be an owner of land located within the district. TCWD was organized to provide the water needs for future municipal and industrial development. The Company is the largest landowner and taxpayer within TCWD. The Company has a water service contract with TCWD that entitles us to receive all of TCWD’s State Water Project entitlement and all of TCWD’s banked water. TCWD is also entitled to make assessments of all taxpayers within the district, to the extent funds are required to cover expenses and to charge water users within the district for the use of water. From time to time, we transact with TCWD in the ordinary course of business. We believe that the terms negotiated for all transactions are no less favorable than those that could be negotiated in arm's length transactions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, including without limitation statements regarding strategic alliances, the almond, pistachio and grape industries, the future plantings of permanent crops, future yields, prices and water availability for our crops and real estate operations, future prices, production and demand for oil and other minerals, future development of our property, future revenue and income of our jointly-owned travel plaza and other joint venture operations, potential losses to the Company as a result of pending environmental proceedings, the adequacy of future cash flows to fund our operations, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable and our own outstanding indebtedness and other future events and conditions. In some cases these statements are identifiable through the use of words such as "anticipate", "believe", "estimate", "expect", "intend", "plan", "project", "target", "can", "could", "may", "will", "should", "would", "likely", and similar expressions. In addition, any statements that refer to projections of our future financial performance, our anticipated growth, and trends in our business and other characterizations of future events or circumstances are forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. These forward-looking statements are not a guarantee of future performances and are subject to assumptions and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company, or industry results, to differ materially from any future results, performance, or achievement implied by such forward- looking statements. These risks, uncertainties and important factors include, but are not limited to, weather, market and economic forces, availability of financing for land development activities, competition and success in obtaining various governmental approvals and entitlements for land development activities. No assurance can be given that the actual future results will not differ materially from the forward-looking statements that we make for a number of reasons including those described above and in the section entitled "Risk Factors" in this report and our Annual Report on Form 10-K as supplemented by our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018.

OVERVIEW

We are a diversified real estate development and agribusiness company committed to responsibly using our land and resources to meet the housing, employment, and lifestyle needs of Californians and to create value for our shareholders. In support of these objectives, we have been investing in land planning and entitlement activities for new industrial and master planned communities and in infrastructure improvements within our active industrial development. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield.

Business Objectives and Strategies

Our primary business objective is to maximize long-term shareholder value through the monetization of our land-based assets. A key element of our strategy is to entitle and then develop large-scale mixed-use master planned residential and commercial/industrial real estate projects to serve the growing populations of Southern and Central California. Once all entitlements are approved, our mixed-use master planned residential developments collectively may include up to 35,000 housing units, with 15,450 units currently approved, and more than 35 million square feet of commercial space, with 25 million square feet currently approved. We have obtained entitlements on Mountain Village at Tejon Ranch, or MV, and Grapevine at Tejon Ranch, or Grapevine, and are currently in the entitlement process with Centennial at Tejon Ranch, or Centennial. We are currently engaged in construction, commercial sales and leasing at our fully

operational commercial/industrial center Tejon Ranch Commerce Center, or TRCC. All of these efforts are supported by diverse revenue streams generated from other operations, including farming, mineral resources, ranch operations, and our various joint ventures.

Our Business

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

Activities within the commercial/industrial real estate segment include: entitling, planning, and permitting of land for development; construction of infrastructure; construction of pre-leased buildings; construction of buildings to be leased or sold; and the sale of land to third parties for their own development. The commercial/industrial segment generates revenues from building and land lease activities, power plant leases, communications leases, and landscape maintenance services. The primary commercial/industrial development is TRCC. TRCC includes developments east and west of Interstate 5 at TRCC-East and TRCC-West, respectively.

We are also involved in multiple joint ventures with several partners:

- Our joint venture with TravelCenters of America, or TA/Petro, owns and operates two travel and truck stop facilities, and also operates five separate gas stations with convenience stores within TRCC-West and TRCC-East.
- Three joint ventures with Rockefeller Development Group:
    - Five West Parcel LLC, which owns a 606,000 square foot building in TRCC-West that is fully leased;
    - 18-19 West LLC, which owns 61.5 acres of land for future development within TRCC-West;
    - TRCC/Rock Outlet Center LLC, which operates the Outlets at Tejon, a net leasable 326,000 square foot shopping experience;
- Two joint ventures with Majestic Realty Co. to develop, manage, and operate industrial buildings within TRCC:
    - TRC-MRC 1, LLC, was formed to develop and operate an approximately 480,480 square foot industrial building, which was completed during 2017 and fully leased as of September 30, 2018;
    - TRC-MRC 2, LLC, which owns a 651,909 square foot building in TRCC-West that is fully leased;

These joint ventures help us to expand our commercial/industrial business activities within TRCC.

The resort/residential real estate segment is actively involved in the land entitlement and development process through wholly-owned subsidiaries and a joint venture. Our active developments within resort/residential are MV, Centennial, and Grapevine.

- MV encompasses a total of 26,417 acres, of which 5,082 acres will be used for the mixed-use development that will include housing, retail, and commercial components. MV is entitled for 3,450 homes, 160,000 square feet of commercial development, 750 hotel keys, and more than 21,335 acres of open space.
- The Centennial development is a mixed-use master planned community development encompassing 12,323 acres of our land within Los Angeles County. Upon completion of Centennial, it is estimated that the community will include approximately 19,333 homes, and 10.1 million square feet of commercial development.

- Grapevine is an 8,010-acre potential development area located on the San Joaquin Valley floor area of our lands, adjacent to TRCC. Grapevine has received approval for 12,000 homes, 5.1 million square feet for commercial development, and more than 3,367 acres of open space and parks.

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2017, for a more detailed description of our active developments within the resort/residential segment.

Our mineral resources segment generates revenues from oil and gas royalty leases, rock and aggregate mining leases, a lease with National Cement, and water sales.

The farming segment produces revenues from the sale of wine grapes, almonds, pistachios, and hay.

Our ranch operations segment consists of game management revenues and ancillary land uses such as grazing leases and filming. Ranch operations is charged with the upkeep, maintenance, and security of all 270,000 acres of land.

For the first nine months of 2018 we had a net income attributable to common stockholders of $3,948,000 compared to a net loss attributable to common stockholders of $2,100,000 for the first nine months of 2017. The leading driver for this is a $7,324,000 improvement within our mineral resources segment resulting from improved water sales. We also saw improvements within our farming segment of $3,175,000 resulting from increased pistachio sales during the quarter.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations provides a narrative discussion of our results of operations. It contains the results of operations for each reporting segment of the business and is followed by a discussion of our financial position. It is useful to read the reporting segment information in conjunction with Note 14 (Reporting Segments and Related Information) of the Notes to Unaudited Consolidated Financial Statements.

Critical Accounting Policies

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

During the nine months ended September 30, 2018, other than the following, our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2017. Please refer to that filing for a description of our critical accounting policies. Please also refer to Note 1 (Basis of Presentation) in the Notes to Unaudited Consolidated Financial Statements in this report for newly adopted accounting principles.

The accounting policy change is attributable to the adoption of the Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (the “new revenue standard” or Accounting Standards Codification Topic 606, (“ASC 606”)) on January 1, 2018. These revenue recognition policy updates are applied retrospectively in our financial statements

from December 1, 2017 forward. Reported financial information for the historical comparable period was revised and reported under the new accounting standard in effect.

ASC 606 - "Revenue from Contracts with Customers"

Leases subject to ASC 840 - "Leases"

Commercial Leases: Rental income from leases is recognized on a straight-line basis over the respective lease terms. We classify amounts currently recognized as income, and amounts expected to be received in later years, as an asset in deferred rent in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are classified in accounts payable, accrued expenses, and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the client tenant takes possession of or controls the physical use of the property. During the term of each lease, we monitor the credit quality of our tenants by (i) reviewing the credit rating of tenants that are rated by a nationally recognized credit rating agency, (ii) reviewing financial statements of the client tenants that are publicly available or that are required to be delivered to us pursuant to the applicable lease, (iii) monitoring news reports regarding our tenants and their respective businesses, and (iv) monitoring the timeliness of lease payments. We have employees who are assigned the responsibility for assessing and monitoring the credit quality of our tenants and any material changes in credit quality. The Company’s commercial sales, or land sales, are non-reoccurring in nature, however, for any new land sale, we apply the concepts of this new accounting standard, as amended.

Production Leases: The Company leases land to third parties and recognizes contingent revenue based on the royalty rate that is tied to production for oil and minerals. Royalty revenues are contractually defined as to the percentage of royalty and are tied to production and market prices. The Company’s royalty arrangements generally require payment on a monthly basis with the payment based on the previous month’s activity. The Company accrues monthly royalty revenues based upon estimates and adjusts to actual as the Company receives payments. Productions leases included the following: Oil and gas, cement, and rock aggregate, refer to Note 14, Reporting Segments and Related Information, for further discussion.

Grazing: The Company leases land to third parties for grazing of cattle. Under the terms the lease, we recognize revenue based on the number of cattle the grazing land will support, calculated in arrears.

Revenue from Contracts with Customers subject to ASC 606:

A portion of the Company’s revenues result from the sale of goods or services and reflect the consideration to which the Company expects to be entitled. The Company records revenue based on a five-step model in accordance with ASC 606. For its customer contracts, the Company identifies the performance obligations (goods or services), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when (or as) the performance obligation is transferred to the customer. A good or service is transferred when (or as) the customer obtains control of that good or service. The majority of the Company’s revenues are recorded at a point in time from the sale of tangible products.

Farming

- *Almonds and Pistachios:* Almond and pistachio revenues are based upon the contract settlement price or estimated selling price. Estimated prices for almonds and pistachios are based upon the quoted estimate of what the final market price established by processors. These market price estimates are updated through the crop installment payments as new information is received as to the final settlement price for the crop sold. This method of recognizing revenues on the sale of orchard crops is a standard practice within the agribusiness community. Adjustments for differences between original estimates and actual revenues received are recorded during the period

in which such amounts become known. Revenue for almonds and pistachios is recognized based on market price estimates when delivered to buyers.

- *Wine grapes:* The Company sells wine grapes based on contracts with third parties. Wine grapes revenue is recognized based on the contract selling price when delivered to buyers.
- *Hay:* Hay sales are recognized at a point in time when the related transaction is completed.

Water sales

Water sales are recognized at a point in time when the related transaction is completed.

Other

- *Game Management:* The Company provides memberships for hunting seasons both on an annual and seasonal basis. Revenue from memberships are recognized over the passage of time, generally this corresponds to the hunting season. Revenues from individual non-member hunts are recognized when the related transaction is completed.
- *Equestrian Center:* The Company recognizes revenue from monthly rental fees charged for boarding facilities.
- *Filming:* Tejon Ranch provides access for on-site filming of commercials, movies and photo opportunities, revenues are recognized at a point in time when the related transaction, or access, is provided.
- *Landscaping:* Tejon Ranch provides landscaping services to third parties, revenues are recognized at a point in time when the related transaction, or service, is provided.
- *Management Fees:* Management fees are generally recognized at the end of each month based on the contractual amounts agreed upon by third parties and the Company.

For disaggregated revenue information on the aforementioned, refer to Note 14, Reporting Segments and Related Information, for further discussion.

The Company does not offer volume rebates, product returns, discounts and allowances as such, no variable consideration impacts the recording of revenue.

The Company’s revenues can be generated from contracts with multiple performance obligations. When a sales agreement involves multiple performance obligations, each obligation is separately identified, and the transaction price is allocated based on the amount of consideration the Company expects to be entitled to in exchange for transferring the promised good or service to the customer.

For performance obligations that the Company satisfies over time, revenue is recognized by consistently applying a method of measuring progress toward complete satisfaction of that performance obligation. The Company utilizes the method that most accurately depicts the progress toward completion of the performance obligation.

Contract assets or liabilities result from transactions with revenue recorded over time. If the measure of remaining rights exceeds the measure of the remaining performance obligations the Company records a contract asset. Conversely, if the measure of the remaining performance obligations exceeds the measure of the remaining rights, the Company records a contract liability.

The adoption of ASC 606 did not have an impact on our accounts receivables. Accounts receivables resulting from contracts with customers are as follows:

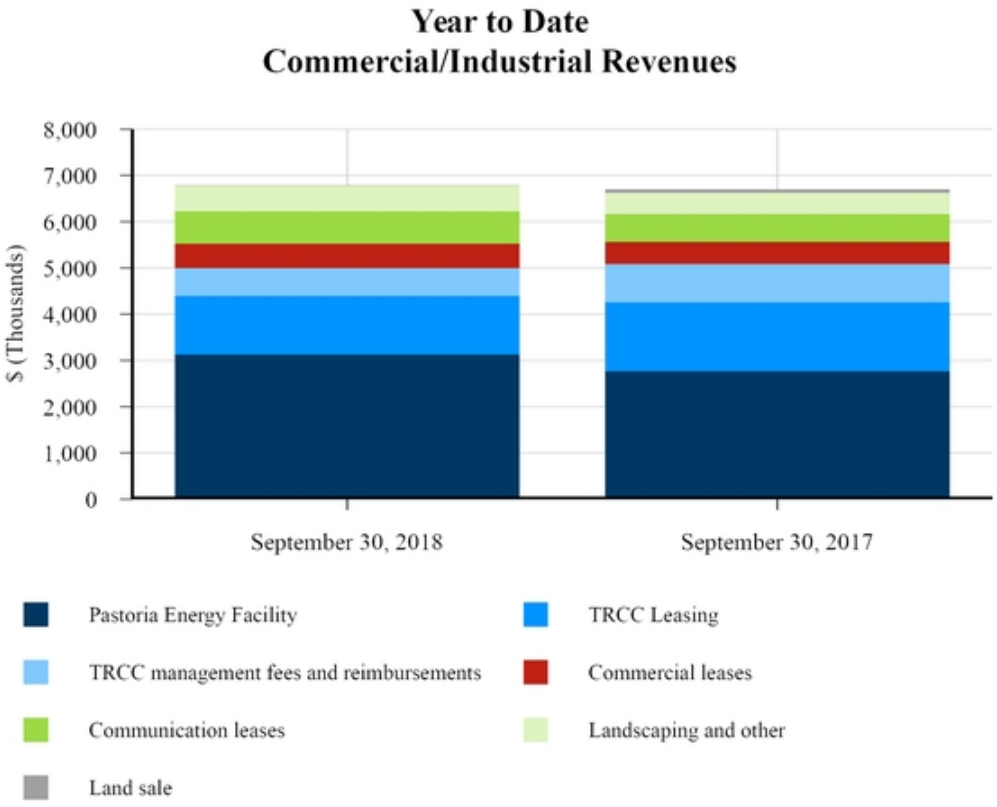
	September 30, 2018	December 31, 2017
Subject to ASC 606		
Farming	9,464	5,745
Management Fees	219	744
Ranch Operations	180	209
Total Subject to ASC 606	9,863	6,698
Not Subject to ASC 606		
Leases	1,034	885
Other	—	25
Total Not Subject to ASC 606	1,034	910
Total Accounts Receivable	10,897	7,608

Results of Operations

Comparison of nine months ended September 30, 2018 to nine months ended September 30, 2017

Total revenues for the first nine months of 2018 were $33,971,000 compared to $23,573,000 for the first nine months of 2017, representing an increase of $10,398,000, or 44%. The increase is attributed to increased mineral resource revenues of $7,324,000 resulting from Kern County's moderate drought conditions allowing for increased water sales opportunities during the first three months of 2018. We also experienced improvements within our farming segment of $3,175,000 as a result of higher pistachio production leading to greater sales.

Real Estate – Commercial/Industrial:



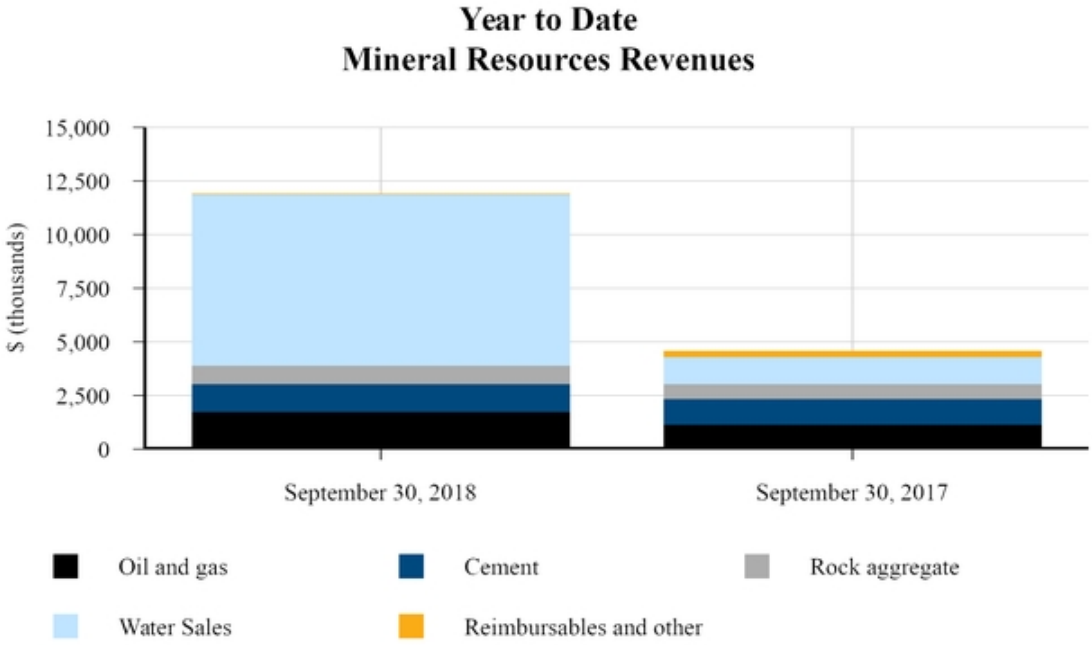
Commercial/industrial real estate segment revenues were $6,788,000 for the first nine months of 2018, an increase of $84,000, or 1%, from $6,704,000 when compared to the first nine months of 2017. The increase is primarily attributed to revenue increases from the Pastoria Energy Facility of $353,000 resulting from spark spread increases offset by reduced developer fees of $211,000 and land sales of $73,000.

Commercial/industrial real estate segment expenses were $4,385,000 during the first nine months of 2018, a decrease of $575,000, or 12%, from $4,960,000 when compared to the same period in 2017. This decrease is attributed to reduced payroll and overhead of $218,000 and stock compensation of $212,000. We also saw decreases in land sales costs and professional services of $64,000 and $54,000, respectively.

Real Estate – Resort/Residential:

Resort/residential real estate segment expenses were $1,319,000 during the first nine months of 2018, a decrease of $82,000, or 6%, from $1,401,000 when compared to the same period in 2017. The decrease is attributed to reduced professional services of $312,000 offset by increased payroll, overhead, and stock compensation of $218,000.

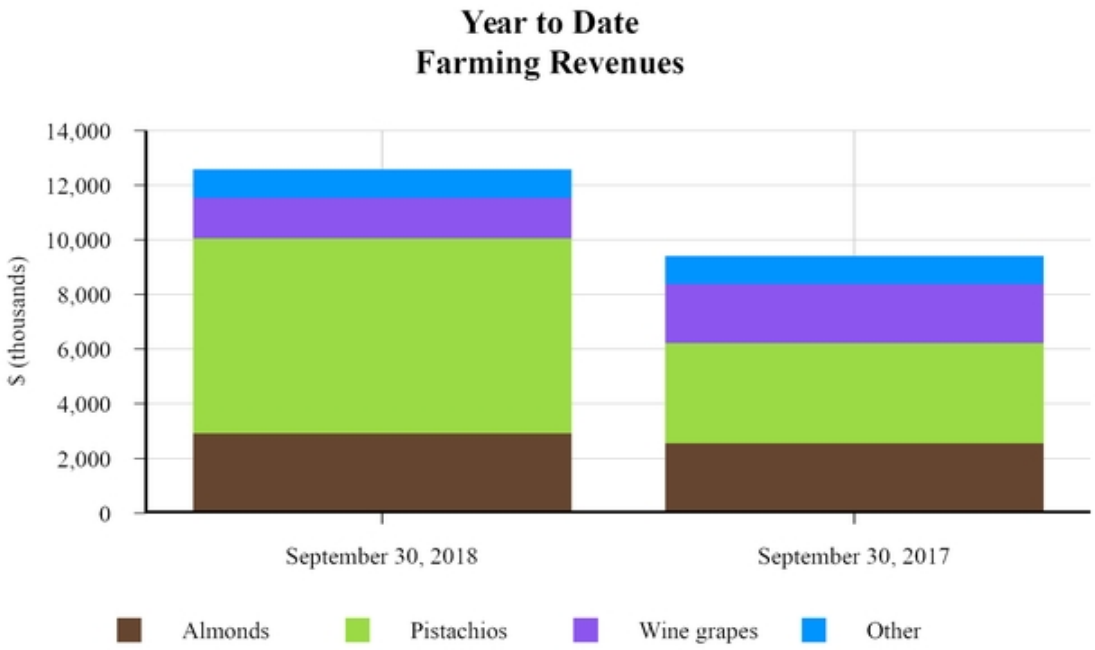
Mineral Resources:



Mineral resources segment revenues were $11,986,000 for the first nine months of 2018, an increase of $7,324,000, or 157%, from $4,662,000 when compared to the same period in 2017. During the first quarter of 2018, Kern County was under moderate drought conditions, which increased water sales opportunities resulting in additional water revenues of $6,738,000. Comparatively, we sold 7,442 acre-feet of water and 939 acre-feet of water as of the nine months ended September 30, 2018 and 2017, respectively, all of which was sold during the first quarter. In the first quarter of 2018, we entered into a contract with a third-party to sell 3,500 acre-feet of water per year over the next two years. We also saw an increase in oil royalties of $584,000 resulting from increased commodity prices. The average price per barrel of oil was $68 and $45 as of the nine months ended September 30, 2018 and 2017, respectively.

Mineral resources segment expenses were $5,400,000 for the first nine months of 2018, an increase of $3,019,000, or 127%, compared to the same period in 2017. The increase in expenses is associated with increased water sales costs of $2,914,000 related to the water sales discussed above, a $225,000 increase in general and administrative costs, and a $57,000 increase in professional services. These increases were offset by a decrease in payroll and overhead of $187,000.

Farming:



Farming segment revenues were $12,573,000 for the first nine months of 2018, an increase of $3,175,000, or 34%, from $9,398,000 when compared to the same period in 2017. The changes are primarily attributed to the following:

- 2018 Pistachio crop yields exceeded 4,000,000 pounds, representing a record high for the Company. This resulted in a $3,454,000 increase in pistachio revenues. Comparatively, we sold 3,500,000 and 643,000 pounds of pistachios as of September 30, 2018 and 2017, respectively. Yields for 2017 were lower given that 2017 was a down bearing crop year. Pistachios are an alternate year bearing crop. Because 2018 was a high production year, we expect 2019 to be a low production year.
- Almond revenues increased $367,000 as a result of $1,055,000 in prior year crop sales. By comparison we sold 610,000 and 574,000 pounds of our current year crop as of September 30, 2018 and 2017, respectively. With regards to our prior year crop, we sold 412,000 and 297,000 pounds as of September 30, 2018 and 2017, respectively.
- Wine grape sales decreased $677,000 as a result of having fewer production acres. By comparison we sold 5,000 and 7,500 tons as of September 30, 2018 and 2017, respectively.

Farming segment expenses were $9,570,000 for the first nine months of 2018, a decrease of $932,000, or 9%, from $10,502,000 when compared to the same period in 2017. The reduction in farming expenses is attributed to the following:

- We experienced a reduction in pistachio cost of sales of $1,144,000 when compared to the same period in 2017. The 2017 pistachio crop year was a down bearing year that severely depressed yields. As a result, during the third quarter of 2017 the Company recognized all pistachio costs from the 2017 growing season in accordance the applicable accounting guidance.
- We experienced a reduction in wine grape cost of sales of $1,214,000.

- We experienced an increase in fixed water costs of $836,000 with WRMWSD as a result of WRMWSD supplying higher cost supplemental water due to the mild drought conditions in Kern County.

Ranch Operations:

Ranch operations revenues were $2,624,000 for the first nine months of 2018, a decrease of $185,000, or 7%, from $2,809,000 for the same period in 2017. The decrease is attributed to reductions in grazing revenues of $148,000.

Ranch operations expenses were $4,090,000 for the first nine months of 2018, a decrease of $17,000, or 0%, from $4,107,000 for the same period in 2017. The drivers of this decrease include reduced payroll and overhead costs of $125,000, partially offset by increases in other costs including property taxes, general and administrative costs and pesticide costs.

Corporate and Other:

Corporate general and administrative costs were $7,296,000, a decrease of $46,000, or 1%, from $7,342,000 for the same period in 2017. The decrease is attributed to a decrease in payroll and overhead of $54,000.

Joint Ventures:

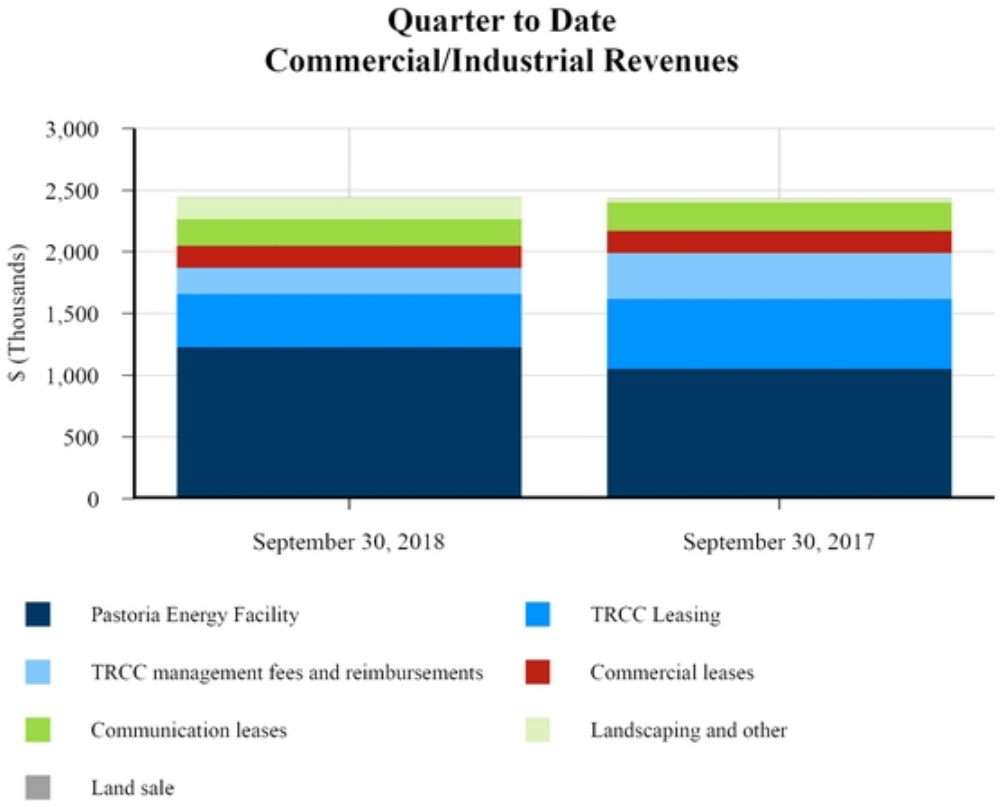
Our share of earnings from our joint ventures for the first nine months of 2018 was $2,411,000, a decrease of $1,101,000, or 31%, from $3,512,000 for the same period in 2017. The primary drivers include the following:

- There was a $849,000 decrease in our share of earnings from our TA/Petro joint venture. The decline is driven by reduced fuel margins as a result of increased gasoline and diesel costs. Comparatively diesel margins were 25 cents and 32 cents per gallon as of September 30, 2018 and 2017, respectively. Comparatively gasoline margins were 57 cents and 66 cents per gallon as of September 30, 2018 and 2017, respectively. Diesel sales volumes were 12.4 million and 12.7 million gallons as of September 30, 2018 and 2017, respectively. Gasoline sales volumes were 10.4 million and 10.1 million gallons as of September 30, 2018 and 2017, respectively.
- Our share of earnings from our TRCC/Rock Outlet Center joint venture decreased $1,080,000 resulting from the acceleration of amortization of lease intangibles driven by the removal of poor peforming tenants. We are actively seeking tenants for the vacated retail space.
- There was a $1,102,000 improvement from our TRC-MRC 2 joint venture. Throughout 2017, TRC-MRC 2 incurred significant non-cash GAAP accounting losses that did not reoccur in 2018. Please refer to "Non-GAAP Financial Measures" for further financial discussion on our joint ventures.

Comparison of three months ended September 30, 2018 to three months ended September 30, 2017

Total revenues for the three months ended September 30, 2018 were $15,432,000 compared to $11,908,000 for the three months ended September 30, 2017 representing an increase of $3,524,000, or 30%. The increase is primarily attributable to an increase in farming and mineral resources revenues of $3,370,000 and $213,000, respectively.

Real Estate – Commercial/Industrial:



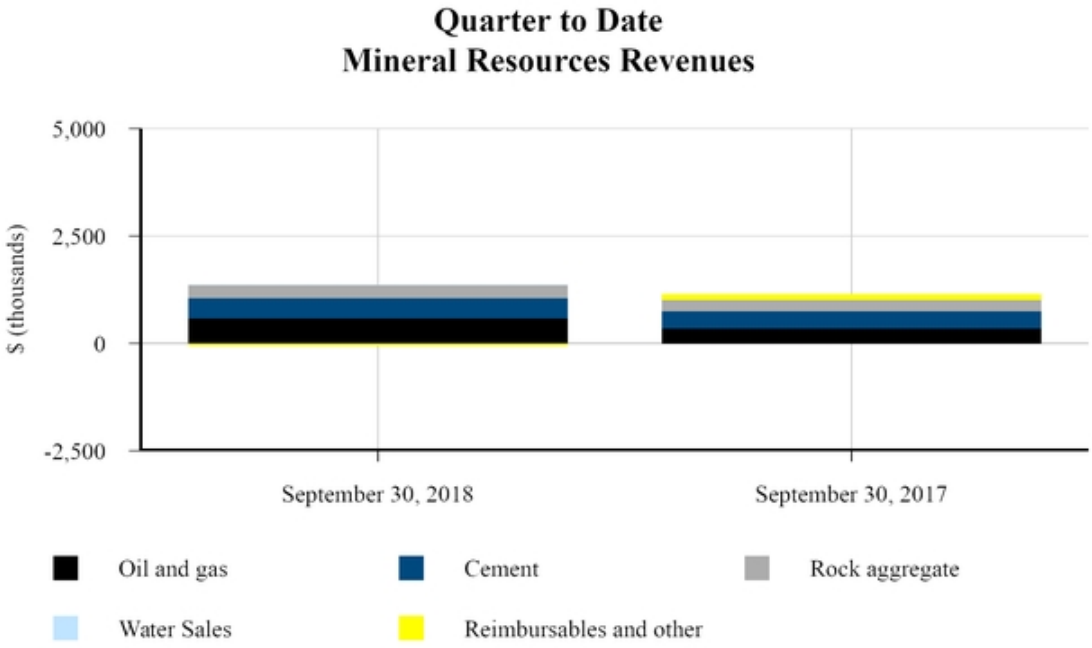
Commercial/industrial real estate segment revenues were $2,445,000 for the three months ended September 30, 2018, an increase of $13,000, or 1%, from $2,432,000 for the three months ended September 30, 2017. The changes are attributed to the same reasons discussed for the nine months ended September 30, 2018.

Commercial/industrial real estate segment expenses were $1,678,000 during the three months ended September 30, 2018, an increase of $363,000, or 28%, from $1,315,000 for the same period in 2017. This increase is attributed to an increase in general and administrative costs of $281,000 and TCWD water assessments of $228,000. These increases were offset by reductions in payroll and overhead of $123,000.

Real Estate – Resort/Residential:

Resort/residential real estate segment expenses were $471,000 during the three months ended September 30, 2018, an increase of $200,000, or 74%, from $271,000 for the same period in 2017. The increase was driven by increased general and administrative allocations of $92,000 and an increase in payroll, overhead, and stock compensation net of capitalization of $132,000.

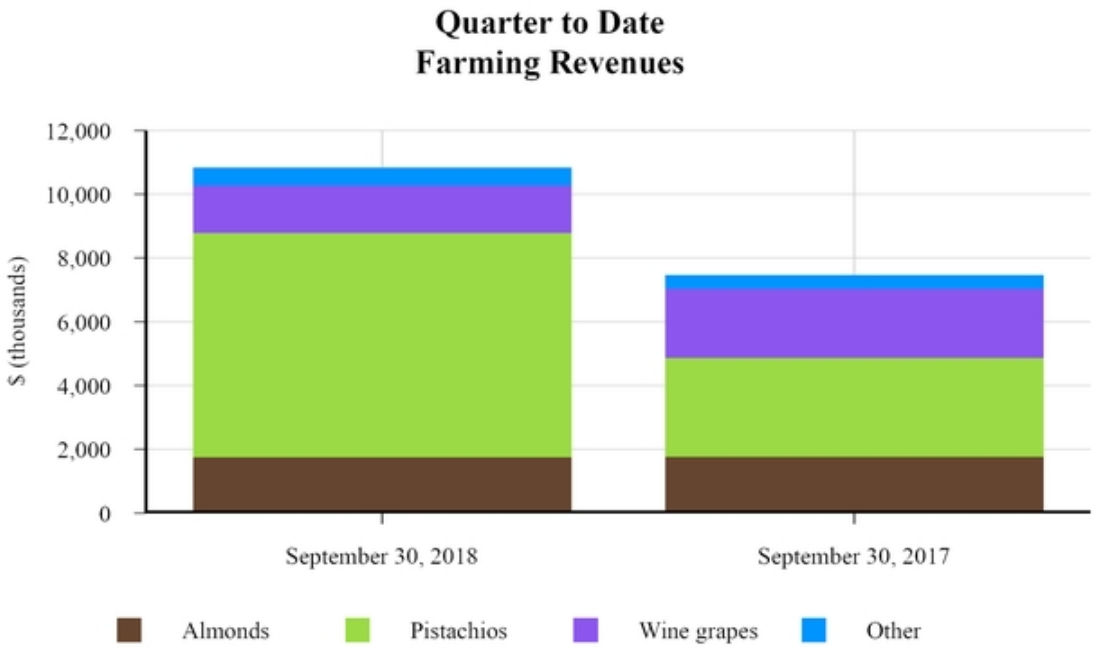
Mineral Resources:



Mineral resources segment revenues were $1,355,000 for the three months ended September 30, 2018, an increase of $213,000, or 19%, from $1,142,000 for the same period in 2017. We had increases in oil royalties of $228,000. The average price per barrel of oil was $70 and $47 as of the three months ended September 30, 2018 and 2017, respectively. The Company also experienced increases in cement and rock aggregate revenue of $83,000 and $39,000, respectively. Partially offsetting those increases were reductions in other revenues and reimbursements of $163,000.

Mineral resources segment expenses were $574,000 for the three months ended September 30, 2018, an increase of $46,000, or 9%, from $528,000 for the same period in 2017. The increase resulted from increased general and administrative costs of $77,000.

Farming:



Farming segment revenues were $10,836,000 for the three months ended September 30, 2018, an increase of $3,370,000, or 45%, compared to $7,466,000 for the same period in 2017. The $3,370,000 change is primarily attributable to the following:

- Pistachio revenues increased $3,939,000 for the same reasons discussed within the Result of Operations for the nine months ended September 30, 2018.
- Wine grape revenues decreased $638,000 for the same reasons discussed within the Result of Operations for the nine months ended September 30, 2018.

Farming segment expenses were $6,541,000 for the three months ended September 30, 2018, a decrease of $1,380,000, or 17%, compared to $7,921,000 for the same period in 2017. The decrease is attributed to the same reasons discussed within the Result of Operations for the nine months ended September 30, 2018.

Ranch Operations:

Ranch operations revenues were $796,000 for the three months ended September 30, 2018, a decrease of $72,000, or 8%, from $868,000 during the same period in 2017. The decrease is largely attributed to a decrease in grazing revenues of $56,000 and filming location fees of $52,000.

Ranch operations expenses were $1,353,000 for the three months ended September 30, 2018, an increase of $200,000, or 17%, compared $1,153,000 for the same period in 2017. The increase is primarily attributed to increased general and administrative costs of $80,000, fuel of $23,000, repairs and maintenance of $19,000, professional services of $16,000, and payroll and overhead of $13,000,

Corporate and Other:

Corporate general and administrative costs were $2,100,000, a decrease of $123,000, or 6%, compared to the same period in 2017. This decrease is attributed to lower software license and stock compensation costs of $81,000 and $57,000, respectively.

Joint Ventures:

Our share of earnings from our joint ventures was $1,592,000, a decrease of $132,000, or 8%, during the third quarter of 2018 when compared to $1,724,000 for the same period in 2017. The primary drivers include the following:

- There was a $159,000 increase in our share of earnings from our TA/Petro joint venture driven by improved fuel margins resulting from higher sales prices and greater diesel sales volume. Comparatively diesel margins were 36 cents and 33 cents per gallon as of the quarters ended September 30, 2018 and 2017, respectively. Comparatively gasoline margins were 70 cents and 65 cents per gallon as of the quarters ended September 30, 2018 and 2017, respectively. Diesel sales volumes were 4.5 million and 4.3 million gallons as of the quarters ended September 30, 2018 and 2017, respectively. Gasoline sales volumes were 3.7 million and 3.7 million gallons as of the quarters ended September 30, 2018 and 2017, respectively.
- Our share of earnings from our TRCC/Rock Outlet Center decreased $449,000 as a result of increased operating expenses and higher interest expense as a result of rising interest rates.
- There was a $341,000 improvement from our TRC-MRC 2 joint venture. Throughout 2017, TRC-MRC 2 incurred significant non-cash GAAP accounting losses that did not reoccur in 2018. Please refer to "Non-GAAP Measures" for further financial discussion on our joint ventures.

General Outlook

The operations of the Company are seasonal and future results of operations cannot be predicted based on quarterly results. Historically, the Company's largest percentages of farming revenues are recognized during the third and fourth quarters of the fiscal year. Real estate activity and leasing activities are dependent on market circumstances and specific opportunities and therefore are difficult to predict from period to period.

Commercial

For the nine months ended September 30, 2018 we had no leases that expired, nor did we have any material lease renewals.

The logistics operators currently located within our commerce center have demonstrated success in serving all of California and the western region of the United States, and we are building from their success in our marketing efforts. We will continue to focus our marketing strategy for TRCC-East and TRCC-West on the significant labor and logistical benefits of our site, the pro-business approach of Kern County, and the demonstrated success of the current tenants and owners within our development. Our strategy fits within the logistics model that many companies are using, which favors large, centralized distribution facilities which have been strategically located to maximize the balance of inbound and outbound efficiencies, rather than a number of decentralized smaller distribution centers. The world class logistics operators located within TRCC have demonstrated success through utilization of this model. With access to markets of over 40 million people for next-day delivery service, they are also demonstrating success with e-commerce fulfillment.

During 2018, approval for expansion of the Foreign Trade Zone (FTZ) was granted by the U.S. Department of Commerce. The expanded FTZ now covers all the industrial sites within TRCC, an area

totaling 1,094 acres. The FTZ designation allows the user to secure the many benefits and cost reductions associated with streamlined movement of goods in and out of the zone. This FTZ designation is further supplemented by the Economic Development Incentive Policy, or EDIP adopted by the Kern County Board of Supervisors. EDIP is aimed to expand and enhance the County's competitiveness by taking affirmative steps to attract new businesses and to encourage the growth and resilience of existing businesses. The EDIP provides incentives such as tax breaks, building supporting infrastructure, or workforce development.

We believe that the FTZ and EDIP along with our ability to provide fully-entitled, shovel-ready land parcels to support buildings of any size, especially buildings 1.0 million square feet or larger, can provide us with a potential marketing advantage in the future. We are also expanding our marketing efforts to include industrial space users in the Santa Clarita Valley of northern Los Angeles County, and the northern part of the San Fernando Valley due to the limited availability of new product and high real estate costs in these locations. Tenants in these geographic areas are typically users of relatively smaller facilities. In pursuit of such opportunities, the Company partnered with Majestic Realty Co. in the development of a 480,000 square foot, state-of-the-art distribution facility that was completed in the third quarter of 2017 and is currently fully leased. One of the tenants, L'Oréal USA, moved its operations to the new facility from the Santa Clarita Valley.

A potential disadvantage to our development strategy is our distance from the ports of Los Angeles and Long Beach in comparison to the warehouse/distribution centers located in the Inland Empire, a large industrial area located east of Los Angeles, which continues its expansion eastward beyond Riverside and San Bernardino, to include Perris, Moreno Valley, and Beaumont. As development in the Inland Empire continues to move east and farther away from the ports, our potential disadvantage of our distance from the ports is being mitigated. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcels.

During the quarter ended September 30, 2018, vacancy rates in the Inland Empire remained unchanged at 3.8% when compared to December 31, 2017, primarily due to strong absorption. Lease rates have increased in the Inland Empire by $0.03 per square foot over the past 12 months, this increase may begin to give us a greater pricing advantage due to our low land basis.

During the quarter ended September 30, 2018, vacancy rates in the northern Los Angeles industrial market, which includes the San Fernando Valley and Santa Clarita Valley, increased 10 basis points from 1.7% to end at 1.8% when compared to December 31, 2017. The northern Los Angeles industrial market continues to see available supply remain at extremely low levels, and with limited new construction, this will result in vacancy remaining at all-time lows and rental rates anticipated to continue to increase. Demand for industrial space in this market will continue to be driven by domestic and global consumption levels.

We expect that the commercial/industrial real estate segment will continue to incur costs at current levels, net of amounts capitalized, primarily related to marketing costs, commissions, planning costs, and staffing costs as we continue forward with our development plans.

Resort Residential

Most of the expenditures and capital investment to be incurred within our resort/residential real estate segment will continue to focus on the following:

- For Grapevine, we are working with Kern County to defend litigation related to the approved EIR. The entire litigation and permitting process for Grapevine will take several years and the investment of several million dollars to successfully complete.

- For Centennial, we have received a 4-1 vote from the Los Angeles County Regional Planning Commission recommending that the LA County Board of Supervisors approve the Centennial Specific Plan. The Company is currently working with LA County to advance the application on to the Board of Supervisors.
- For MV, we have a fully permitted and entitled project and received approval of Tentative Tract Map 1 for our first three phases of development. The timing of MV development in the coming years will be dependent on the strength of both the economy and the real estate market including both primary and second home markets. In moving the project forward, we will focus on the preparation of engineering leading to the final map for the first phases of MV, consumer and market research studies and fine tuning of development business plans as well as defining the possible capital funding sources for this development. We also obtained approval on the Farm Village commercial site plan from Kern County. Farm Village will serve as the “front door” to MV.

Farming

We have substantially completed our pistachio harvest and achieved record yields in excess of 4 million pounds. We are currently in the process of completing our wine grape and almond harvests. Thus far, we expect almond yields to be slightly lower than the previous year while wine grape yields will remain comparable to the prior year. Due to our exposure to the commodity markets, we are unable to accurately predict revenue and we cannot pass on to our customers any cost increases caused by general inflation, except to the extent such inflation is reflected in market conditions and commodity prices. Additionally, we are unable to predict the outcome of ongoing trade discussions with foreign nations nor are we able to predict the resulting impact over crop demand or pricing. Lastly, increased tariffs from China and India which are major customers of almonds and pistachios, can make American products less competitive and push customers to switch to another producing country. All of our crops are sensitive to the size of each year’s world crop. Large crops in California and abroad can rapidly depress prices. Thus far in 2018, prices for almonds and pistachios have seen some decline due to the uncertainly surrounding trade tariffs.

Mineral Resources

As anticipated changes come in the future related to groundwater management within California, such as limited pumping in the over drafted groundwater basins outside of our lands, we believe that water banking operations, ground water recharge programs, and access to water contracts as we have purchased in the past will become even more important and valuable in servicing our projects. The 2018 moderate drought conditions have led to water sales opportunities, including multi-year agreements as we have done in the past. We do not expect to have any water sales opportunities for the remainder of the year.

For further discussion of the risks and uncertainties that could potentially adversely affect us, please refer to Part I, Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, or Annual Report, and to Part I, Item 1A - "Risk Factors" of our Annual Report. We continue to be involved in various legal proceedings related to leased acreage. For a further discussion, please refer to Note 12 (Commitments and Contingencies) of the Notes to Unaudited Consolidated Financial Statements in this report.

Income Taxes

For the nine months ended September 30, 2018, the Company had net income tax expense of $1,333,000 compared to a net income tax benefit of $1,468,000 for the nine months ended September 30, 2017. These represent effective tax rates of approximately 25% and 41% for the nine months ended September 30, 2018 and, 2017, respectively. As of September 30, 2018, income tax receivables were $88,000. The Company classifies interest and penalties incurred on tax payments as income tax expenses.

Cash Flow and Liquidity

Our financial position allows us to pursue our strategies of land entitlement, development, and conservation. Accordingly, we have established well-defined priorities for our available cash, including investing in core reporting segments to achieve profitable future growth. We have historically funded our operations with cash flows from operating activities, investment proceeds, and short-term borrowings from our bank credit facilities. In the past, we have also issued common stock and used the proceeds for capital investment activities.

To enhance shareholder value, we will continue to make investments in our real estate segments to secure land entitlement approvals, build infrastructure for our developments, ensure adequate future water supplies, and provide funds for general land development activities. Within our farming segment, we will make investments as needed to improve efficiency and add capacity to its operations when it is profitable to do so.

On October 27, 2017, the Company completed a Rights Offering raising $90,000,000 in new capital.

Our cash, cash equivalents and marketable securities totaled $79,555,000 at September 30, 2018, a decrease of $11,420,000 from $90,975,000 as of December 31, 2017. The use of cash is attributed to ongoing development costs associated with our commercial/industrial and resort/residential segments.

The following table shows our cash flow activities for the nine months ended September 30,

(in thousands)	2018	2017
Operating activities	$ 8,829	$ 7,902
Investing activities	$ (14,515)	$ (12,361)
Financing activities	$ (4,247)	$ 5,859

Operating Activities

During the first nine months of 2018, our operations generated $8,829,000 in cash largely due to the water sales discussed above and operating distributions of $4,800,000 from our TA/Petro joint venture.

During the first nine months of 2017, our operations generated $7,902,000 in cash largely due to operating distributions of $7,200,000 from our TA/Petro joint venture.

Investing Activities

During the first nine months of 2018, investing activities used $14,515,000 of cash, in part, as a result of $16,183,000 in capital expenditures. Capital expenditures, inclusive of capitalized interest and payroll (exclusive of stock compensation), include predevelopment activities for our master planned communities, which include tentative tract maps, engineering and design for Farm Village totaling $3,842,000 for MV; expenditures relating to regulatory permits and litigation of $2,241,000 for Grapevine, and costs related to approval of specific plan of $3,319,000 for Centennial. At TRCC, we spent $3,328,000 on water treatment facility improvements, water infrastructure improvements and planning. Within our farming segment, we spent $2,873,711 replacing old machinery and equipment along with developing new almond orchards. We also purchased marketable securities and water for $23,451,000 and $2,659,000, respectively. Our capital outlays were offset by distributions from unconsolidated joint ventures of $1,835,000, CFD reimbursements of $1,385,000 and proceeds from maturity of marketable securities of $24,558,000. As we move forward, we will continue to use cash from operations, proceeds from the maturity of securities, and anticipated distributions from joint ventures to fund real estate project investment.

During the first nine months of 2017, investing activities used $12,361,000 of cash as a result of $15,579,000 in capital expenditures. Capital expenditures, inclusive of capitalized interest and payroll, include predevelopment activities for our master planned communities which amounted to $4,040,000 for

MV, $3,056,000 for Grapevine, and $2,594,000 for Centennial. At TRCC East, we spent $3,053,000 for infrastructure projects. Within our farming segment, we spent $1,830,000 replacing old machinery and equipment along with developing a new almond orchard. We spent $352,000 within our mineral resources group for new wells and water turnouts. Additionally, we used $4,567,000 for our purchase of water under the Nickel water contract along with water recharge costs. Our capital outlays were offset by distributions from unconsolidated joint ventures of $3,018,000 and proceeds from maturity of marketable securities of$5,274,000.

Our estimated capital investment, inclusive of capitalized interest and payroll, for the remainder of 2018 will be primarily related to real estate projects. Estimated capital investment includes approximately $2,533,000 of infrastructure development at TRCC-East. This new infrastructure is to support continued commercial retail and industrial development within TRCC-East and to expand water facilities to support future anticipated absorption. We expect to possibly invest $487,000 in permitting and planning activities and defending the approved EIR for Grapevine, $576,000 for final approval of tentative tract maps and design activities related to commercial development for MV, and $882,000 related to the specific plan EIR, approval of EIR, and mapping activities for Centennial.

We capitalize interest cost as a cost of the project only during the period for which activities necessary to prepare an asset for its intended use are ongoing, provided that expenditures for the asset have been made and interest cost has been incurred. Capitalized interest for the nine months ended September 30, 2018 and 2017, of $2,221,069 and $2,655,236, respectively, is classified in real estate development. We also capitalized payroll and overhead costs related to development, pre-construction, and construction projects which aggregated $2,983,000 and $2,377,266 for the nine months ended September 30, 2018 and 2017, respectively. The increase in capitalized payroll and overhead costs is attributed to additional employees working on our real estate development projects. Expenditures for repairs and maintenance are expensed as incurred.

Financing Activities

During the first nine months of 2018, financing activities used $4,247,000 in cash primarily for servicing of long-term debt of $3,018,000 and tax payments on vested share grants of $1,063,000.

During the first nine months of 2017, financing activities provided $5,859,000 in cash primarily through $13,300,000 in drawdowns from our line of credit. As of September 30, 2017, there was an outstanding balance of $17,000,000 on our revolving line of credit. The use of our line of credit primarily reflects the cyclical nature of cash flow in our farming segment as inventory costs build as we move into the second half of the year and the harvest season begins and to water activity during the first half of the year. The cash inflows were offset by paydowns of short-term debt of $4,000,000, paydowns of long-term debt of$2,901,000 and tax payments on vested share grants of $540,000.

It is difficult to accurately predict cash flows due to the nature of our business segments and fluctuating economic conditions. Our earnings and cash flows will be affected from period to period by the commodity nature of our farming and mineral operations, the timing of sales and leases of property within our development projects, and the beginning of development within our residential projects. The timing of sales and leases within our development projects is difficult to predict due to the time necessary to complete the development process and negotiate sales or lease contracts. Often, the timing aspect of land development can lead to particular years or periods having more or less earnings than comparable periods. Based on our experience, we believe we will have adequate cash flows, cash balances, and availability on our line of credit over the next twelve months to fund internal operations. As we move forward with the completion of the entitlement process for our master planned communities and prepare to move into the development stage, we will need to secure additional funding through the issuance of equity and secure other forms of financing such as joint ventures and possibly debt financing.

We continuously evaluate our short-term and long-term capital investment needs. Based on the timing of capital investments, we may supplement our current cash, marketable securities, and operational funding sources through the sale of common stock and the use of additional debt.

Capital Structure and Financial Condition

At September 30, 2018, total capitalization at book value was $501,431,000 consisting of $66,941,000 of debt and $434,490,000 of equity, resulting in a long-term debt-to-total-capitalization ratio of approximately 13.3%.

The Company has a Term Loan and a Revolving Line of Credit Note, or collectively the Credit Facility, with Wells Fargo. The Credit Facility consists of a $70,000,000 term note, or Term Loan, and a $30,000,000 revolving line of credit, or RLC. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties. At the Company’s option, the interest rate on the RLC can float at 1.50% over a selected LIBOR average or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary. At September 30, 2018 and December 31, 2017, the RLC had an outstanding balance of $0. The Term Loan had outstanding balances of $63,393,000 and $66,046,000 as of September 30, 2018 and December 31, 2017, respectively.

The interest rate per annum applicable to the Term Loan is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Loan required interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Loan, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Loan at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables and the power plant lease and lease site, and related accounts and other rights to payment and inventory.

The Credit Facility requires compliance with three financial covenants: (a) total liabilities divided by tangible net worth not greater than 0.75 to 1.0 at each quarter end; (b) a debt service coverage ratio not less than 1.25 to 1.00 as of each quarter end on a rolling four quarter basis; and (c) maintain liquid assets equal to or greater than $20,000,000. At September 30, 2018 and December 31, 2017, we were in compliance with all financial covenants.

We also have a promissory note agreement to pay a principal amount of $4,750,000 with CMFG Life Insurance Company, to pay principal and interest due monthly. The interest rate on this promissory note is 4.25% per annum, with principal and interest payments of $102,700 ending on September 1, 2028. The current outstanding balance is $3,488,000. The proceeds from this promissory note were used to eliminate debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment. The balance of this long-term debt instrument listed above approximates the fair value of the instrument.

Our current and future capital resource requirements will be provided by current cash and marketable securities, cash flow from on-going operations, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, joint venture agreements, additional use of debt, proceeds from the reimbursement of public infrastructure costs through Community Facilities District (CFD) bond debt (described below under “Off-Balance Sheet Arrangements”), and the issuance of common stock. During April 2016, we filed a shelf registration statement on Form S-3 that went effective in May 2016. Under the shelf registration statement, we may offer and sell in the future one or more offerings, consisting of common stock, preferred stock, debt securities, warrants or any combination of the foregoing. On October 27, 2017, the Company completed a Rights Offering raising $90,000,000 in new capital.

At September 30, 2018, we had $79,555,000 in cash and securities and had $30,000,000 available on our RLC to meet any short-term liquidity needs. See Note 3 (Marketable Securities) and Note 7 (Line of Credit and Long-Term Debt) of the Notes to Unaudited Consolidated Financial Statements for more information.

We continue to expect that substantial investments will be required in order to develop our land assets. To meet these future capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we will use other capital alternatives such as joint ventures with financial partners, sales of assets, and the issuance of common stock. We will use a combination of the above funding sources to properly match funding requirements with the assets or development project being funded. There is no assurance that we can obtain financing or that we can obtain financing at favorable terms. We believe we have adequate capital resources to fund our cash needs and our capital investment requirements in the near-term as described earlier in the cash flow and liquidity discussions.

Contractual Cash Obligations

The following table summarizes our contractual cash obligations and commercial commitments as of September 30, 2018, to be paid over the next five years and thereafter:

	Payments Due by Period				
(In thousands)	Total	One Year or Less	Years 2-3	Years 4-5	Thereafter
CONTRACTUAL OBLIGATIONS:					
Estimated water payments	$ 258,953	$ 9,032	$ 18,527	$ 19,175	$ 212,219
Long-term debt	67,001	4,081	8,458	9,215	45,247
Interest on long-term debt	13,122	2,378	4,798	4,067	1,879
Cash contract commitments	7,829	5,620	1,138	—	1,071
Defined Benefit Plan	2,163	200	546	585	832
SERP	7,592	526	979	956	5,131
Tejon Ranch Conservancy	2,400	400	1,600	400	—
Financing fees and interest	163	163	—	—	—
Total contractual obligations	$ 359,223	$ 22,400	$ 36,046	$ 34,398	$ 266,379

The categories above include purchase obligations and other long-term liabilities reflected on our balance sheet under GAAP. A “purchase obligation” is defined in Item 303(a)(5)(ii)(D) of Regulation S-K as “an agreement to purchase goods or services that is enforceable and legally binding on the registrant that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.” Based on this definition, the table above includes only those contracts that include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

Our financial obligations to the Tejon Ranch Conservancy are prescribed in the Conservation Agreement. Our advances to the Tejon Ranch Conservancy are dependent on the occurrence of certain events and their timing, and are therefore subject to change in amount and period. The amounts included above are the minimum amounts we anticipate contributing through the year 2021, at which time our current contractual obligation terminates.

As discussed in Note 13 (Retirement Plans) of the Notes to Unaudited Consolidated Financial Statements, we have long-term liabilities for deferred employee compensation, including pension and supplemental retirement plans. Payments in the above table reflect estimates of future defined benefit plan contributions from the Company to the plan trust, estimates of payments to employees from the plan trust, and estimates of future payments to employees from the Company that are in the SERP program. We plan to contribute $160,000 to our defined benefit plan in 2018.

Our cash contract commitments consist of contracts in various stages of completion related to infrastructure development within our industrial developments and entitlement costs related to our industrial and residential development projects.

Our operating lease obligations are for office equipment, several vehicles, and a temporary trailer providing office space and average approximately $25,000 per month. At the present time, we do not have any capital lease obligations or purchase obligations outstanding.

Estimated water payments include the Nickel water contract, which obligates us to purchase 6,693 acre-feet of water annually through 2044 and SWP contracts with Wheeler Ridge Maricopa Water Storage District, Tejon-Castac Water District, Tulare Lake Basin Water Storage District, and Dudley-Ridge Water Storage District. These contracts for the supply of future water run through 2035. Please refer to Note 5

(Long-Term Water Assets) of the Notes to Consolidated Financial Statements for additional information regarding water assets.

Off-Balance Sheet Arrangements

The following table shows contingent obligations we have with respect to certain bonds issued by the CFDs:

	Amount of Commitment Expiration Per Period				
($ in thousands)	Total	< 1 year	2 -3 Years	4 -5 Years	After 5 Years
OTHER COMMERCIAL COMMITMENTS:					
Standby letter of credit	$ 4,468	$ —	$ 4,468	$ —	$ —
Total other commercial commitments	$ 4,468	$ —	$ 4,468	$ —	$ —

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

In connection with the sale of bonds there is a standby letter of credit for $4,468,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. As development occurs within TRCC-East there is a mechanism in the bond documents to reduce the amount of the letter of credit. The Company believes that the letter of credit will never be drawn upon. This letter of credit is for a two-year period of time and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately $68,000. The assessment of each individual property sold or leased within each CFD is not determinable at this time because it is based on the current tax rate and the assessed value of the property at the time of sale or on its assessed value at the time it is leased to a third-party. Accordingly, the Company is not required to recognize an obligation at September 30, 2018.

At September 30, 2018, aggregate outstanding debt of unconsolidated joint ventures was $119,014,000. We provided a guarantee on $103,732,000 of this debt, relating to our joint ventures with Rockefeller and Majestic. Because of positive cash flow generation within the Rockefeller and Majestic joint ventures with operating assets, we do not expect the guarantee to ever be called upon. We do not provide a guarantee on the $15,282,000 of debt related to our joint venture with TA/Petro.

Non-GAAP Financial Measures

EBITDA represents earnings before interest, taxes, depreciation, and amortization, a non-GAAP financial measure, and is used by us and others as a supplemental measure of performance and liquidity. We use Adjusted EBITDA to assess the performance of our core operations, for financial and operational decision making, and as a supplemental or additional means of evaluating period-to-period comparisons on a consistent basis. Adjusted EBITDA is calculated as EBITDA, excluding stock compensation expense. We believe Adjusted EBITDA provides investors relevant and useful information because it permits investors to view income from our operations on an unleveraged basis before the effects of taxes, depreciation and amortization, and stock compensation expense. By excluding interest expense and income, EBITDA and Adjusted EBITDA allow investors to measure our performance independent of our capital structure and indebtedness and, therefore, allow for a more meaningful comparison of our performance to that of other companies, both in the real estate industry and in other industries. We believe that excluding charges related to share-based compensation facilitates a comparison of our operations across periods and among other companies without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. EBITDA and Adjusted EBITDA have limitations as measures of our performance. EBITDA and Adjusted EBITDA do not reflect our historical cash expenditures or future cash requirements for capital expenditures or contractual commitments and they should not be considered as alternatives to those indicators in evaluating performance or liquidity. While EBITDA and Adjusted EBITDA are relevant and widely used measures of performance, they do not represent net income or cash flows from operations as defined by GAAP. Further, our computation of EBITDA and Adjusted EBITDA may not be comparable to similar measures reported by other companies.

The following schedule reconciles Adjusted EBITDA and EBITDA to net income.

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net (loss) income	$ 3,487	$ (26)	$ 3,929	$ (2,142)
Net loss attributable to non-controlling interest	(1)	(4)	(19)	(42)
Interest, net				
Consolidated	(351)	(91)	(980)	(289)
Our share of interest expense from unconsolidated joint ventures	712	431	1,768	1,262
Total interest, net	361	340	788	973
Income taxes	1,155	336	1,333	(1,468)
Depreciation and amortization:				
Consolidated	1,604	1,140	3,284	3,422
Our share of depreciation and amortization from unconsolidated joint ventures	1,119	1,333	3,172	3,970
Total depreciation and amortization	2,723	2,473	6,456	7,392
EBITDA	7,727	3,127	12,525	4,797
Stock compensation expense	825	877	2,601	2,571
Adjusted EBITDA	$ 8,552	$ 4,004	$ 15,126	$ 7,368

Net operating income (NOI) is a non-GAAP financial measure calculated as operating income, the most directly comparable financial measure calculated and presented in accordance with GAAP, excluding general and administrative expenses, interest expense, depreciation and amortization, and gain or loss on sales of real estate. We believe NOI provides useful information to investors regarding our financial condition and results of operations because it primarily reflects those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

($ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
Net operating income	2018	2017	2018	2017
Pastoria Energy Facility	$ 1,230	$ 1,054	$ 3,131	$ 2,779
TRCC	355	280	1,070	1,068
Communication leases	215	229	685	593
Other commercial leases	175	164	519	454
Total Commercial/Industrial net operating income	**$ 1,975**	**$ 1,727**	**$ 5,405**	**$ 4,894**

($ in thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Commercial/Industrial operating income	$ 767	$ 1,117	$ 2,403	$ 1,744
Plus: Depreciation and amortization	127	147	458	449
Plus: General, administrative and other expenses	1,471	1,005	3,714	4,192
Less: Other revenues including land sales	(390)	(542)	(1,170)	(1,491)
Total Commercial/Industrial net operating income	**$ 1,975**	**$ 1,727**	**$ 5,405**	**$ 4,894**

The Company utilizes net operating income (NOI) of unconsolidated joint ventures, a non-GAAP financial measure, as a measure of financial or operating performance. We believe NOI of unconsolidated joint ventures provides investors with useful information concerning operating performance because it illustrates the profitability of our unconsolidated joint ventures after taking into account operating expenses and before taking into account that interest expense and depreciation and amortization associated with our unconsolidated joint ventures, which costs may vary as a result of credit ratings and cost of capital. We also use this measure internally to monitor the operating performance of our unconsolidated joint ventures. Our computation of this non-GAAP measure may not be the same as similar measures reported by other companies. This non-GAAP financial measure should not be considered as an alternative to net income as a measure of the operating performance of our unconsolidated joint ventures or to cash flows computed in accordance with GAAP as a measure of liquidity, nor are they indicative of cash flows from operating and financial activities of our unconsolidated joint ventures.

The following schedule reconciles net income of unconsolidated joint ventures to NOI of unconsolidated joint ventures. Please refer to Note 15 (Investment in Unconsolidated and Consolidated Joint Ventures) of the Notes to Unaudited Consolidated Financial Statements for further discussion on joint ventures.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	2018	2017	2018	2017
Net income of unconsolidated joint ventures	$ 2,479	$ 2,794	$ 3,548	$ 5,466
Interest expense of unconsolidated joint ventures	1,393	837	3,445	2,455
Operating income of unconsolidated joint ventures	3,872	3,631	6,993	7,921
Depreciation and amortization of unconsolidated joint ventures	2,110	2,547	5,954	7,596
Net operating income of unconsolidated joint ventures	$ 5,982	$ 6,178	$ 12,947	$ 15,517

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations, or cash flows of the Company due to adverse changes in financial or commodity market prices or rates. We are exposed to market risk in the areas of interest rates and commodity prices.

Financial Market Risks

Our exposure to financial market risks includes changes to interest rates and credit risks related to marketable securities, interest rates related to our outstanding indebtedness and market and credit risks related to trade receivables.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields and prudently managing risk. To achieve this objective and limit interest rate exposure, we limit our investments to securities with a maturity of less than five years and an investment grade rating from Moody's or Standard & Poor's. See Note 3 (Marketable Securities) of the Notes to Unaudited Consolidated Financial Statements.

We do not have an outstanding balance on our RLC. At the Company's option, the interest rate on the RLC can either float at 1.50% over a selected LIBOR average, or can be fixed at 1.50% above LIBOR for a fixed term for a limited period of time and change only at maturity of the fixed rate portion. The floating rate and fixed rate options within our RLC help us manage our interest rate exposure on any outstanding balances.

We are exposed to interest rate risk on our long-term debt. Long-term debt consists of two term loans. The first term loan is for $63,393,000 and has a rate that is tied to LIBOR plus a margin of 1.70%. The interest rate for the term of this loan has been fixed through the use of an interest rate swap that fixed the rate at 4.11%. The second term loan has an outstanding balance of $3,488,000 and has a fixed rate of 4.25%. We believe it is prudent at times to limit the variability of floating-rate interest payments and have from time-to-time entered into interest rate swap arrangements to manage those fluctuations, as we did with the first loan mentioned above.

Market risk related to our farming inventories ultimately depends on the value of almonds, grapes, and pistachios at the time of payment or sale. Market risk related to our farming inventories is discussed below in the section pertaining to commodity price exposure. Additionally, we are unable to predict the outcome of ongoing trade discussions with foreign nations nor are we able to predict the resulting impact over crop demand or pricing. Increased tariffs from China and India which are major customers of almonds and pistachios, can make American products less competitive and push customers to switch to another producing country.Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and our periodic credit evaluations of our customers' financial conditions, we believe our credit risk is minimal.

The following tables provide information about our financial instruments that are sensitive to changes in interest rates. The tables present our debt obligations and marketable securities and their related weighted average interest rates by expected maturity dates.

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At September 30, 2018
(In thousands except percentage data)

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$10,715	$38,677	$20,106	$404	—	—	69,902	$69,381
Weighted average interest rate	1.73%	1.95%	2.09%	2.51%	—	—	1.96%	
Liabilities:								
Long-term debt ($4.75M note)	$70	$289	$302	$315	$328	$2,184	$3,488	$3,488
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt ($70.0M note)	$910	$3,715	$3,881	$4,051	$4,221	$46,615	$63,393	$63,393
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	
Long-term debt (other)	$43	$17	—	—	—	—	$60	$60
Weighted average interest rate	3.35%	3.35%	—	—	—	—	3.35%	

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2017
(In thousands except percentage data)

	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$20,227	$30,315	$20,420	36	68	—	$71,066	$70,868
Weighted average interest rate	1.61%	1.83%	2.02%	—	—	—	1.83%	
Liabilities:								
Long-term debt ($4.75M note)	$277	$289	$302	$315	$328	$2,184	$3,695	$3,695
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt ($70.0M note)	$3,563	$3,715	$3,881	$4,051	$4,221	$46,615	$66,046	$66,046
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	
Long-term debt (other)	$163	$55	—	—	—	—	$218	$218
Weighted average interest rate	3.35%	3.35%	—	—	—	—	3.35%	

Commodity Price Exposure

As of September 30, 2018, we have exposure to adverse price fluctuations associated with certain inventories and accounts receivable. Farming inventories consist of farming cultural and processing costs related to 2017 crop production. The farming costs inventoried are recorded at actual costs incurred. Historically, these costs have been recovered each year when that year's crop harvest has been sold.

With respect to accounts receivable, the amount at risk relates primarily to farm crops. These receivables are recorded as estimates of the prices that ultimately will be received for the crops. The final price is generally not known for several months following the close of our fiscal year. Of the $10,897,000 of accounts receivable outstanding at September 30, 2018, $9,126,000 or 83%, is at risk to changing prices. Of the amount at risk to changing prices, $6,953,000 is attributable to pistachios and $1,086,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2017 was $3,670,000, or 48% of the total accounts receivable of $7,608,000.

The price estimated for the remaining accounts receivable for pistachios at September 30, 2018 was $2.01 per pound compared to $2.03 per pound at December 31, 2017. For each $0.01 change in the price of pistachios, our receivable for pistachios increases or decreases by $35,000. Although the final price of pistachios (and therefore the extent of the risk) is not presently known, over the last three years prices have ranged from $2.00 to $2.45. With respect to almonds, the preliminary price estimate for the remaining receivable was $2.40 per pound compared to $2.51 per pound at December 31, 2017. For each $0.01 change in the price of almonds, our receivable for almonds increases or decreases by $4,500. The range of final prices over the last three years for almonds has ranged from $2.58 to $3.67 per pound.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management, carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in ensuring that all information required in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time period required by the rules and regulations of the SEC.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to Note 12 (Commitments and Contingencies) in the Notes to Unaudited Consolidated Financial Statements in this report.

Item 1A. Risk Factors

Except for the addition of the risk factor set forth in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, there have been no material changes to the risk factors disclosed in Item 1A or elsewhere in our most recent Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 1, 2018, the Company, through its subsidiary Tejon Industrial Corp., entered into a limited liability agreement (the Agreement) with Majestic Reality Co. for the development of, ownership of, and management of a 579,040 square foot industrial building at the Company’s Tejon Ranch Commerce Center (TRCC). The Agreement creates the TRC-MRC 3, LLC. The following description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement. Please see the attached Exhibit 10.42 for additional information regarding its terms.

The following is a summary of the key terms and conditions of the Agreement:

- Tejon will contribute a 33.0877 net acres of land with an agreed value of $5,765,201 or $4.00 per square foot.
- Majestic will contribute in cash a matching amount of capital until its capital account is equalized with Tejon's capital account.
- Any future capital needs will be shared 50/50.
- Majestic will be designated as the administrative member. However, there are a number of major decisions spelled out in the Agreement that must be approved by both members such as annual business plans, construction contracts, leasing, financing, and material agreements as an example
- Future cash distributions will first be to any member who has a capital account in excess of the other member and then future cash distribution will be 50/50 to each member.

Item 6. Exhibits:

3.1	Restated Certificate of Incorporation	FN 1
3.2	Amended and Restated Bylaws	FN 2
4.1	Form of First Additional Investment Right	FN 3
4.2	Form of Second Additional Investment Right	FN 4
4.3	Registration and Reimbursement Agreement	FN 5
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 10-K	FN 6
10.7	*Severance Agreement	FN 7
10.8	*Director Compensation Plan	FN 7
10.9	*Amended and Restated Non-Employee Director Stock Incentive Plan	FN 8
10.9(1)	*Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan	FN 7
10.10	*Amended and Restated 1998 Stock Incentive Plan	FN 9
10.10(1)	*Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan	FN 7
10.12	Lease Agreement with Pastoria Energy Facility L.L.C.	FN 10
10.15	Form of Securities Purchase Agreement	FN 11
10.16	Form of Registration Rights Agreement	FN 12
10.17	*2004 Stock Incentive Program	FN 13
10.18	*Form of Restricted Stock Agreement for Directors	FN 13
10.19	*Form of Restricted Stock Unit Agreement	FN 13

10.23	Tejon Mountain Village LLC Operating Agreement	FN 14
10.24	Tejon Ranch Conservation and Land Use Agreement	FN 15
10.25	Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 16
10.26	*Executive Employment Agreement - Allen E. Lyda	FN 17
10.27	Limited Liability Company Agreement of TRCC/Rock Outlet Center LLC	FN 18
10.28	Warrant Agreement	FN 19
10.29	Amendments to Limited Liability Company Agreement of Tejon Mountain Village LLC	FN 20
10.30	Membership Interest Purchase Agreement - TMV LLC	FN 21
10.31	Amended and Restated Credit Agreement	FN 22
10.32	Term Note	FN 22
10.33	Revolving Line of Credit Note	FN 22
10.34	Amendments to Ground Lease Agreement with Pastoria Energy Facility L.L.C.	FN 23
10.35	Water Supply Agreement with Pastoria Energy Facility L.L.C.	FN 24
10.36	*Separation Agreement - Gregory J. Tobias	FN 25
10.37	Limited Liability Company Agreement of TRC-MRC 2, LLC	FN 26
10.38	Limited Liability Company Agreement of TRC-MRC 1, LLC	FN 27
10.39	Centennial Redemption and Withdrawal Agreement	FN 28
10.40	First Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 29
10.41	Second Amendment to Second Amended and Restated Limited Liability Company Agreement of Centennial Founders, LLC	FN 30
10.42	Limited Liability Company Agreement of TRC-MRC 3, LLC	Filed herewith
31.1	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101.INS	XBRL Instance Document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith

* Management contract, compensatory plan or arrangement.

FN 1 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1987, is incorporated herein by reference. This Exhibit was not filed with the Securities and Exchange Commission in an electronic format.

FN 2 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 99.1 to our Current Report on Form 8-K filed on September 20, 2017, is incorporated herein by reference.

FN 3 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.3 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.

FN 4 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.4 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.

FN 5 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on December 20, 2005, is incorporated herein by reference.

FN 6 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 1994, is incorporated herein by reference. This Exhibit was not filed with the Securities and Exchange Commission in an electronic format.

FN 7 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K, was filed on March 27, 1998, for the year ended December 31, 1997, is incorporated herein by reference.

FN 8 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.9 to our Annual Report on Form 10-K filed on March 2, 2009, for the year ended December 31, 2008, is incorporated herein by reference.

FN 9 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.10 to our Annual Report on Form 10-K filed on March 2, 2009, for the year ended December 31, 2008, is incorporated herein by reference

FN 10 This document filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.16 to our Annual Report on Form 10-K filed on April 1, 2002, for the year ended December 31, 2001, is incorporated herein by reference.

FN 11 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.1 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.

FN 12 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 4.2 to our Current Report on Form 8-K filed on May 7, 2004, is incorporated herein by reference.

FN 13 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibits 10.21-10.23 to our Annual Report on Form 10-K filed on March 16, 2005, for the year ended December 31, 2004, is incorporated herein by reference.

FN 14 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) as Exhibit 10.24 to our Current Report on Form 8-K filed on May 24, 2006, is incorporated herein by reference.

FN 15 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.28 to our Current Report on Form 8-K filed on June 23, 2008, is incorporated herein by reference.

FN 16 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.25 to our Quarterly Report on Form 10-Q filed on August 10, 2009, for the period ending June 30, 2009, is incorporated herein by reference.

FN 17 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on May 8, 2013, for the period ending March 31, 2013, is incorporated herein by reference.

FN 18 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.27 to our Current Report on Form 8-K filed on June 4, 2013, is incorporated herein by reference.

FN 19 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.1 to our Current Report on Form 8-K filed on August 8, 2013, is incorporated herein by reference.

FN 20 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.29 to our Amended Annual Report on Form 10-K/A filed March 31, 2014, for the year ended December 31, 2013, is incorporated herein by reference.

FN 21 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.30 to our Current Report on Form 8-K filed on July 16, 2014, is incorporated herein by reference.

FN 22 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibits 10.31-10.33 to our Current Report on Form 8-K filed on October 17, 2014, is incorporated herein by reference.

FN 23 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.34 to our Annual Report on Form 10-K filed March 16, 2015, for the year ended December 31, 2014, is incorporated herein by reference.

FN 24 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.35 to our Quarterly Report on Form 10-Q filed August 10, 2015, for the period ending June 30, 2015, is incorporated herein by reference.

FN 25 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.36 to our Quarterly Report on Form 10-Q filed November 9, 2015, for the period ending September 30, 2015, is incorporated herein by reference.

FN 26 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.37 to our Quarterly Report on Form 10-Q filed August 9, 2016, for the period ending June 30, 2016, is incorporated herein by reference.

FN 27 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.38 to our Quarterly Report on Form 10-Q filed November 8, 2016, for the period ending September 30, 2016, is incorporated herein by reference.

FN 28 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.39 to our Annual Report on Form 10-K filed MArch 13, 2017, for the year ended December 31, 2016, is incorporated herein by reference.

FN 29 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.40 to our Annual Report on Form 10-K filed March 13, 2017, for the year ended December 31, 2016, is incorporated herein by reference.

FN 30 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) as Exhibit 10.41 to our Annual Report on Form 10-K filed March 13, 2017, for the year ended December 31, 2016, is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 6, 2018.

TEJON RANCH CO.
(The Company)

/s/ Allen E. Lyda

Allen E. Lyda
Executive Vice President, Chief Financial Officer and Corporate Treasurer
(Principle Financial Officer)

/s/ Robert D. Velasquez

Robert D. Velasquez
Senior Vice President, Finance and Chief Accounting Officer
(Principle Accounting Officer)

LIMITED LIABILITY COMPANY AGREEMENT
OF
TRC-MRC 3, LLC

THIS LIMITED LIABILITY COMPANY AGREEMENT OF TRC-MRC 3, LLC is entered into effective as of November 15th, 2018 (the "**Effective Date**"), by and between TEJON INDUSTRIAL CORP., a California corporation ("**Tejon**"), and MAJESTIC TEJON III, LLC, a Delaware limited liability company ("**Majestic**"). The capitalized terms used herein shall have the respective meanings assigned to such terms in Article XIV.

ARTICLE I
FORMATION

1.01 Formation

The Members hereby form a Delaware limited liability company pursuant to the provisions of the Delaware Act and this Agreement. In connection therewith, the Administrative Member, as an authorized person of the Company, shall execute (i) a Certificate of Formation for the Company in accordance with the Delaware Act, which shall be duly filed with the Office of the Delaware Secretary of State, and (ii) an Application to Register a Foreign Limited Liability Company (Form LLC-5), which shall be duly filed with the Office of the California Secretary of State. The Administrative Member shall also execute, acknowledge and/or verify such other documents and/or instruments as may be necessary and/or appropriate to form the Company under the Delaware Act, to continue its existence in accordance with the provisions of the Delaware Act and/or to register, qualify to do business and/or operate its business in California as a foreign limited liability company in accordance with the provisions of the California Act.

1.02 Names and Addresses

The name of the Company is "TRC-MRC 3, LLC." The registered office of the Company in the State of Delaware shall be at 850 New Burton Road, Suite 201, Dover, Delaware 19904. The name and address of the registered agent for the Company in the State of Delaware shall be National Corporate Research, Ltd., 850 New Burton Road, Suite 201, Dover, Delaware 19904. The name and address of the registered agent for the Company in the State of California shall be Michael Durham, c/o Majestic Realty Co., 13191 Crossroads Parkway North, 6th Floor, City of Industry, California 91746-3497. The principal office of the Company shall be at 13191 Crossroads Parkway North, 6th Floor, City of Industry, California 91746-3497. The names and addresses of the Members are set forth on Exhibit "A" attached hereto.

1.03 Nature of Business

The express, limited and only purposes for which the Company is to exist are (i) to acquire from Tejon that certain real property consisting of approximately thirty-four and 85/100ths (34.85) acres of land located within the Tejon Ranch Commerce Center in the County of Kern, State of California, and described more particularly on Exhibit "B" attached hereto (the "**Property**"), (ii) to develop and construct upon the Property an approximately five hundred

seventy-nine thousand forty (579,040) square foot industrial building, together with parking and any and all related on-site and off-site improvements appurtenant thereto (collectively, the "**Improvements**"), (iii) to own, lease, maintain, manage, finance, refinance, hold for long-term investment, market, sell, exchange, transfer and otherwise realize the economic benefit from the Property and the Improvements (collectively, the "**Project**"), and (iv) to conduct such other activities with respect to the Project as are necessary and/or appropriate to carrying out the foregoing purposes and to do all things incidental to or in furtherance of the above enumerated purposes.

In furtherance of the foregoing terms of this Section 1.03, each Member shall make the contribution to the capital of the Company provided for in Section 3.01(a). Such contributions shall be applied (A) to reimburse each Member (and its Affiliates) for any costs paid by such Member (or Affiliate), and/or (B) to pay directly the costs and expenses incurred by the Company that are set forth in the Pre-Development Budget (as defined in Section 2.06). Any third-party reports, studies or other work product paid for, or reimbursed by, the Company shall be the property of the Company (regardless of whether such reports, studies or other work product was prepared prior to the formation of the Company). If the Executive Committee approves the business plan for the first Business Plan Period pursuant to Section 2.07, then Tejon shall contribute the Property to the Company in accordance with the terms of Section 3.01(b).

1.04 Term of Company

The term of the Company shall commence on the date the Certificate of Formation for the Company is filed with the Office of the Delaware Secretary of State, and shall continue in perpetuity, unless dissolved sooner pursuant to Section 12.01. The existence of the Company as a separate legal entity shall continue until the cancellation of the Company's Certificate of Formation.

ARTICLE II
MANAGEMENT OF THE COMPANY

2.01 Formation of Executive Committee

(a) Executive Committee Matters. Any matter requiring the consent or approval of the Members under this Agreement shall be made by the Members acting through an executive committee (the "**Executive Committee**") in accordance with the provisions of this Section 2.01 and Section 2.02. The Executive Committee shall also be responsible for establishing the policies and procedures to be followed by the Administrative Member.

(b) Composition of the Executive Committee. The Executive Committee shall be composed of four (4) representatives (individually, a "**Representative**" and collectively, the "**Representatives**"). Each Member shall appoint two (2) Representatives to the Executive Committee. Tejon hereby appoints Allen Lyda ("**Lyda**") and Joe Rentfro ("**Rentfro**") as its initial Representatives. Majestic hereby appoints Brett Tremaine and Thomas Simmons as its initial Representatives. If the initial or replacement Representative of any Member ceases to serve, then such Member

shall replace its Representative with a new Representative. Any replacement Representative appointed by a Member pursuant to the preceding sentence shall be subject to the approval of the other Member, which approval shall not be unreasonably withheld, conditioned or delayed. The authorized number of Representatives on the Executive Committee may be increased or decreased only with the prior written approval of both Members.

2.02 Committee Procedures

(a) Quorum. A "**Quorum**" for the Executive Committee shall be the presence of at least one (1) Representative of each Member. In the absence of a Quorum, the Representative(s) of the Executive Committee so present may adjourn the meeting until a Quorum is present. The Executive Committee shall meet at least quarterly on a day designated by the Administrative Member. The Executive Committee shall hold such other regularly scheduled meetings as are determined by the Administrative Member. Meetings shall be held on a Business Day at the principal office of the Company during normal business hours, unless otherwise agreed to by the Executive Committee. Notice of any regularly scheduled meeting of the Executive Committee shall be given by the Administrative Member to all of the Representatives no fewer than ten (10) days and no more than thirty (30) days prior to the date of any such meeting. Any Representative may participate telephonically in any regular meeting of the Executive Committee. The attendance of a Representative of the Executive Committee at a regularly scheduled meeting of the Executive Committee (either in person or telephonically) shall constitute a waiver of notice of such meeting, except where a Representative of the Executive Committee attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not properly called or convened. Minutes of the Executive Committee shall not be required to be prepared or maintained. Resolutions of the Executive Committee, when signed by a Quorum present at the applicable meeting, shall be binding and conclusive evidence of the decisions reflected therein and any authorization granted thereby.

(b) Decisions of the Executive Committee. Subject to Section 2.02(f), all decisions and actions of the Executive Committee shall require the affirmative vote of (i) a majority of the Representatives present at such meeting, and (ii) at least one (1) Representative appointed by each Member at a meeting at which a Quorum is present.

(c) Special Meetings. Special meetings of the Executive Committee may be called by or at the request of any Representative and shall be held on a Business Day at the principal office of the Company. Notice of any such special meeting of the Executive Committee shall be given by the calling Representative specifying the time of the meeting to all of the other Representatives no fewer than two (2) Business Days and no more than ten (10) days prior to the date of such meeting. Any Representative may participate telephonically in any special meeting of the Executive Committee. The attendance of a Representative of the Executive Committee at a special meeting of the Executive Committee (either in person or telephonically) shall constitute a waiver of notice of such meeting, except where a Representative of the Executive Committee attends a meeting for the express purpose of objecting to the transaction of any business

because the meeting was not properly called or convened. The business to be transacted at, and the purpose of, any special meeting of the Executive Committee need not be specified in the notice or waiver of notice of such meeting. Notice of any special meeting may be waived by each Representative of the Executive Committee.

(d) Telephonic Participation. Representatives of the Executive Committee may participate in any meetings of the Executive Committee telephonically or through other similar communications equipment provided that all of the Representatives participating in such meeting can hear each another. Participation in a meeting pursuant to the preceding sentence shall constitute presence in person at such meeting for all purposes of this Agreement.

(e) Transaction of Business. Provided that notice of a meeting has been given in the manner set forth herein, a Quorum shall be entitled to transact business at any meeting of the Executive Committee.

(f) Actions Without Meetings. Any decision or action required or permitted to be taken at a meeting of the Executive Committee or any other decision or action that may be taken at a meeting of the Executive Committee may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed by at least one (1) Representative of each Member, which shall have the same effect as an act taken at a properly called and constituted meeting with a Quorum of the Executive Committee at which all of the Representatives of the Executive Committee were present and voting.

(g) Proxies. Each Representative may authorize one (1) or more individuals to act for him or her by proxy, but no such proxy shall be voted or acted upon after sixty (60) days from its date, unless the proxy provides for a longer period. A proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A Representative may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or by delivering a proxy in accordance with applicable law bearing a later date to the Administrative Member.

(h) Limitations on Authority. None of the Members, Representatives or Officers, without the prior written consent of the Executive Committee, may take any action on behalf of or in the name of the Company, or enter into any commitment or obligation binding upon the Company, except for (i) actions expressly authorized by this Agreement, and (ii) actions by any Member (or Representative or Officer) within the scope of such Member's (or Representative's or Officer's) authority granted under this Agreement.

(i) Compensation. Except as otherwise approved by the Executive Committee, no Representative shall be entitled to receive any salary, remuneration or reimbursement from the Company for his or her services as a Representative.

(j) Involvement of the Representatives. Each Member shall cause each Representative appointed by such Member to devote such time as is reasonably necessary to carry out such individual's duties and obligations as a Representative of the Executive Committee.

(k) Resolving Deadlocks. If the Executive Committee is deadlocked on any Major Decision (as defined in Section 2.04), then the Representatives shall consult with one another in a good faith attempt to resolve such deadlock for a period of sixty (60) days (or such longer period as is unanimously agreed to by the Representatives). The failure of the Representatives to resolve any such impasse for any reason prior to the expiration of such sixty (60)-day period shall constitute an "**Impasse Event**" under this Agreement (so long as the deadlock that resulted in such impasse remains unresolved). Prior to the expiration of such sixty (60)-day period (or such longer period as is unanimously agreed to by the Representatives), neither Member may elect to commence the buy/sell procedure set forth in Article VIII as result of any Impasse Event.

2.03 Administrative Member

The Members hereby initially designate Majestic as the "**Administrative Member**" of the Company. The Administrative Member shall serve as the Administrative Member, unless and until it resigns as provided in Section 2.16(b), is removed pursuant to Section 2.16(c) or ceases to be a member of the Company. The Administrative Member hereby agrees to use its commercially reasonable efforts to carry out the business and affairs of the Company and to devote such time to the Company as is necessary, in the reasonable discretion of the Administrative Member, for the efficient operation of the business and affairs of the Company. Subject to the terms of this Agreement (including Sections 2.04, 2.11, 2.12, 2.13 and 2.14, which assign certain obligations or decision-making authority to Tejon or the Executive Committee), the Administrative Member shall be responsible for (i) preparing and implementing each Approved Business Plan (including, without limitation, each Development Plan, Development Budget, Operating Budget and Marketing Plan contained therein), (ii) implementing the decisions of the Executive Committee, (iii) reporting to the Executive Committee as to the status of the business and affairs of the Company, (iv) managing, supervising, and conducting the day-to-day business and affairs of the Company, (v) managing the accounting and the contract and lease administration for the Project including, without limitation, enforcing the Company's rights and benefits, and causing the Company to perform its duties and obligations, under each lease for space in the Project, and (vi) performing such other services delegated to the Administrative Member under this Agreement including, without limitation, (A) the development and construction management services delegated to the Administrative Member under Section 2.11, (B) the marketing and leasing management services delegated to the Administrative Member under Section 2.13, (C) the property management services delegated to the Administrative Member under Section 2.14, and (D) the reporting and accounting functions delegated to the Administrative Member under Article XI. The Administrative Member may not assign or delegate its duties or obligations under this Agreement without the prior written consent of the Executive Committee.

2.04 Approval of Major Decisions

Notwithstanding any other provision contained in this Agreement, neither the Administrative Member nor the other Member may cause the Company to undertake, and the prior approval of the Executive Committee shall be required for, any and all of the following matters (collectively, the "**Major Decisions**"), unless and to the extent such matters have been specifically approved in the applicable Approved Business Plan:

(a) Approved Business Plans. The approval of each business plan for the Company (and any material amendment, modification, revision or update thereof) including each Development Plan, Development Budget, Operating Budget and Marketing Plan contained therein;

(b) Construction of Improvements. The development and/or construction of any improvements including, without limitation, any vertical, horizontal, tenant or other improvements;

(c) Sale of Project. The sale, exchange, transfer or other disposition of all or any portion of the Project (exclusive of any lease of any portion of the Project);

(d) Lease of the Project. The form and execution of any lease for all or any portion of the Project including any applicable tenant improvements or any amendment, modification, extension or termination of any lease for all or any portion of the Project including any applicable tenant improvements;

(e) Financing. The procurement of any financing or refinancing (including, without limitation, any acquisition, development, construction, interim and long-term financing or refinancing in connection with the Project or the entering into of any modification, amendment or other agreement of any financing or refinancing);

(f) Plans and Specifications. Except as previously approved in the Approved Business Plan, or any change order within the limits of Section 2.04(i), the approval of the plans and specifications for any tenant improvements or the Improvements (and any material amendment or material modification thereof);

(g) Selection and Retention of Architect and Engineer. Except for Commerce Construction Co., L.P., a California limited partnership ("**Commerce**"), in its capacity as architect and structural engineer, the selection and/or retention by the Company of any other architect or structural engineer in connection with the construction of any tenant improvements or the Improvements and the terms of any contract entered into by and between the Company and any such architect or engineer including, without limitation, any contract entered into by the Company with Commerce (and any amendment, modification or termination of any contract entered into by the Company with any architect or engineer);

(h) Construction Contract. The selection and/or retention by the Company of any general contractor (other than Commerce) and the execution or delivery by the Company of any construction contract and any amendment, modification or termination

of any construction contract, but excluding any amendment or modification to the Construction Contract (as defined in Section 2.10) resulting from any change order previously approved under Section 2.04(i) below;

(i) Change Orders. The approval by the Company of any change order relating to the construction of any tenant improvements or the Improvements if (i) such change order would cause a material change in the quality of the Improvements, (ii) the cost of any such change order exceeds Twenty-Five Thousand Dollars ($25,000), or (iii) the aggregate cost of the change order under consideration, together with all prior change orders, exceeds One Hundred Thousand Dollars ($100,000);

(j) Selection and Retention of Replacement Property Manager. The selection and/or retention by the Company of any property manager that will replace either the Administrative Member or Tejon as a property manager for the Project and the execution or delivery by the Company of any property management agreement with any such replacement property manager and any amendment, modification, extension or termination of any such property management agreement entered into with any such replacement property manager;

(k) Selection and Retention of Attorneys. The selection and/or retention of any attorney by the Company;

(l) Expenditures Outside of Budgets. The making of any expenditure by the Company that is not specifically included or contemplated under any Approved Business Plan for the Company, other than as permitted under Section 2.08 and/or Section 2.09;

(m) Contracts with Affiliates. Except as provided in Sections 2.10, 2.11, 2.12, 2.13, 2.14 and 2.15, the entry into by the Company of any contract with or otherwise making any payment to any Member or any Affiliate of any Member and with respect to any such contract, the making of any material amendment, modification, extension and/or rescission thereof; the declaration of a default thereunder; the institution, settlement and/or compromise of a claim with respect thereto; the waiver of any rights of the Company against the other party(ies) thereto; or the consent to the assignment of any rights and/or the delegation of any duties by the other party(ies) thereto;

(n) Material Agreements. Except as provided in the Approved Business Plan, the execution or delivery by the Company of any agreement obligating the Company to pay an amount of more than One Hundred Thousand Dollars ($100,000) and any amendment, modification, extension or termination of any such agreement, including, without limitation, any agreement providing for the payment of any commission, fee or other compensation payable in connection with the sale of all or any portion of the Project;

(o) Rebuild. The election to rebuild all or any portion of the Project following a casualty in any case where the Company has the right to elect whether or not to rebuild under the applicable agreements to which the Company is a party;

(p) Press Release. The making of any press release for any purpose relating to the Company or the Project;

(q) Employees. The hiring of any employee by the Company;

(r) Taxes and Accounting. The selection or changing of the Company's depreciation or other tax accounting methods or elections, changing the Fiscal Year or taxable year of the Company, or making any other material decisions with respect to the treatment of various transactions for accounting or tax purposes that may adversely affect the Members;

(s) Confess Judgments. The confession of a judgment against the Company for an amount that exceeds Fifty Thousand Dollars ($50,000); the payment, compromise, settlement or other adjustment of any claims against the Company for an amount that exceeds Fifty Thousand Dollars ($50,000); or the commencement or settlement of any legal actions or proceedings brought by or against the Company if the amount in dispute with respect to such action or proceeding exceeds Fifty Thousand Dollars ($50,000);

(t) Loans. The lending of any funds by the Company to any Member or any Affiliate thereof or to any third party, or the extension by the Company of credit to any Person on behalf of the Company;

(u) Guaranty. The execution or delivery of any document or agreement that would cause the Company to become a surety, guarantor, endorser, or accommodation endorser for any Person, except to the extent such guaranty or endorsement is included in the then applicable Approved Business Plan;

(v) Bankruptcy. Any of the following: (i) the filing of any voluntary petition in bankruptcy on behalf of the Company; (ii) the consenting to the filing of any involuntary petition in bankruptcy against the Company; (iii) the filing by the Company of any petition seeking, or consenting to, the reorganization or relief under any applicable federal or state law relating to bankruptcy or insolvency; (iv) the consenting to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or a substantial part of the Company's property; (v) the making of any assignment by the Company for the benefit of creditors; (vi) the admission in writing of the Company's inability to pay its debts generally as they become due; or (vii) the taking of any action by the Company in furtherance of any such action;

(w) Admission and Withdrawals. Except as permitted pursuant to Article VI, Article VII and Article VIII, the admission or withdrawal of any Member into or from the Company;

(x) Merger or Consolidation. The entry into by the Company of any merger, consolidation or other material corporate transaction;

(y) Acquisition of Property. The acquisition of any property by the Company (other than the Property) and the terms and conditions for any such acquisition;

(z) Purpose. The modification or change in the business purpose of the Company;

(aa) Amendments to the Agreement. Any amendment to this Agreement (other than amendment reflecting the admission or withdrawal of a Member in accordance with the provisions of Articles VI, Article VII and Article VIII);

(bb) Engaging in Other Businesses. The engagement of the Company in any business or activity outside the scope of the Company's business set forth in this Agreement;

(cc) Dissolution. Except as required by this Agreement, the dissolution or Liquidation of the Company;

(dd) Acts in Contravention. Any act in contravention of this Agreement; and

(ee) Other Matters. Any other decision or matter described as a Major Decision in this Agreement.

Without limiting the generality of the foregoing provisions of this Section 2.04, neither the Administrative Member nor the other Member shall undertake any action, expend any sum, make any decision, give any consent, approval or authorization or incur any obligation with respect to any of the foregoing Major Decisions, unless and until such matter has been approved by the Executive Committee (or such matter has been specifically approved in the then applicable Approved Business Plan). Each Representative of the Executive Committee may withhold its approval of any Major Decision in such Representative's sole and absolute discretion, except for the Major Decisions described in Sections 2.04(a), (d), (e), (f), (g), (i) and (j) (for which such approval shall not be unreasonably withheld, delayed or conditioned).

Notwithstanding anything to the contrary in this Agreement, either Member may, without prior approval of the Executive Committee, take any action reasonably necessary to protect life or property, in the event of an emergency where it is impractical to obtain such prior approval; provided that the Member taking the action shall use its best efforts to advise the Representatives as soon as possible of the nature of the emergency and the emergency actions taken.

2.05 Consents and Approvals

Either Member may seek the approval of the Executive Committee with respect to any proposed matter set forth in Section 2.04 by delivering written notice to the Representatives describing such proposed action in sufficient detail so as to enable the Representatives to exercise an informed judgment with respect thereto. Such notice shall constitute a call for a special meeting of the Executive Committee as provided in Section 2.02(c) and shall specify a time for the meeting and shall be deemed a notice by the requesting Member's Representatives for purposes of Section 2.02(c). The Executive Committee shall then meet and either approve or disapprove the proposed action. The Representative(s) of the other Member shall set forth their reasons if they disapprove such action, or may approve the requested action without a meeting as provided in Section 2.02(f). If the Executive Committee fails to meet or otherwise approve the requested action (as provided herein) on or before the expiration of the Response

Period, then it shall be conclusively presumed to have disapproved such action. The term "**Response Period**" means (i) if a response time is expressly set forth in this Agreement, then the period of time during which the Member is required to respond, or (ii) if no response time period is expressly set forth in this Agreement, then five (5) Business Days following the effective date of the written notice describing any proposed action requiring the consent or approval of such Member.

2.06 Pre-Development Budget

The Members have approved a pre-development budget (the "**Pre-Development Budget**") for the Company, which is set forth on Exhibit "C" attached hereto. The Pre-Development Budget sets forth the pre-development costs and expenses incurred by the Members from and after September 12, 2018, through the Effective Date and the projected pre-development costs and expenses that will be incurred by the Company after the Effective Date. The pre-development costs and expenses include costs and expenses for the due diligence investigation and review of the Property and costs and expenses to obtain the approvals necessary to prepare the Development Plan and Development Budget. The Administrative Member shall not cause the Company to incur any costs or expenses in connection with the pre-development of the Project, unless such costs and expenses are set forth in the Pre-Development Budget (or the Executive Committee otherwise approves such costs or expenses in its sole and absolute discretion). In addition, no Member shall be reimbursed by the Company for any costs or expenses incurred in connection with the pre-development of the Project, except to the extent such costs and expenses are set forth in the Pre-Development Budget (or the Executive Committee otherwise approves such costs or expenses in its sole and absolute discretion).

2.07 Approved Business Plan

Within one hundred fifty (150) days following the execution and delivery of this Agreement, Majestic shall prepare and submit to the Executive Committee for its review and approval the annual business plan for the Company's first Business Plan Period. If Majestic does not deliver the annual business plan for the first Business Plan Period to the Executive Committee within such one hundred fifty (150)-day period, then Tejon shall have the right, in its sole and absolute discretion, at any time thereafter, to elect to dissolve the Company by delivering written notice of such election to Majestic in accordance with the terms of Section 12.01(a) (provided such right shall terminate if and when the Executive Committee approves the initial business plan for the Company). If Majestic timely delivers the annual business plan to the Executive Committee for the Company's first Business Plan Period, but the Executive Committee does not approve such business plan for any reason on or prior to the first anniversary of the Effective Date, then each Member shall have the right, in its sole and absolute discretion, at any time thereafter, to elect to dissolve the Company by delivering written notice of such election to the other Member in accordance with the terms of Section 12.01(b) (provided such right shall terminate if and when the Executive Committee approves the initial annual business plan). Within three (3) Business Days following the approval of the initial annual business plan, the Executive Committee and Tejon shall execute and deliver that certain Contribution Agreement and Joint Escrow Instructions in the form attached hereto as Exhibit "D" (the "**Contribution Agreement**").

On or before the Applicable ABP Date (as defined below), the Administrative Member shall submit a new annual business plan for each ensuing Business Plan Period to the Executive Committee for its review and approval. Each annual business plan shall include, without limitation, (i) a narrative description of the proposed objectives and goals for the Company, which shall include a description of any major transaction to be undertaken by the Company for such Business Plan Period (or other period); (ii) for the first Business Plan Period, a Development Plan and Development Budget as described in Section 2.08 for the Improvements; (iii) for the second Business Plan Period, the status of the construction of the Improvements; (iv) following the Project Stabilization Date (as reasonably determined by the Administrative Member), a revised Operating Budget, as more particularly described in Section 2.09 below; (v) a Marketing Plan as described in Section 2.13 for the Improvements; and (vi) such other items as are reasonably requested by either Member. The term "**Applicable ABP Date**" means (A) with respect to the Company's second Business Plan Period, thirty (30) days after the start of such second Business Plan Period; (B) with respect to the Company's third Business Plan Period, the later of (1) thirty (30) days after the start of the Company's second Business Plan Period, or (2) ninety (90) days prior to the start of such third Business Plan Period; and (C) with respect to all subsequent Business Plan Periods, ninety (90) days prior to the start of each such Business Plan Period.

Each new annual business plan shall be subject to the review and approval of the Executive Committee. The annual business plan for the applicable Business Plan Period (or other period) that is approved by the Executive Committee is referred to as the "**Approved Business Plan**." The Company shall pay all reasonable third-party out-of-pocket costs incurred by either Member or directly by the Company in preparing each proposed annual business plan, including any costs of doing the investigations and obtaining necessary approvals for construction of the Improvements called for in the Development Plan to the extent set forth in the Pre-Development Budget, whether or not the annual business plan for the first Business Plan Period is ultimately approved by the Executive Committee.

2.08 Development and Construction of Improvements

The Approved Business Plan for the Company's first Business Plan Period shall include a plan for the development and construction of the Improvements (the "**Development Plan**") and a development budget (the "**Development Budget**") setting forth the projected costs and expenses estimated to be incurred by the Company in connection with the development and construction of the Improvements. The Development Plan for the Improvements shall include, without limitation, the architectural design for the Improvements, the plans and specifications for such Improvements, a development schedule for the Improvements, the projected dates for the commencement and completion for the Improvements and any fees that the Members (and/or any Affiliates or representatives thereof) are entitled to receive as consideration for providing services to the Company in connection with the development and construction of the Improvements.

The Development Budget shall set forth on an itemized basis all of (i) the estimated hard and soft construction costs to be incurred by the Company in developing and constructing the Improvements pursuant to the Development Plan, and (ii) a projection setting forth the estimated revenues, expenses and net operating income (or loss) for the Project for the period commencing

as of the substantial completion of the Project through the Project Stabilization Date. The Administrative Member shall have the right, power and authority without the consent of the other Member (A) to apply up to fifty percent (50%) of the contingency line item and any line item cost savings to other line items, and (B) to cause the Company to incur expenditures in excess of any line item, provided that any such expenditure does not exceed, in the case of a change order, the limit specified in Section 2.04(i), or otherwise such line item by more than the lesser of (1) ten percent (10%) of such line item, or (2) Twenty-Five Thousand Dollars ($25,000), after the application of any contingency line item and/or cost savings. The Administrative Member shall also have the right, power and authority to incur actual expenditures on behalf of the Company (with Company funds) for (a) any of the items set forth in any approved Development Budget, as the same may be adjusted in accordance with the foregoing provisions of this Section 2.08, and (b) any items outside of an approved Development Budget provided such item does not exceed Twenty-Five Thousand Dollars ($25,000) alone or all of such expenditures do not exceed One Hundred Thousand Dollars ($100,000) in the aggregate, without the further consent of the other Member.

2.09 Operating Budget

Within thirty (30) days after the Project Stabilization Date, the Administrative Member shall prepare an operating budget ("**Operating Budget**"), which shall include, without limitation, on a detailed itemized basis for the Project and the Company, (i) all anticipated receipts projected for the period of such Operating Budget and all anticipated expenses, by category, for the Company (including, without limitation, all repairs and capital expenditures projected by the Administrative Member to be incurred during such period), (ii) the anticipated Cash Flow reserves projected to be required for such period, and (iii) a projection setting forth the estimated annual revenues, expenses and net operating income (or loss) expected to be incurred for the ensuing Business Plan Period, which shall be updated to compare the actual results to the projected results set forth in the prior Operating Budget. The Operating Budget shall also include a detailed description of such other information, contracts, agreements and other matters reasonably necessary to inform the Members of all matters relevant to the operation, management, maintenance, leasing and sale of the Project (or any portion thereof) or as may be reasonably requested by any Member. The Administrative Member shall have the right, power and authority without the consent of the other Member (A) to apply up to fifty percent (50%) of the contingency line item and any line item cost savings to other line items, and (B) to cause the Company to incur expenditures in excess of any line item, provided that any such expenditure does not exceed such line item by more than ten percent (10%), after the application of any contingency line item or cost savings. The Administrative Member shall also have the right, power and authority to incur actual expenditures on behalf of the Company (with Company funds) for (1) any of the items set forth in any approved Operating Budget, as the same may be adjusted in accordance with the foregoing provisions of this Section 2.09, and (2) any items outside of an approved Operating Budget provided such item does not exceed Fifty Thousand Dollars ($50,000) alone or in the aggregate, without the further consent of the other Member.

2.10 Construction Contract

The Company shall hire Commerce, which is an Affiliate of Majestic, to act as the design builder for the construction of the Improvements (the "**Design-Builder**") pursuant to a

guaranteed maximum price construction contract to be entered into by and between the Company and the Design-Builder substantially in the form attached hereto as Exhibit "E" (the "**Construction Contract**"). All major subcontractors hired for the construction of the Improvements shall be subject to the approval of the Executive Committee, which approval shall not be unreasonably withheld, delayed or conditioned. Majestic shall provide Tejon with a copy of each bid received from each subcontractor on the date Majestic provides Tejon the final construction pricing.

Pursuant to the terms of the Construction Contract, the Company shall pay to the Design-Builder a fee equal to (A) three percent (3%) of the total Applicable Construction Costs for rendering the architectural and structural engineering services described in the Construction Contract, and (B) five percent (5%) of the total Applicable Construction Costs as compensation for rendering the design builder and other services described in the Construction Contract. The term "**Applicable Construction Costs**" means the actual "hard" and "soft" costs actually incurred by the Design-Builder in connection with the construction of the Improvements, subject to the guaranteed maximum price.

2.11 Development and Construction Management Services

The Administrative Member shall be responsible for (i) interviewing and recommending the environmental consultants, architects, soil engineers, civil engineers and other consultants, specialists and experts (collectively, the "**Consultants**") to be hired by the Company at the Company's cost in connection with the development and construction of the Improvements, (ii) reviewing and evaluating proposed contracts between the Company and each Consultant, and (iii) negotiating such proposed contracts (it being understood that all contracts shall be required to be approved by the Executive Committee and executed by the Company). Notwithstanding the foregoing, the Company shall use its reasonable efforts to hire from among those Consultants identified on Exhibit "F" attached hereto to provide the services that such Consultants have historically provided for the Property (with the final decision on which Consultants to hire being reasonably determined by the Executive Committee). The Administrative Member shall also be responsible for coordinating and supervising the services to be provided by each such Consultant. Without limiting the generality of the foregoing, the Administrative Member shall work closely with the architects hired by the Company to prepare and process the plans and specifications for the Improvements. In addition to the above services, the Administrative Member shall also supervise the development and construction of the Improvements.

Tejon shall assist in the general construction oversight activities and will coordinate with Commerce to address any construction related issues and matters. In addition, Tejon will take the lead role in meeting with Kern County and other municipalities and local authorities/agencies to obtain any necessary permits, entitlements, consents and other approvals necessary to construct the Improvements on the Property.

As consideration for providing the development services described in this Section 2.11, the Company shall pay to the Members a development fee ("**Development Fee**") equal to four percent (4%) of the "hard costs" actually incurred in connection with the development and construction of the Improvements. The Development Fee shall be paid and earned on the first day of each calendar month based upon the "hard costs" incurred by the Company in the

preceding calendar month. The Administrative Member shall be entitled to receive seventy-five percent (75%) of the Development Fee and Tejon shall be entitled to receive twenty-five percent (25%) of the Development Fee. As consideration for providing the construction management services described in this Section 2.11, the Company shall pay to Tejon a construction management fee equal to one percent (1%) of the Applicable Construction Costs incurred in connection with the development and construction of such Improvements.

2.12 Master Developer Work

Tejon shall be obligated to perform in accordance with the Development Plan the work described on Exhibit "G" attached hereto (the "**Master Developer Work**"), at Tejon's sole cost and expense, in connection with the contribution of the Property to the Company, to the extent reasonably necessary for the development of the Improvements. Prior to commencing the Master Developer Work, (i) the Executive Committee shall reasonably agree upon the location of all utility connections and the ingress and/or egress improvements to be constructed as part of the Master Developer Work, and (ii) Tejon shall provide Majestic with a copy of the plans and specifications for any ingress and/or egress improvements to be constructed as part of the Master Developer Work for the review and input of Majestic; provided, however, the Executive Committee shall have the right to approve such plans and specifications (which approval shall not be unreasonably withheld, delayed or conditioned). Subject to any delays permitted by Section 13.23, Tejon shall be obligated (A) to perform the Master Developer Work in a coordinated manner consistent with the schedule in the Development Plan such that the Project can be completed in accordance with the Development Plan by the Project's scheduled completion date, and (B) in compliance with all required permits from the local government authority. Tejon shall provide Majestic with monthly updates of the Master Developer Work, which has been performed or is contemplated to be performed in the future.

2.13 Marketing and Leasing Management

The Administrative Member shall be responsible for preparing a marketing plan for the Project and negotiating leases for the Project with the assistance of, and in coordination with, the other Member. The marketing plan shall be submitted by the Administrative Member to the Executive Committee for its review and approval not later than thirty (30) days following the Initial Contribution Date (as defined in Section 3.01(b)), which approval shall not be unreasonably withheld, delayed or conditioned. Each marketing plan that is approved by the Executive Committee is hereinafter referred to as the "**Marketing Plan**." The Marketing Plan shall describe in reasonable detail (i) the types of proposed users and buyers for the Project, (ii) the marketing, leasing and sales objectives and a timeline for accomplishing such objectives, and (iii) such other information regarding the marketing of the Project as is reasonably requested by the Executive Committee. The Administrative Member shall be responsible for implementing each Marketing Plan on behalf of the Company (provided the Company shall pay all third-party out-of-pocket costs and expenses incurred in connection with the implementation of each such Marketing Plan). The Marketing Plan shall be updated by the Administrative Member on a quarterly basis and submitted to the Executive Committee for its review and approval, which approval shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the foregoing, if the Project is fully leased, then the Administrative Member shall not be required to update the Marketing Plan prior to the date that is one (1) year prior to

the expiration of the earliest of such leases to expire (unless otherwise requested to do so by the other Member).

2.14 Property Management

The Administrative Member and the other Member shall jointly act as the property manager for the Project. In its capacity as a property manager for the Project, the Administrative Member shall be responsible for managing the accounting and the contract and lease administration for the Project including, without limitation, enforcing the Company's rights and benefits, and causing the Company to perform its duties and obligations, under each lease entered into with respect to the Project. In its capacity as a property manager for the Project, Tejon shall be responsible for the repair and maintenance of the Project and customer service. Tejon may not assign or delegate its duties or obligations under this Section 2.14 without the prior written consent of the Executive Committee. As compensation for rendering the services described in this Section 2.14, (i) each Member shall be reimbursed for the reasonable third-party out-of-pocket costs incurred by such Member in rendering such services, and (ii) the Company shall pay to each Member a fee (the "**Property Management Fee**") equal to one and 5/10ths percent (1.5%) of the gross receipts received by the Company from the operation of the Project. The Property Management Fee shall be earned as the management services are rendered and paid on the first day of each calendar month based upon the gross receipts received by the Company in the preceding calendar month. If the Administrative Member ceases to provide the property management services it is required to render under this Section 2.14 and Tejon thereafter provides such services, then the Property Management Fee that is otherwise payable to Majestic for the rendering of such services shall thereafter be paid to Tejon. If Tejon ceases to provide the property management services it is required to render under this Section 2.14 and Majestic thereafter provides such services, then the Property Management Fee that is otherwise payable to Tejon for the rendering of such services shall thereafter be paid to Majestic.

2.15 Authority with Respect to the Affiliate Agreements

Notwithstanding any other provision of this Agreement including, without limitation, Sections 2.01, 2.02, 2.03 and 2.04, Tejon or Majestic, as the case may be, shall have the sole right, power and authority, in its sole and absolute discretion and without the consent or approval of the other Member (the "**Affiliated Member**"), (i) to cause the Company to enforce its rights under any contract or other agreement entered into by the Company with the Affiliated Member and/or any Affiliate thereof (collectively, the "**Affiliate Agreements**") following any breach by the Affiliated Member and/or any Affiliate thereof under any such Affiliate Agreement, (ii) to make all decisions on behalf of the Company with respect to any amendment, modification, rescission, extension, and/or termination under any Affiliate Agreement, (iii) to determine the existence of any default under any Affiliate Agreement and to cause the Company to declare any such default following any breach by the Affiliated Member and/or any Affiliate thereof under such Affiliate Agreement, (iv) to cause the Company to institute, settle and/or compromise any claim under any Affiliate Agreement against the Affiliated Member and/or any Affiliate thereof, (v) to cause the Company to waive any rights of the Company against the Affiliated Member and/or any Affiliate thereof under any Affiliate Agreement, and (vi) to cause the Company to consent to the assignment of any rights and/or the delegation of any duties by the Affiliated Member and/or any Affiliate thereof under any Affiliate Agreement. Majestic or Tejon, as the

case may be, shall cooperate in good faith with the other Member in the exercise by the other Member of the foregoing rights and actions under the Affiliate Agreements. For the avoidance of any doubt, the Members acknowledge that the Construction Contract to be entered into by the Company and Commerce constitutes an Affiliate Agreement under this Agreement (as a result of Commerce being an Affiliate of Majestic).

2.16 Election, Resignation, Removal of the Administrative Member

(a) Number, Term and Qualifications. The Company shall have one (1) Administrative Member. Unless it resigns (pursuant to the terms of this Agreement), is removed or ceases to be a member of the Company, the Administrative Member shall hold office until a successor shall have been elected and qualified. Unless the Administrative Member resigns or is removed pursuant to Section 2.16(c), a new Administrative Member may not be appointed without the approval of the Executive Committee.

(b) Resignation. The Administrative Member may resign upon no less than one hundred twenty (120) days prior written notice to the other Member. Except as set forth below in Section 2.16(d), any resignation of the Administrative Member in accordance with the terms of this Section 2.16(b) shall not affect the Administrative Member's rights as a member of the Company, and shall not constitute a withdrawal of the Administrative Member as a member of the Company.

(c) Removal. The Administrative Member (or any successor administrative member) may be removed following the occurrence of a Just Cause Event, by written notice ("**Removal Notice**") from the other Member to the Administrative Member within forty-five (45) days following the date such Member first becomes aware of such Just Cause Event. The Removal Notice shall specify in reasonable detail the Just Cause Event giving rise to the removal. For purposes of this Section 2.16(c), "**Just Cause Event**" shall mean:

(i) Breach of Agreement. The breach of any material covenant, duty or obligation under this Agreement by the Administrative Member if (i) the Administrative Member has received written notice from the other Member of the breach describing such breach in reasonable detail, and (ii) (A) the breach is not reasonably susceptible of being cured, or (B) if the breach is reasonably susceptible of being cured (1) the Administrative Member has failed to commence the cure or remedy of the breach within fifteen (15) days following the effective date of the notice, or (2) failed to complete the cure or remedy within a reasonable period of time (not to exceed sixty (60) days following the effective date of such notice, unless the cure or remedy cannot be reasonably completed within such sixty (60)-day period and the Administrative Member fails to diligently proceed with the cure or remedy to completion within an additional forty-five (45) days following the expiration of such initial sixty (60)-day period);

(ii) Fraud, Willful Misconduct, Gross Negligence, Etc. The fraud, willful misconduct, gross negligence or conviction of a crime involving moral

turpitude by the Administrative Member (other than any misappropriation of funds described in clause (iii) below); or

(iii) Misappropriation of Funds. Any misappropriation of funds by the Administrative Member provided that if such misappropriation of funds is committed by an employee of the Administrative Member, then such event shall not constitute a Just Cause Event if, within ten (10) Business Days after being notified in writing of such event, the Administrative Member makes full restitution to the Company of all damages caused by such event and terminates the employment of such employee.

(d) Rights Following Resignation or Removal. Upon the resignation of an Administrative Member or the removal of a member as the Administrative Member in accordance with Section 2.16(c), (i) the resigned or removed Member shall be relieved of its duties as Administrative Member under this Agreement including, without limitation, the duty to provide the development management, marketing and property management services described in Sections 2.11, 2.13 and 2.14, (ii) the other Member shall have the right, power and authority to designate each replacement Administrative Member (which may be the other Member (including a member, which previously served as the Administrative Member), any Affiliate of the other Member and/or any other Person) to replace the Member that has resigned or been removed as the Administrative Member (or any replacement Administrative Member) and such replacement Administrative Member shall have all of the rights, duties and obligations of the Administrative Member under this Agreement (including, without limitation, the right to receive any fees or other amounts payable to the Administrative Member under this Agreement following such resignation or removal for services that are thereafter provided by the replacement Administrative Member), and (iii) the other Member may terminate any or all of the Affiliate Agreements entered into with the Administrative Member or any Affiliate thereof and/or hire at the expense of the Company a new development manager, marketing director and/or property manager including, without limitation, any Affiliate of such other Member which is qualified to render the services previously provided by the resigned or removed Member.

(e) No Adjustment to Percentage Interests. Except as provided in Section 2.16(d), if a Member resigns or is removed as the Administrative Member, then the Percentage Interests of the Members shall not be adjusted and the removed Administrative Member shall retain all of its rights, duties and obligations of a member under this Agreement (other than any rights, duties and/or obligations as the Administrative Member).

2.17 Officers

(a) Appointment of Officers. The Executive Committee may appoint, and delegate authority to, officers ("**Officers**") of the Company at any time. The Officers of the Company may include, without limitation, a Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Senior Vice President, Vice President, Assistant Vice President, Secretary and Assistant Secretary. Any individual may hold

any number of offices. Unless the Executive Committee otherwise determines in its sole and absolute discretion, (i) if the title assigned to any Officer is one commonly used for officers of a business corporation formed under the Delaware General Corporation Law, then the assignment of such title shall constitute the delegation to such person of the rights, powers, duties, obligations and authority that are normally associated with that office, and (ii) no Officer shall receive any salary or other compensation for acting as an Officer of the Company. Any delegation pursuant to this Section 2.17(a) may be revoked at any time by the Executive Committee. The Officers shall serve at the pleasure of the Executive Committee.

(b) Removal of Officers. Any Officer may be terminated, either with or without cause, by the Executive Committee at any time. Any Officer may resign at any time by giving written notice to the Executive Committee. Any resignation shall take effect as of the effective date of any such notice or at any later time specified in such notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. A vacancy in any office because of death, incapacity, resignation, removal, disqualification or any other cause shall be filled, if at all, in the manner prescribed in this Agreement for regular appointments to that office.

2.18 Treatment of Payments

For financial and income tax reporting purposes, any and all fees paid by the Company to any Member and/or any Affiliate thereof shall be treated as expenses of the Company and, if paid to any Member, as guaranteed payments within the meaning of Section 707(c) of the Code. To the extent all or any portion of any fee is not paid in full prior to the Liquidation of the Company, such unpaid portion of such fee shall constitute a debt of the Company payable upon such Liquidation. The Members acknowledge and agree that any fee paid to any Member (and/or any Affiliate thereof) in accordance with the terms of this Agreement shall constitute the sole and exclusive property of such recipient Member (and/or such Affiliate), and the other Member shall not have any rights thereto or interests therein.

2.19 Reimbursement and Fees

On the Initial Contribution Date, each of Tejon and Majestic shall be reimbursed for the pre-development third-party out-of-pocket costs and expenses incurred by such Member (and any Affiliate thereof) to the extent such costs and expenses are set forth in the Pre-Development Budget (or such reimbursement is otherwise approved by the Executive Committee in its sole and absolute discretion). In furtherance of the foregoing, each Member hereby represents and warrants that such Member and/or one (1) or more of its Affiliates has actually incurred the costs and expenses to be reimbursed to such Member pursuant to this Section 2.19. Except as expressly provided in this Agreement, the Construction Contract, the Pre-Development Budget or otherwise agreed to in writing by the Executive Committee, including, without limitation, pursuant to the terms of any Approved Business Plan, none of the Members (or their respective Affiliates and/or other representatives) shall be paid any compensation for rendering services to the Company or otherwise be reimbursed for any costs and expenses incurred by such Member (and/or any Affiliate or representative thereof) on behalf of the Company. Without limiting the generality of the foregoing, neither Member nor any Affiliate thereof shall be reimbursed for any

general and administrative costs and expenses incurred by such party, and any costs incurred by Tejon in creating the legal parcel or parcels comprising the Property shall not be subject to reimbursement. Any request for reimbursement by any Member pursuant to this Section 2.19 shall be accompanied by supporting documentation and shall be made within forty-five (45) days after the date such expenses are incurred by such Member. Any such reimbursements shall not reduce such Member's Capital Account or Unreturned Contribution Account.

2.20 Insurance

The Administrative Member shall cause the Company to purchase and maintain (at the expense of the Company) a commercial general liability insurance policy, a builder's risk insurance policy and a property insurance policy in such amounts as are reasonably determined by the Executive Committee and such other insurance as may be requested from time to time by the Executive Committee. The cost of any insurance policies maintained by the Company pursuant to this Section 2.20 shall be an expense of the Company and shall be included in the Development Budget or the Operating Budget.

ARTICLE III
MEMBERS' CONTRIBUTIONS TO COMPANY

3.01 Initial Contributions of the Members

The initial capital contributions of the Members shall be made as follows:

(a) Upon Execution. Concurrently with the execution and delivery of this Agreement, each of Tejon and Majestic shall make an initial cash contribution of One Hundred Thousand Dollars ($100,000) to the capital of the Company. Each Member's Capital Account and Unreturned Contribution Account shall be credited by such amount on the date such contribution is made.

(b) Upon Initial Contribution Date. Upon the date that Tejon is required to contribute the Property to the Company pursuant to the Contribution Agreement (the "**Initial Contribution Date**"), Tejon shall assign, transfer and contribute to the capital of the Company, Tejon's entire fee interest in and to the Property (subject to all liens, encumbrances and other permitted exceptions to title approved under the Contribution Agreement) at an agreed upon value (net of all such approved liens, encumbrances and permitted exceptions) of Four Dollars ($4.00) per square foot of the net usable land area, reduced by the lien for property taxes not yet payable and adjusted for any other prorations in the manner described below and any other items agreed to by Tejon and Majestic under the Contribution Agreement (the "**Agreed Value**"). The Agreed Value shall be reduced by the amount of any net prorations and credits charged to Tejon under the Contribution Agreement and increased by the amount of any net prorations and credits charged to the Company under the Contribution Agreement. The Agreed Value of the Property prior to any adjustment for real property taxes not yet payable, prorations and credits will equal approximately Five Million Eight Hundred Fifty-Four Thousand Four Hundred Sixty-Four Dollars ($5,854,464) (i.e., (Total Acreage of 33.60 acres x 43,560) x $4.00 = $5,854,464). Tejon's Capital Account and Unreturned Contribution

Account shall each be credited by an amount equal to the Agreed Value on the date the Property is contributed to the Company. The foregoing assignment, transfer and contribution shall be made in accordance with the terms and conditions set forth in the Contribution Agreement.

(c) Contribution of Reports. Concurrently with the execution and delivery of this Agreement, each of Tejon and Majestic hereby assigns its entire right, title and interest in and to all of the reports, studies or other work product obtained by such Member after September 12, 2018. Each Member shall be reimbursed for the third-party out-of-pocket costs and expenses incurred by such Member in obtaining such reports, studies and other work product in accordance with Sections 1.03 and 2.19. As such, neither Member's Capital Account or Unreturned Contribution Account shall be credited as a result of any contribution that is made by such Member pursuant to this Section 3.01(c).

3.02 Additional Capital Contributions

If the Company has insufficient funds to meet its current or projected financial requirements (a "**Shortfall**"), then the Administrative Member shall give written notice (the "**Capital Call Notice**") of such Shortfall to the other Member. The Contribution Notice shall summarize, with reasonable particularity, the Company's actual and projected cash obligations, cash on hand, projected sources and amounts of future Cash Flow and a contribution date ("**Additional Contribution Date**") (which shall not be less than ten (10) Business Days following the effective date of such notice) upon which each Member shall be obligated to contribute to the capital of the Company, in cash, such Member's Percentage Interest of the funds necessary to satisfy such Shortfall. If the Company has a Shortfall and the Administrative Member fails to deliver a Capital Call Notice so that the Company may timely satisfy any such Shortfall, then the other Member may deliver the Capital Call Notice pursuant to this Section 3.02. Any and all amounts contributed to the capital of the Company by any Member pursuant to this Section 3.02 shall be credited to such Member's Capital Account and Unreturned Contribution Account on the date any such contribution is made.

(a) Contributions Prior to the Satisfaction of the Equalization Condition. Prior to the satisfaction of the Equalization Condition, Majestic shall be obligated to contribute one hundred percent (100%) of any amount required to enable the Company to satisfy each Shortfall. The term "**Equalization Condition**" means the first date that the balance standing in Majestic's Unreturned Contribution Account equals the balance standing in Tejon's Unreturned Contribution Account. If Majestic fails to contribute timely all or any portion of the additional capital Majestic is required to contribute pursuant to this Section 3.02(a), then Tejon may, in its sole and absolute discretion, elect to pursue (i) any and all rights and/or remedies available at law, in equity or otherwise against Majestic, and (ii) all of the rights and remedies set forth in Sections 3.03(a), 3.03(b) and 3.03(c) below.

(b) Contributions On and After the Satisfaction of the Equalization Condition. On and after the satisfaction of the Equalization Condition, each Member shall be obligated to contribute its Percentage Interest of any amount required to be

contributed to the Company to satisfy any Shortfall. If any Member breaches its obligation to make any contribution pursuant to this Section 3.02(b), then the other Member may pursue only the rights and remedies set forth in Sections 3.03(a), 3.03(b) and 3.03(c) below (which shall be in lieu of any other rights and/or remedies available at law, in equity or otherwise to the Company or such other Member).

3.03 Remedy for Failure to Contribute Capital

If any Member (the "**Non-Contributing Member**") fails to contribute timely all or any portion of the additional capital such Member is required to contribute pursuant to Section 3.02 (the "**Delinquent Contribution**"), and provided that the other Member (the "**Contributing Member**") has timely contributed to the capital of the Company all of the additional capital required to be contributed by such Contributing Member pursuant to Section 3.02 (with respect to that particular notice and capital call), then such Contributing Member shall have the right to select one (1) or more of the following options set forth in Sections 3.03(a), 3.03(b) and 3.03(c), in accordance with the terms set forth below in this Section 3.03:

(a) Loan Remedy. The Contributing Member may advance to the Company, in cash, within thirty (30) days following the Additional Contribution Date, an amount equal to the Delinquent Contribution, and such advance shall be treated as a nonrecourse loan ("**Default Loan**") by the Contributing Member to the Non-Contributing Member, bearing interest at a rate equal to the lesser of (i) the prevailing prime commercial lending rate of Wells Fargo Bank plus five (5) percentage points, adjusted concurrently with any adjustments to such rate and compounded annually, or (ii) the maximum, nonusurious rate then permitted by law for such loans. Subject to Sections 7.09 and 8.08, each Default Loan shall be due and payable in full one hundred twenty (120) days from the date advanced (or, if earlier, upon the dissolution of the Company).

As of the effective date of the advance of any Default Loan, the Capital Account and the Unreturned Contribution Account of the Non-Contributing Member shall be credited with an amount equal to the original principal balance of the Default Loan made by the Contributing Member to the Non-Contributing Member. Notwithstanding the provisions of Articles V and XII, until any and all Default Loans made to the Non-Contributing Member are repaid in full, the Non-Contributing Member shall receive no further distributions from the Company, and all cash or property otherwise distributable with respect to the Non-Contributing Member's Interest shall be distributed to the Contributing Member as a reduction of the outstanding balance of (together with all accrued, unpaid interest thereon) any and all such Default Loans, with such funds being applied first to reduce any and all interest accrued on such Default Loan(s) and then to reduce the principal amount thereof. Any amounts so applied shall be treated, for all purposes under this Agreement, as having actually been distributed to the Non-Contributing Member pursuant to Section 5.01 and applied by the Non-Contributing Member to repay such outstanding Default Loan(s).

To secure the repayment of any and all Default Loans made to the Non-Contributing Member, such Non-Contributing Member hereby grants a security interest

in favor of the Contributing Member in and to the Non-Contributing Member's entire Interest in the Company, and hereby irrevocably appoints the Contributing Member, and each of the Contributing Member's representatives, agents, officers or employees, as the Non-Contributing Member's attorney(s)-in-fact, with full power to prepare, execute, acknowledge, and deliver, as applicable, all documents, instruments, and/or agreements memorializing and/or securing such Default Loan(s), including, without limitation, such Uniform Commercial Code financing and continuation statements, mortgages, pledge agreements and other security instruments as may be reasonably appropriate to perfect and continue the security interest in favor of such Contributing Member.

The Contributing Member is also authorized to cause the Company to issue certificates (collectively, the "**Certificates**") evidencing the Members' respective Interests in the Company (in such form as is determined in the sole and absolute discretion of the Contributing Member) and is further authorized to take possession and control of any such Certificate of the Non-Contributing Member if it has made a Default Loan to the Non-Contributing Member. Following the issuance of the Certificates, each Interest in the Company shall constitute a "certificated security" within the meaning of, and be governed by, (A) Section 8-102(a)(15) of the Uniform Commercial Code as in effect from time to time in the State of Delaware, and (B) the Uniform Commercial Code of any other applicable jurisdiction that now or hereafter substantially includes the 1994 revisions to Article 8 thereof as adopted by the American Law Institute and the National Conference of Commissioners on Uniform State Laws and approved by the American Bar Association on February 14, 1995. Notwithstanding any provision of this Agreement to the contrary, to the extent any provision of this Agreement is inconsistent with any non-waivable provision of Article 8 of the Uniform Commercial Code, as in effect in the State of Delaware (6 Del C. § 8-101, et seq.), such provision of Article 8 of the Uniform Commercial Code shall control.

If, upon the maturity of a Default Loan (taking into account any agreed upon extensions thereof), any principal thereof and/or accrued interest thereon remains outstanding, then the Contributing Member may elect any one (1) of the following options: (1) to renew such Default Loan (or portion thereof) pursuant to the terms and provisions of this Section 3.03(a) for such additional term as is determined in the sole and absolute discretion of the Contributing Member; (2) to institute legal (or other) proceedings against the Non-Contributing Member to collect such loan which may include, without limitation, foreclosing against the security interest granted above; (3) to contribute all or any portion of such outstanding principal of, and accrued interest on, such Default Loan (or portion thereof) to the capital of the Company and dilute the Percentage Interest of the Non-Contributing Member pursuant to the provisions of Section 3.03(b); or (4) to implement the default provisions set forth in Article VII in accordance with the provisions of Section 3.03(c).

The Contributing Member may elect any of the options set forth in the immediately preceding sentence by giving written notice of such election to the Non-Contributing Member within thirty (30) days following such maturity date. Failure of the Contributing Member to timely give such written notice to the Non-Contributing Member shall be deemed to constitute an election to renew such Default Loan for an

additional term of one hundred twenty (120) days on the terms set forth herein. If the Contributing Member elects to foreclose upon the security interest in the Non-Contributing Member's Interest in the Company granted above, then the Contributing Member is authorized to cancel the Certificate evidencing the Non-Contributing Member's Interest in the Company and issue a new Certificate to the Contributing Member that has foreclosed upon such Interest.

(b) Dilution Remedy. The Contributing Member may contribute to the capital of the Company, in cash, within thirty (30) days following the Additional Contribution Date an amount equal to the Delinquent Contribution, and such Contributing Member's Capital Account and Unreturned Contribution Account shall each be credited with the amount contributed by such Contributing Member. Further, upon the maturity of a Default Loan that is not fully repaid on or before the maturity date thereof, the Contributing Member may contribute to the capital of the Company, in accordance with the provisions of Section 3.03(a) above, all or any portion of the outstanding principal of and/or accrued interest on such Default Loan previously advanced by such Contributing Member that is not repaid prior to the maturity date thereof, and (i) the amount of such outstanding principal and/or interest so contributed shall be deemed repaid and satisfied; (ii) the Capital Account and the Unreturned Contribution Account of the Non-Contributing Member shall be decreased, but not below zero (0), by the amount of such outstanding principal and/or interest so contributed; and (iii) the Capital Account and the Unreturned Contribution Account of the Contributing Member shall be increased by the amount of such outstanding principal and/or interest so contributed.

Upon the contribution of the Delinquent Contribution and/or the outstanding balance of a Default Loan by the Contributing Member pursuant to the foregoing provisions of this Section 3.03(b), (A) the Percentage Interest of the Non-Contributing Member shall be decreased by the Dilution Percentage, and (B) the Percentage Interest of the Contributing Member shall be increased by a like amount of percentage points. The "**Dilution Percentage**" shall equal the amount expressed in percentage points calculated based upon the following formula:

$$\text{Dilution Percentage} = 150 \times \left(\frac{\text{Delinquent Contribution}}{\text{Total amount of the Non-Contributing Member's capital contributions to the Company (including any Delinquent Contribution contributed by the Contributing Member), not reduced by any distributions under Section 5.01}} \right)$$

The application of the provisions of this Section 3.03(b) are illustrated by the following example: Assume that (1) the aggregate amount of the prior capital contributions made by the Non-Contributing Member is Two Million Three Hundred Thousand Dollars ($2,300,000), (2) a contribution of Four Hundred Thousand Dollars ($400,000) is required to be contributed by the Members to the capital of the Company pursuant to Section 3.02(b), (3) the Non-Contributing Member has a Percentage Interest of fifty percent (50%) and fails to contribute its share of such contribution equal to Two Hundred Thousand Dollars ($200,000) (i.e., 50% × $400,000), and (4) the Contributing Member has a Percentage Interest of fifty percent (50%) and contributes its entire share of such contribution equal to Two Hundred Thousand Dollars ($200,000) (i.e., 50% x $400,000) and the Delinquent Contribution of Two Hundred Thousand Dollars ($200,000) to the capital of the Company on behalf of the Non-Contributing Member pursuant to this Section 3.03(b). By operation of this Section 3.03(b), the Dilution Percentage would be equal to twelve (12) percentage points as calculated in accordance with the following formula:

$$12 = 150 \times \frac{\$200,000}{\$2,500,000}$$

Accordingly, the Percentage Interest of the Non-Contributing Member would be reduced by twelve (12) percentage points from fifty percent (50%) to thirty-eight percent (38%) and the Percentage Interest of the Contributing Member would be increased by a like amount of percentage points from fifty percent (50%) to sixty-two percent (62%).

(c) Implementation of Default Provisions. The Contributing Member may elect to implement the default provisions contained in Article VII by delivery of written notice of such election to the Non-Contributing Member within ninety (90) days following the Additional Contribution Date or the maturity date for any Default Loan that is not repaid prior to the maturity thereof.

(d) Election of Remedy. The Contributing Member shall determine which of the options set forth in Sections 3.03(a), 3.03(b) and/or 3.03(c) are to be exercised by the Contributing Member with respect to each Delinquent Contribution. If the Contributing Member advances any amount to the Company pursuant to this Section 3.03 but fails to specify which of the foregoing options the Contributing Member has elected within thirty (30) days after the effective date that the Contributing Member makes such advance, then such Contributing Member shall be deemed to have elected the option set forth in Section 3.03(a) above with respect to such advance.

(e) Minimum Percentage Interest. Any and all adjustments to the Members' respective Percentage Interests pursuant to Section 3.03(b) shall be rounded to the nearest 1/100th of one percentage point (0.01%) and the Contributing Member shall not succeed to all or any portion of the Capital Account and/or Unreturned Contribution Account of the Non-Contributing Member as the result of any such adjustment. In addition, notwithstanding any provision contained in this Article III, the Non-Contributing Member's Percentage Interest shall in no event be reduced below 1/100th of one percent (0.01%) by operation of Section 3.03(b).

3.04 Financing

The Administrative Member shall use its commercially reasonable efforts to cause the Company to procure a construction loan (the "**Construction Loan**") to finance the development and construction of the Improvements from one (1) or more independent third-party institutional lenders selected by the Administrative Member (individually, the "**Lender**" and collectively, the "**Lenders**") upon prevailing market terms and conditions. The Administrative Member shall also use its commercially reasonable efforts to obtain a permanent loan (the "**Permanent Loan**") from one (1) or more Lenders to refinance the Construction Loan upon prevailing market terms and conditions (and any other financing thereafter required to refinance the Permanent Loan), which shall be nonrecourse to the Members (subject to any Nonrecourse Documents described in Section 3.05 required to be provided to the Lender providing any such Permanent Loan). The Construction Loan and the Permanent Loan shall be secured by a deed of trust encumbering the Project. Any such financing and/or refinancing obtained by the Administrative Member on behalf of the Company (collectively, the "**Loans**") shall require the consent of the Executive Committee pursuant to Section 2.04(e).

3.05 Agreement to Provide Guarantees and Indemnification

Each Member and/or one (1) or more of their respective Affiliates or representatives, including, without limitation, the ultimate parent of each Member if required by the applicable Lender (collectively, the "**Guarantors**" and individually, a "**Guarantor**") shall execute and deliver to any Lender providing a Construction Loan to the Company (i) any and all repayment or completion guaranties or similar documents required by such Lender (collectively, the "**Recourse Documents**"), and (ii) any and all other environmental indemnities and "bad-boy" carve-out guaranties required by such Lender (collectively, the "**Nonrecourse Documents**") provided such Recourse Documents and Nonrecourse Documents are approved by the Executive Committee in its reasonable discretion. In addition, the Guarantors shall execute any Nonrecourse Document required by any Lender providing a Permanent Loan to the Company provided such Nonrecourse Documents are approved by the Executive Committee in its reasonable discretion.

The Administrative Member shall use its commercially reasonable efforts to obtain each Lender's agreement that the obligation of each Guarantor under each Recourse Document and Nonrecourse Document shall be several (i.e., not joint and several) as between the Members (and their respective Affiliates) and proportionate to the Percentage Interest of each Member that is an Affiliate of such Guarantor determined as of the date any liability is incurred under any such Recourse Document or Nonrecourse Document. The Members acknowledge and agree that each Recourse Document and Nonrecourse Document executed by any Guarantor shall be executed only as an accommodation to the Company and/or the Members. The Company shall indemnify, defend, protect and hold each such Guarantor wholly harmless from and against any and all claims, liabilities, losses, costs, expenses, damages and/or expenses including, without limitation, any attorneys' and expert witness fees and costs (collectively, "**Losses**") incurred by any such Guarantor as a result of such Recourse Document and Nonrecourse Document (or as a result of the rights of contribution described below) in accordance with the terms of Section 10.02(b). Either Member may deliver a Capital Call Notice in accordance with the provisions of Section 3.02 to require the Members to make additional contributions to the capital

of the Company to enable the Company to satisfy the indemnity for any Losses described in this Section 3.05.

If the Company fails to fully satisfy any indemnification and/or defense obligation owing to any Member or any Guarantor affiliated with such Member pursuant to the provisions of this Section 3.05, then such Guarantor ("**Contributing Party**") shall have a right of contribution against the other Member (the "**Non-Contributing Party**") to the extent the liability incurred by the Contributing Party under any Recourse Document or Nonrecourse Document (for which it is entitled to be indemnified by the Company pursuant Section 10.02(b)) exceeds such Contributing Party's Pro Rata Share of the total liability incurred by all of the Guarantors under all of the Recourse Documents and Nonrecourse Documents (for which the Guarantors are entitled to be indemnified by the Company pursuant to Section 10.02(b)). The term "**Pro Rata Share**" means (A) with respect to Tejon and its Guarantors, an amount equal to its then Percentage Interest of the total liability incurred by all of the Guarantors under all of the Recourse Documents and Nonrecourse Documents (for which the Guarantors are entitled to be indemnified by the Company pursuant to Section 10.02(b) below), and (B) with respect to Majestic and its Guarantors, an amount equal to its then Percentage Interest of the total liability incurred by all of the Guarantors under all of the Recourse Documents and Nonrecourse Documents (for which the Guarantors are entitled to be indemnified by the Company pursuant to Section 10.02(b) below).

At any time that any Contributing Party has a right of contribution against the Non-Contributing Party under this Section 3.05, the Non-Contributing Party shall be obligated to satisfy such contribution obligation by paying the required amount, in cash, within ten (10) days following written notice thereof from the Contributing Party. If any such payment is not timely and validly made within such ten (10)-day period, then from and after the date such amount was required to be paid, such amount shall bear interest at the lesser of (1) the prevailing prime commercial lending rate of Wells Fargo Bank plus five (5) percentage points, adjusted concurrently with any adjustments to such rate and compounded annually, or (2) the maximum non-usurious rate allowed by law. The Contributing Party shall also be entitled to collect from the Non-Contributing Party any and all costs and expenses of enforcing such contribution obligation including, without limitation, reasonable attorneys' and expert witness fees and costs.

The Members acknowledge and agree that each of the Guarantors (that are not Members) are express third-party beneficiaries of the foregoing provisions of this Section 3.05, and, as such, all of the Guarantors have the right, power and authority to enforce the provisions of this Section 3.05.

3.06 Capital Contributions in General

Except as otherwise expressly provided in this Agreement or as otherwise agreed to in writing by all of the Members (i) no part of the contributions of any Member to the capital of the Company may be withdrawn by such Member, (ii) no Member shall be entitled to receive interest or a return on such Member's contributions to the capital of the Company, except for the Cap Balance Return to be distributed under Section 5.01(a), (iii) no Member shall have the right to demand or receive property other than cash in return for such Member's contribution to the

Company, and (iv) no Member shall be required or be entitled to contribute additional capital to the Company other than as permitted or required by this Article III.

ARTICLE IV
ALLOCATION OF PROFITS AND LOSSES

4.01 Net Losses

After giving effect to the special allocations in Sections 4.03 and 4.04, Net Losses for each Fiscal Year shall be allocated among the Members so as to reduce, proportionately, the differences between their respective Target Capital Accounts and Partially Adjusted Capital Accounts for such Fiscal Year. No portion of the Net Losses for any taxable year shall be allocated to a Member whose Partially Adjusted Capital Account is less than or equal to such Member's Target Capital Account for such Fiscal Year.

4.02 Net Profits

After giving effect to the special allocations in Sections 4.03 and 4.04, Net Profits for each Fiscal Year shall be allocated among the Members so as to reduce, proportionately, the differences between their respective Target Capital Accounts and Partially Adjusted Capital Accounts for such Fiscal Year. No portion of the Net Profits for any taxable year shall be allocated to a Member whose Partially Adjusted Capital Account is greater than or equal to such Member's Target Capital Account for such Fiscal Year.

4.03 Special Allocations

Notwithstanding any other provisions of this Agreement, no Net Losses or items of expense, loss or deduction shall be allocated to any Member to the extent such an allocation would cause or increase a deficit balance standing in such Member's Adjusted Capital Account and any such Net Losses and items of expense, loss and deduction shall instead be allocated to the Members in proportion to their respective "interests" in the Company as determined in accordance with Treasury Regulation Section 1.704-1(b). In addition, items of income and gain shall be specially allocated to the Members in accordance with and to the extent required by the qualified income offset provisions set forth in Treasury Regulation Section 1.704-1(b)(2)(ii)(d). Notwithstanding any other provision in this Article IV, (i) any and all "partnership nonrecourse deductions" (as defined in Treasury Regulation Section 1.704-2(b)(1)) of the Company for any Fiscal Year or other period shall be allocated to the Members in proportion to their respective Percentage Interests; (ii) any and all "partner nonrecourse deductions" (as such term is defined in Treasury Regulation Section 1.704-2(i)(2)) attributable to any "partner nonrecourse debt" (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)) shall be allocated to the Member that bears the "economic risk of loss" (as determined under Treasury Regulation Section 1.752-2) for such "partner nonrecourse debt" in accordance with Treasury Regulation Section 1.704-2(i)(l); (iii) each Member shall be specially allocated items of Company income and gain in accordance with the partnership minimum gain chargeback requirements set forth in Treasury Regulation Sections 1.704-2(f) and 1.704-2(g); and (iv) each Member with a share of minimum gain attributable to any "partner nonrecourse debt" shall be specially allocated items of Company income and gain in accordance with the partner minimum gain chargeback

requirements of Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(i)(5). Any and all "excess nonrecourse liabilities" as determined under Treasury Regulation Section 1.752-3(a)(3) shall be allocated to the Members in proportion to their respective Percentage Interests.

4.04 Curative Allocations

The allocations set forth in Section 4.03 (the "**Regulatory Allocations**") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 4.04. Therefore, notwithstanding any other provision of this Article IV (other than the Regulatory Allocations), the Administrative Member is hereby authorized to make such offsetting special allocations of Company income, gain, loss or deduction in whatever manner it reasonably determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement and all Company items were allocated pursuant to Sections 4.01 and 4.02. In exercising its discretion under this Section 4.04, the Administrative Member shall take into account future Regulatory Allocations under Section 4.03, that are likely to offset other Regulatory Allocations previously made under the provisions of this Section 4.04.

4.05 Differing Tax Basis; Tax Allocation

Depreciation and/or cost recovery deductions and gain or loss with respect to each item of property treated as contributed to the capital of the Company shall be allocated between the Members for federal income tax purposes in accordance with the principles of Section 704(c) of the Code and the Treasury Regulations promulgated thereunder, and for state income tax purposes in accordance with comparable provisions of the California Revenue & Taxation Code, as amended, and the regulations promulgated thereunder, so as to take into account the variation, if any, between the adjusted tax basis of such property and its book value (as determined for purposes of the maintenance of Capital Accounts in accordance with this Agreement and Treasury Regulation Section 1.704-1(b)(2)(iv)(g)).

ARTICLE V
DISTRIBUTION OF CASH FLOW

5.01 Cash Flow

Subject to Section 12.02, Cash Flow of the Company shall be determined and distributed on a quarterly basis (or at such other times as are determined by the Executive Committee), in the following order of priority:

(a) Cap Balance Return. First, to each Member in proportion to, and to the extent of, each such Member's accrued and unpaid Cap Balance Return, if any;

(b) Equalizing Distribution. Second, if the balance standing in a Member's Unreturned Contribution Account exceeds the balance standing in the other Member's Unreturned Contribution Account, then to the Member with such excess balance, until the

balance standing in such Member's Unreturned Contribution Account equals to the balance standing in the other Member's Unreturned Contribution Account;

(c) Unreturned Contribution Accounts. Third, to the Members in proportion to, and to the extent of, the positive balances standing in their respective Unreturned Contribution Accounts, if any; and

(d) Percentage Interests. Thereafter, to the Members in proportion to their respective Percentage Interests.

5.02 Limitations on Distributions

Notwithstanding any other provision contained in this Agreement, the Company shall not make a distribution of Cash Flow (or other proceeds) to any Member if such distribution would violate Section 18-607 of the Delaware Act or other applicable law.

5.03 Withholding

If the Company is obligated to withhold and pay any taxes with respect to any Member, then any tax required to be withheld may be withheld from any distribution otherwise payable to such Member. Any such amounts withheld and remitted to the appropriate tax authority shall be deemed to have been distributed to the applicable Member and applied by such Member in payment of such tax liability.

5.04 In-Kind Distribution

Assets of the Company (other than cash) shall not be distributed in kind to the Members without the prior written approval of the Members.

ARTICLE VI
RESTRICTIONS ON TRANSFERS OF COMPANY INTERESTS

6.01 Limitations on Transfer

Except as otherwise set forth in Section 3.03, this Article VI, Article VII and Article VIII, no Member shall be entitled to sell, exchange, assign, transfer, or otherwise dispose of, pledge, hypothecate, encumber or otherwise grant a security interest in (collectively, the "**Transfer**"), directly or indirectly, all or any part of such Member's Interest in the Company or withdraw or retire from the Company, without the prior written consent of the other Member, which consent may be withheld in such other Member's sole and absolute discretion. Any transfer of a direct or indirect interest in any Member shall be deemed to be a Transfer for purposes of this Agreement, provided, however, that any transfer of a direct or indirect interest in a Member resulting from the death of such interest holder, the transfer by such interest holder to a trust of which the interest holder and/or his or her spouse is/are the sole current income beneficiaries or the termination of a trust which is an interest holder shall not be deemed a Transfer for purposes of this Agreement. Any attempted Transfer or withdrawal in violation of the restrictions set forth in this Article VI shall be null and void ab initio and of no force or effect to the maximum extent allowed by law.

6.02 Permitted Transfers

Any Member may Transfer all or any portion of such Member's Interest in the Company to any of the following (collectively, "**Permitted Transferees**") without complying with the provisions of Section 6.01:

(a) Affiliates. In the case of either Member, to any Affiliate of such Member provided the original transferring Member (that executed this Agreement) or its direct or indirect owners at all times thereafter own fifty percent (50%) or more of the voting and beneficial interests in such Affiliate;

(b) Stock Transfers. In the case of any direct and/or indirect owner of any Member that is a publicly traded corporation (including, without limitation, any shareholder of Tejon Ranch Co., a Delaware corporation), to any Person;

(c) Transfers of Direct or Indirect Interests in Majestic. Subject to the last sentence of this Section 6.02(c), (i) any direct or indirect ownership interest in Majestic may be transferred to any Person provided following such transfer (A) Edward P. Roski, Jr. ("**Roski**") (individually and/or in his capacity as trustee of a trust) directly or indirectly controls Majestic, and (B) Majestic Realty Co., a California corporation ("**MRC**"), and/or Roski (individually and/or in his capacity as trustee of a trust) own(s), in the aggregate, directly or indirectly, at least thirty percent (30%) of Majestic, and (ii) any direct or indirect ownership interest in Majestic may be transferred to any member of the Roski Family provided that (A) prior to Roski's death or incapacity, Roski or any one (1) or more other members of the Roski Family remains (individually and/or in his capacity as trustee of a trust), directly or indirectly, in control of Majestic, and (B) following Roski's death or incapacity, one (1) or more members of the Roski Family control Majestic. The term "**Roski Family**" means Roski, his spouse, their lineal descendants and their spouses, any trust or estate for the benefit of any such party, and any entity owned or controlled (ownership and voting interests of 50% or more) by such parties. As used in this Section 6.02(c), the terms "control," "controls" and "controlling" mean the possession by any Person, directly or indirectly, of the power to direct or cause the direction of the management and policies of another Person, whether through the ownership of voting securities, by contract or otherwise. Notwithstanding the foregoing, whether or not a transfer of any direct or indirect ownership interest in Majestic occurs, Majestic shall not be permitted to allow any Person other than Roski or one (1) or more other members of the Roski Family (individually and/or in such individual's capacity as trustee of a trust) to control, directly or indirectly, Majestic;

(d) Tejon Ranchcorp Multi-Asset Transfer. In the case of Tejon, a transfer of all, but not less than all, of its Interest in the Company as part of a transaction in which one (1) or more members of the Tejon Group (as defined below) in a single transaction or series of related transactions transfer five (5) or more of its Real Estate Assets (as defined below) with a gross asset value of at least Fifty Million Dollars ($50,000,000). For this purpose, the term (i) "**Tejon Group**" means all corporations, partnerships and limited liability companies in which Tejon Ranchcorp and/or any Affiliate thereof owns, directly or indirectly, fifty percent (50%) or more of the ownership and voting interests; and

(ii) "**Real Estate Assets**" means direct or indirect interests in any commercial or industrial real property of any type, wherever located;

(e) Majestic Multi-Asset Transfer. In the case of Majestic, a transfer of all, but not less than all, of its Interest in the Company as part of a transaction in which one (1) or more members of the Majestic Group (as defined below) in a single transaction or series of related transactions transfer five (5) or more of its Real Estate Assets with a gross asset value of at least Fifty Million Dollars ($50,000,000). For this purpose, the term "**Majestic Group**" means all corporations, partnerships and limited liability companies in which the Roski Family owns, directly or indirectly, fifty percent (50%) or more of the ownership and voting interests;

(f) Transfers as a Result of Foreclosure. In the case of either Member, to any Person that acquires an Interest in the Company pursuant to Section 6.08 below as the result of the exercise of any rights or remedies under Section 3.03(a); and

(g) Right of First Refusal. In the case of either Member, to any Person provided (i) such Transfer is made after the Project Stabilization Date, (ii) such Transfer is for the transferring Member's entire Interest in the Company, and (iii) the transferring Member fully complies with the provisions of Exhibit "H."

Any such Permitted Transferee shall receive and hold such ownership interest or portion thereof subject to the terms of this Agreement and to the obligations hereunder of the transferor. There shall be no further transfer of such ownership interest or portion thereof except to a Person to whom the original transferor could have transferred such ownership interest in accordance with this Section 6.02.

Notwithstanding any other provision of this Agreement, no transfer described in Section 6.02 shall be permitted if the consummation of such transfer would result in (i) the Company being obligated to pay any documentary transfer taxes, unless the transferring Member promptly reimburses the Company for the payment of all such documentary transfer taxes, or (ii) a breach or violation of any transfer restrictions contained in the loan documentation (and/or guaranty) relative to any indebtedness encumbering all or any portion of the Project and/or any other agreement governing the Company, unless such transfer restrictions are waived by the non-transferring Member, the applicable lender and/or the parties to such agreement, as the case may be (provided payment by the transferring Partner or its transferee of applicable lender fees and charges to effect such transfer shall not constitute a violation).

6.03 Admission of Substituted Members

If any Member transfers such Member's Interest to a transferee in accordance with Sections 6.01 and/or 6.02 above, then such transferee shall only be entitled to be admitted into the Company as a substituted member (and this Agreement shall be amended in accordance with the Delaware Act to reflect such admission), if: (i) the non-transferring Member reasonably approves the form and content of the instrument of transfer; (ii) the transferor and transferee named therein execute and acknowledge such other instruments as the non-transferring Member may deem reasonably necessary to effectuate such admission; (iii) the transferee in writing

accepts and adopts all of the terms and conditions of this Agreement, as the same may have been amended; and (iv) the transferor pays, as the non-transferring Member may reasonably determine, all reasonable expenses incurred in connection with such admission, including, without limitation, legal fees and costs. To the maximum extent permitted by law, any assignee of an Interest who does not become a substituted member shall have no right to require any information or account of the Company's transactions, to inspect the Company books, or to vote on any of the matters as to which a member would be entitled to vote under this Agreement. An assignee shall only be entitled to share in such Net Profits and Net Losses, to receive such distributions, and to receive such allocations of income, gain, loss, deduction or credit or similar items to which the assignor was entitled, to the extent assigned. A Member that transfers such Member's Interest shall not cease to be a member of the Company until the admission of the assignee as a substituted member.

6.04 Election; Allocations between Transferor and Transferee

Upon the transfer of the Interest of any Member or the distribution of any property of the Company to a Member, the Company shall file an election in accordance with applicable Treasury Regulations, to cause the basis of the Company property to be adjusted for federal income tax purposes as provided by Sections 734 and 743 of the Code. Upon the transfer of all or any part of the Interest of a Member as hereinabove provided, Net Profits and Net Losses shall be allocated between the transferor and transferee on the basis of a computation method that is in conformity with the methods prescribed by Section 706 of the Code and Treasury Regulation Section 1.706-1(c)(2)(ii).

6.05 Partition

No Member shall have the right to partition any assets of the Company or any interest therein, nor shall a Member make application or proceeding for a partition thereto and, upon any breach of the provisions of this Section 6.05 by any Member, the other Member (in addition to all rights and remedies afforded by law or equity) shall be entitled to a decree or order restraining or enjoining such application, action or proceeding.

6.06 Waiver of Withdrawal and Purchase Rights

Except in connection with any transfer permitted in accordance with this Agreement, no Member may voluntarily withdraw, resign or retire from the Company without the prior written consent of the other Member, which consent may be withheld in such other Member's sole and absolute discretion. In furtherance of the foregoing, each Member hereby waives any and all rights such Member may have to withdraw and/or resign from the Company pursuant to Section 18-603 of the Delaware Act and hereby waives any and all rights such Member may have to receive the fair value of such Member's Interest in the Company upon such resignation and/or withdrawal pursuant to Section 18-604 of the Delaware Act.

6.07 No Appraisal Rights

Unless otherwise determined by the Members, none of the Members shall have any appraisal rights with respect to their Interests pursuant to Section 18-210 of the Delaware Act or otherwise.

6.08 Foreclosure of Interest

Notwithstanding any other term of this Agreement, upon a foreclosure, sale or other transfer of any Interest in the Company pursuant to any security interest granted pursuant to Section 3.03(a), the holder of such Interest shall, upon the execution of a counterpart to Agreement (or an amendment thereto), automatically be admitted as a substituted member of the Company upon such foreclosure, sale or other transfer, with all of the rights and obligations thereof permitted hereunder. The Company acknowledges that the pledge of any Interest in the Company pursuant to Section 3.03(a) shall be a pledge not only of Net Profits and Net Losses of the Company, but also a pledge of all rights and obligations of the pledgor thereunder. Upon a foreclosure, sale or other transfer of any Interest in the Company pursuant to Section 3.03(a), the successor member may transfer its Interest in the Company in accordance with this Agreement. Notwithstanding any provision in the Delaware Act or any other provision contained herein to the contrary, the pledgor under Section 3.03(a) shall be permitted to pledge and, upon any foreclosure of such pledge in connection with the admission of the secured party or other holder as a substituted member, to transfer to the secured party or other holder its rights and obligations to the Company pursuant to the terms of such pledge agreement.

ARTICLE VII
MEMBER DEFAULT

7.01 Default Events

For purposes of this Article VII, the following shall constitute "**Default Events**":

(a) Breach of Agreement. The breach of any material covenant, duty or obligation under this Agreement by any Member (other than a breach described in Section 7.01(b) or 7.01(c) for which there shall be no cure period) if (i) the breaching Member has received written notice from the other Member of the breach, and (ii) (A) the breach is not reasonably susceptible of being cured, or (B) if the breach is reasonably susceptible of being cured, the breaching Member has failed to commence the cure or remedy of the breach within fifteen (15) days following the effective date of the notice and failed to complete the cure or remedy within a reasonable period of time (not to exceed 60 days), unless the cure or remedy cannot be reasonably completed within such sixty (60)-day period and the breaching Member fails to diligently proceed with the cure or remedy to completion within an additional forty-five (45) days following the expiration of such initial sixty (60)-day period;

(b) Capital Default. The failure of a Member to make timely a contribution required to be made pursuant to Section 3.02, or to timely repay any Default Loan in accordance with Section 3.03(a), followed by the election of the Contributing Member to treat such failure as a Default Event pursuant to Section 3.03(c);

(c) Prohibited Transfer, Encumbrance or Withdrawal. A Transfer or attempted Transfer by a Member of such Member's Interest in the Company (or portion thereof) or withdrawal or attempted withdrawal by a Member contrary to the provisions of Article VI;

(d) Bankruptcy or Insolvency. The rendering, by a court with appropriate jurisdiction, of a decree or order (i) adjudging a Member bankrupt or insolvent, or (ii) approving as properly filed a petition seeking reorganization, readjustment, arrangement, composition, or similar relief for a Member under the federal bankruptcy laws or any other similar applicable law or practice, provided that such decree or order shall remain in force, undischarged and unstayed, for a period of ninety (90) days;

(e) Appointment of Receiver. The rendering, by a court with appropriate jurisdiction, of a decree or order (i) for the appointment of a receiver, a liquidator, or a trustee or assignee in bankruptcy or insolvency of a Member, or for the winding up and liquidation of such Member's affairs, provided that such decree or order shall have remained in force undischarged and unstayed for a period of sixty (60) days, or (ii) for the sequestration or attachment of any property of a Member without its return to the possession of such Member or its release from such sequestration or attachment within sixty (60) days thereafter; or

(f) Bankruptcy Proceedings. A Member (i) institutes proceedings to be adjudicated a voluntary bankrupt or an insolvent, (ii) consents to the filing of a bankruptcy proceeding against such Member, (iii) files a petition or answer or consent seeking reorganization, readjustment, arrangement, composition, or similar relief for such Member under the federal bankruptcy laws or any other similar applicable law or practice, (iv) consents to the filing of any such petition, or to the appointment of a receiver, a liquidator, or a trustee or assignee in bankruptcy or insolvency for such Member or a substantial part of such Member's property, (v) makes an assignment for the benefit of such Member's creditors, (vi) is unable to or admits in writing such Member's inability to pay such Member's debts generally as they become due, or (vii) takes any action in furtherance of any of the aforesaid purposes.

For the purposes of implementing the provisions contained in this Article VII, the "**Defaulting Member**" shall be: (i) in the case of the event referenced in Section 7.01(a), the Member that has breached any material covenant, duty or obligation under this Agreement; (ii) in the case of the event referenced in Section 7.01(b), the Non-Contributing Member; (iii) in the case of the occurrence of the event referenced in Section 7.01(c), the Member that has transferred such Member's rights or interests or withdrawn from the Company contrary to the provisions of Article VI; and (iv) in the case of the occurrence of any of the events referenced in Sections 7.01(d), (e) and/or (f), the Member that is the subject of such court decree or order or has instituted such proceedings or filed such petitions or who is insolvent, etc. The term "**Non-Defaulting Member**" shall mean the Member that is not the Defaulting Member. For the avoidance of doubt, any default by an Affiliate of a Member under any agreement between such Affiliate and the Company shall not constitute a Default Event by the Member under this Agreement. A Member shall cease to be a Defaulting Member solely for purposes of this Article VII following the occurrence of a Default Event with respect to such Member if the Non-Defaulting Member fails to deliver a Default Notice within the sixty (60)-day or ninety (90)-day periods, as the case may be, set forth in Section 7.02, following the occurrence of such Default Event.

7.02 Rights Arising From a Default Event

Within sixty (60) days after the date that the Non-Defaulting Member is aware of the occurrence of an uncured Default Event (or ninety (90) days after the occurrence of any default described in Section 7.01(b)) the Non-Defaulting Member shall have the right, but not the obligation, to implement the default procedures set forth in this Article VII by delivering written notice ("**Default Notice**") thereof to the Defaulting Member. Failure of a Non-Defaulting Member to deliver a Default Notice within such sixty (60)-day or ninety (90)-day period shall not be deemed to be a waiver of the right to deliver a Default Notice upon the occurrence of any subsequent Default Event.

7.03 Determination of Defaulting Member's Purchase Price

Within thirty (30) days after the determination of the Appraised Value of the assets of the Company, the Accounting Firm shall determine the amount of cash which would be distributed to each Member if (i) the assets of the Company were sold for the Appraised Value thereof as of the effective date of the Default Notice; (ii) the liabilities of the Company were liquidated pursuant to Section 12.02(a); (iii) a reasonable reserve for any contingent, conditional or unmatured liabilities or obligations of the Company was established by the Non-Defaulting Member pursuant to Section 12.02(b); and (iv) any remaining amounts (including, without limitation, any cash proceeds of the Company) were distributed to the Members in accordance with the provisions of Section 12.02(c). Upon such determination, the Accounting Firm shall give each Member written notice ("**Accountant's Notice**") thereof. The determination by the Accounting Firm of such amounts, including all components thereof, shall be deemed conclusive absent any material computational error. In the case of a Default Event described in Section 7.01(a), (b) or (c), ninety percent (90%), and in the case of any other Default Event, one hundred percent (100%), of the amount which would be distributed to the Defaulting Member pursuant to Section 12.02(c) shall be deemed the purchase price for the Defaulting Member's Interest (the "**Defaulting Member's Purchase Price**") for purposes of this Article VII; subject, however, to adjustment for any Default Loans as provided in Section 7.09.

(a) Determination of Appraised Value. For purposes of this Article VII, the appraised value ("**Appraised Value**") of the assets of the Company shall be determined as follows: The Appraised Value shall be determined by one (1) or more independent qualified M.A.I. appraisers with at least five (5) years' experience appraising industrial real estate projects. The Non-Defaulting Member shall select one (1) appraiser and shall include such selection in the Default Notice. Within fifteen (15) Business Days following the effective date of the Default Notice, the Defaulting Member shall either agree to the appraiser selected by the Non-Defaulting Member or select a second (2nd) appraiser and give written notice to the Non-Defaulting Member of the person so selected. If either the Non-Defaulting Member or the Defaulting Member fails to appoint such an appraiser within the time period specified and after the expiration of five (5) Business Days following the effective date of written demand that an appraiser be appointed, then the appraiser duly appointed by the Member making such demand to appoint such appraiser shall proceed to make the appraisal as herein set forth, and the determination thereof shall be conclusive on both of the Members. If two (2) appraisers are selected, then such selected appraisers shall thereafter appoint a third (3rd) appraiser.

If the two (2) selected appraisers fail to appoint a third (3rd) appraiser within ten (10) Business Days following the effective date of written notice from the Defaulting Member notifying the Non-Defaulting Member of the selection of the second (2nd) appraiser, then any Member may petition a court of competent jurisdiction to appoint a third (3rd) appraiser, in the same manner as provided for the appointment of an arbitrator pursuant to California Code of Civil Procedure Section 1281.6.

The appraiser or three (3) appraisers, as the case may be, shall promptly determine a date for the completion of the appraisal, which shall not be later than sixty (60) days from the effective date of the appointment of the last appraiser.

The appraiser(s) shall determine the Appraised Value by determining the fair market value of the assets of the Company, such fair market value being the fairest price estimated in the terms of money which the Company could obtain if such assets were sold in the open market allowing a reasonable time to find a purchaser who purchases with knowledge of the business of the Company at the time of the occurrence of the Default Event.

Upon submission of the appraisals setting forth the opinions as to the Appraised Value of the assets of the Company, the two (2) such appraisals which are nearest in amount shall be retained, and the third (3rd) appraisal shall be discarded. The average of the two (2) retained appraisals shall constitute the Appraised Value of the assets of the Company for purposes of this Article VII; unless one (1) appraisal is the mean of the other two (2) appraisals, in which case such appraisal shall constitute the Appraised Value of the assets of the Company for purposes of this Article VII.

(b) Payment of Costs. Except as provided below, the Non-Defaulting Member shall pay for the services of the appraiser appointed by such Member, and the Defaulting Member shall pay for the services of the appraiser appointed by such Member. The cost of the services of the third (3rd) appraiser, if any, shall be paid one-half (½) by the Non-Defaulting Member, on the one hand, and one-half (½) by the Defaulting Member, on the other hand. The costs of the services of the Accounting Firm and, in the event only one (1) appraiser is required, the cost of the services of such appraiser, shall be paid one-half (½) by the Non-Defaulting Member, on the one hand, and one-half (½) by the Defaulting Member, on the other hand.

7.04 Non-Defaulting Members' Option

For a period of thirty (30) days after the effective date of the Accountant's Notice, the Non-Defaulting Member shall have the right, but not the obligation, to elect to purchase the entire Interest of the Defaulting Member for the Defaulting Member's Purchase Price, and on the terms and conditions set forth in this Article VII by giving written notice of such election to the Defaulting Member within such thirty (30)-day period. Failure by the Non-Defaulting Member to timely give written notice exercising such Member's right to elect to purchase set forth in this Section 7.04 shall be deemed an election by such Member to waive such right to purchase with respect to the particular Default Event that triggered the application of the provisions of this Article VII.

7.05 Closing Adjustments

Within five (5) days before the actual date of the closing pursuant to Section 7.06 below, the Accounting Firm shall recalculate the amount of cash which would be distributed to each Member pursuant to Section 12.02(c), if such amount were determined as of the closing date under Section 7.06 (in lieu of the effective date of the Default Notice) taking into account any contributions and/or distributions made after the effective date of the Default Notice. Upon such determination, the Accounting Firm shall give each Member written notice ("**Adjusted Accountant's Notice**") thereof. The Accounting Firm shall reasonably and in good faith adjust the Defaulting Member's Purchase Price, if and to the extent necessary, to take into account the adjustments described in the Adjusted Accountant's Notice and to take into account appropriate prorations that would have been made if there had been an actual sale of the Project to a third party as of the date of the closing under Section 7.06.

7.06 Closing of Purchase and Sale

The closing of a purchase and sale pursuant to this Article VII shall be held at the principal office of the Company in California on a Business Day designated by the Non-Defaulting Member that is not later than sixty (60) days after the expiration of the thirty (30)-day period set forth in Section 7.04. The Defaulting Member shall transfer to the purchasing Non-Defaulting Member (or such Member's nominee(s)) the entire Interest of the Defaulting Member free and clear of all liens, security interests, and competing claims and shall deliver to the Non-Defaulting Member (or such Member's nominee(s)) such instruments of transfer and such evidence of due authorization, execution, and delivery, and of the absence of any such liens, security interests, or competing claims as the Non-Defaulting Member (or such Member's nominee(s)) shall reasonably request.

7.07 Representations and Warranties

At the closing, the Defaulting Member shall represent and warrant to the Non-Defaulting Member that the sale of the Defaulting Member's Interest to the Non-Defaulting Member (or its nominee) (i) does not violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which the Defaulting Member is a party (exclusive of any such agreement or other instrument or obligation to which the Company is a party), or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to the Defaulting Member or any of the other properties or assets of the Defaulting Member. The Defaulting Member shall also represent and warrant to the Non-Defaulting Member at such closing that no notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any Person, is necessary in connection with the sale of its Interest to the Non-Defaulting Member.

7.08 Payment of Defaulting Member's Purchase Price

The Non-Defaulting Member shall pay (or cause to be paid) the entire Defaulting Member's Purchase Price by delivering at the closing a confirmed wire transfer of readily available funds or one (1) or more certified or bank cashier's checks made payable to the order of the Defaulting Member.

7.09 Repayment of Default Loans

The Defaulting Member's Purchase Price shall be offset at the closing of such purchase by the then unpaid principal balance of any and all Default Loan(s) (together with all accrued, unpaid interest thereon) made by the Non-Defaulting Member to the Defaulting Member. Such Default Loan(s) (together with all accrued, unpaid interest thereon) shall be deemed paid to the extent of such offset, with such deemed payment to be applied first to the accrued interest thereon and thereafter to the payment of the outstanding principal amount thereof. If the Defaulting Member's Purchase Price is insufficient to fully offset the then unpaid principal balance of any and all Default Loans (together with all accrued, unpaid interest thereon) made by the Non-Defaulting Member to the Defaulting Member, then the portion of any such Default Loan(s) (and accrued, unpaid interest thereon) that remains outstanding following such offset shall be required to be paid by the Defaulting Member at the closing referenced in Section 7.06. Also, notwithstanding any other provision of this Agreement, the unpaid balance of any and all Default Loan(s) (including all outstanding principal amounts thereof and all accrued, unpaid interest thereon) made by the Defaulting Member to the Non-Defaulting Member be required to be paid by the Non-Defaulting Member at the closing referenced in Section 7.06.

7.10 Release and Indemnity

On or before the closing of a purchase and sale held pursuant to this Article VII, the Non-Defaulting Member shall use such Member's reasonable and good faith efforts to obtain written releases of the Defaulting Member and the Defaulting Member's Affiliates from all liabilities under all Recourse Documents and Nonrecourse Documents and all other liabilities of the Company for which the Defaulting Member and/or its Affiliates may have personal liability, except to the extent such liabilities arise out of any Bad Acts or Prohibited Transfer (as such terms are defined in Section 10.02(a) below) of such Defaulting Member or any Affiliate thereof. To the extent the Non-Defaulting Member is unable to obtain such releases on or before the closing, the Non-Defaulting Member and an Affiliate of the Non-Defaulting Member with a net worth reasonably acceptable to the Defaulting Member shall jointly and severally indemnify, defend and hold the Defaulting Member and its Affiliates wholly harmless from and against all such liabilities and guaranties, except to the extent such liabilities arise out of any Bad Acts or Prohibited Transfer of the Defaulting Member or any Affiliate thereof. For purposes of clarification, the release, indemnity and related provisions set forth above in this Section 7.10 shall not apply to any Losses which are incurred by the Defaulting Member or its Affiliates to the extent such liabilities arise under an Affiliate Agreement.

7.11 Withdrawal of the Defaulting Member

If the Interest of the Defaulting Member is purchased by the Non-Defaulting Member (or its nominee) pursuant to this Article VII, then, effective as of the closing for such purchase, the Defaulting Member shall withdraw as a member of the Company. Notwithstanding the foregoing, any indemnity of the Defaulting Member and its Affiliates provided for under this Agreement including, without limitation, under Section 10.02(b) shall survive the sale of the Interest of the Defaulting Member and its withdrawal as a member of the Company.

7.12 Distribution of Reserves

Within one (1) year following the closing of the purchase of the entire Interest of the Defaulting Member in the Company pursuant to this Article VII, the Non-Defaulting Member shall pay to the Defaulting Member an amount equal to the difference between the Defaulting Member's Purchase Price determined pursuant to Section 7.03 and the amount that the Defaulting Member's Purchase Price would have been equal to if (i) no reserves had been established or deducted in calculating the Defaulting Member's Purchase Price, and (ii) the amount used in determining the Defaulting Member's Purchase Price under Section 7.03 had been reduced by the aggregate amount of any contingent, unmatured or conditional liabilities of the Company (for which such reserve was established) that were actually paid by the Company during such one (1)-year period.

ARTICLE VIII
ELECTIVE BUY/SELL AGREEMENT

8.01 Buy/Sell Election

Either Member that is not a Defaulting Member (the "**Electing Member**") shall have the right, but not the obligation, at any time after the Lockout Date or an Impasse Event to elect to implement the buy/sell procedures set forth in this Article VIII by delivering written notice of such election ("**Election Notice**") to the other Member (the "**Non-Electing Member**"). The term "**Lockout Date**" means the earlier of (i) six (6) months after the Project Stabilization Date, or (ii) three (3) years after the Effective Date. The Election Notice shall set forth a stated value (the "**Stated Value**"), as determined in the sole and absolute discretion of the Electing Member, for all of the assets of the Company. For purposes of this Article VIII, a Member shall not be deemed to be a Defaulting Member after the expiration of the sixty (60)-day or ninety (90)-day period, as the case may be, set forth in Section 7.02.

8.02 Determination of the Purchase Price

Within ten (10) Business Days following the effective date of any Election Notice (or as soon as reasonably possible thereafter), the Accounting Firm shall determine the aggregate amount of cash which would be distributed to each Member if (i) the assets of the Company were sold for their Stated Value as of the effective date of the Election Notice; (ii) the known non-contingent liabilities of the Company (exclusive of any prepayment penalties payable with respect to any Loan obtained by the Company) were liquidated pursuant to Section 12.02(a); (iii) a reserve was not established for any contingent, conditional or unmatured liabilities or obligations of the Company pursuant to Section 12.02(b); and (iv) any remaining amounts were

distributed to the Members in accordance with the provisions of Section 12.02(c). Upon such determination, the Accounting Firm shall give each Member written notice ("**Price Determination Notice**") thereof. The determination by the Accounting Firm of such amounts including all components thereof, shall be deemed conclusive on all of the Members, absent any material computational error. One hundred percent (100%) of the amount that would be distributed to each Member pursuant to Section 12.02(c) shall be deemed the purchase price ("**Purchase Price**") for such Member's Interest for purposes of this Article VIII; subject, however, to adjustment for any Default Loans described in Section 8.08.

8.03 Non-Electing Member's Option

For a period of thirty (30) days following the effective date of the Price Determination Notice, the Non-Electing Member shall have the option to elect by delivering written notice (the "**Purchase Notice**") of such election to the Electing Member within such thirty (30)-day period, either (i) to purchase the Electing Member's entire Interest for the Purchase Price thereof, or (ii) to sell such Non-Electing Member's entire Interest to the Electing Member for the Purchase Price thereof. Failure of the Non-Electing Member to timely and validly make an election in accordance with this Section 8.03 shall constitute an election by such Non-Electing Member to sell such Non-Electing Member's entire Interest for the Purchase Price thereof to the Electing Member.

8.04 Deposit

WITHIN FIVE (5) BUSINESS DAYS AFTER THE EXPIRATION OF THE THIRTY (30)-DAY OPTION PERIOD SET FORTH IN SECTION 8.03, THE BUYING MEMBER SHALL DEPOSIT INTO AN ESCROW ACCOUNT ESTABLISHED BY THE BUYING MEMBER WITH A NATIONALLY RECOGNIZED TITLE COMPANY, A DEPOSIT (THE "**DEPOSIT**") BY A WIRE TRANSFER OF IMMEDIATELY AVAILABLE FEDERAL FUNDS IN AN AMOUNT EQUAL TO FIVE PERCENT (5%) OF THE PURCHASE PRICE, WHICH SHALL BE NON-REFUNDABLE TO THE BUYING MEMBER IF THE CLOSING OF THE SALE FAILS TO OCCUR AS A RESULT OF THE BUYING MEMBER'S DEFAULT. UPON THE CLOSING OF THE SALE, THE DEPOSIT SHALL BE A CREDIT AGAINST THE PURCHASE PRICE. SUBJECT TO SECTION 8.10, IF THE SALE FAILS TO OCCUR DUE TO THE BUYING MEMBER'S DEFAULT, THEN THE SELLING MEMBER SHALL RETAIN THE DEPOSIT OF THE BUYING MEMBER AS LIQUIDATED DAMAGES, AS ITS SOLE AND EXCLUSIVE REMEDY AT LAW IN CONNECTION WITH SUCH DEFAULT. THE MEMBERS ACKNOWLEDGE THAT IT WOULD BE IMPRACTICAL AND EXTREMELY DIFFICULT TO ESTIMATE THE DAMAGES WHICH THE SELLING MEMBER MAY SUFFER IN CONNECTION WITH A DEFAULT BY THE BUYING MEMBER UNDER THIS ARTICLE VIII. THEREFORE, SUBJECT TO SECTION 8.10, THE MEMBERS HAVE AGREED THAT A REASONABLE ESTIMATE OF THE TOTAL NET DETRIMENT THAT THE SELLING MEMBER WOULD SUFFER IN SUCH EVENT IS AND SHALL BE THE RIGHT OF THE SELLING MEMBER TO RETAIN THE DEPOSIT AS LIQUIDATED DAMAGES, AS ITS SOLE AND EXCLUSIVE REMEDY AT LAW UNDER THIS ARTICLE VIII. THE MEMBERS EXPRESSLY ACKNOWLEDGE AND AGREE THAT THE RETENTION OF THE DEPOSIT IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF

DELAWARE LAW (OR CALIFORNIA CIVIL CODE SECTION 3375 OR 3369 OR UNDER ANY OTHER STATE LAWS TO THE EXTENT DELAWARE LAW DOES NOT APPLY), BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO THE SELLING MEMBER PURSUANT TO DELAWARE LAW (OR CALIFORNIA CIVIL CODE SECTIONS 1671, 1676 AND 1677 OR UNDER ANY OTHER STATE LAWS TO THE EXTENT DELAWARE LAW DOES NOT APPLY). NOTHING CONTAINED HEREIN SHALL LIMIT OR OTHERWISE AFFECT ANY RIGHTS THE SELLING MEMBER MAY HAVE TO OBTAIN SPECIFIC PERFORMANCE AND, TO THE MAXIMUM EXTENT PERMITTED BY LAW, ANY OTHER EQUITABLE REMEDIES. THE MEMBERS ACKNOWLEDGE THAT THEY HAVE BEEN ADVISED BY THEIR COUNSEL WITH RESPECT TO THE FOREGOING PROVISIONS OF THIS SECTION 8.04 AND BY THEIR INITIALS SET FORTH BELOW INDICATE THAT THE FOREGOING REMEDIES ARE FAIR AND REASONABLE AND AGREE AND COVENANT NOT TO CONTEST THE VALIDITY OF SUCH REMEDY AS A PENALTY, FORFEITURE OR OTHERWISE IN ANY COURT OF LAW (AND/OR IN ANY ARBITRATION PROCEEDING).

INITIALS OF TEJON INITIALS OF MAJESTIC

8.05 Closing Adjustments

Within five (5) days before the actual date of the closing pursuant to Section 8.06 below, the Accounting Firm shall recalculate the amount of cash which would be distributed to each Member pursuant to Section 12.02(c) if such amount were determined as of the closing date under Section 8.06 (in lieu of the effective date of the Election Notice) taking into account any contributions and/or distributions that occur after the effective date of the Election Notice. Upon such determination, the Accounting Firm shall give each Member written notice ("**Adjusted Price Determination Notice**") thereof. The Accounting Firm shall reasonably and in good faith adjust the Defaulting Member's Purchase Price, if and to the extent necessary, to take into account the adjustments described in the Adjusted Price Determination Notice and to take into account appropriate prorations that would have been made if there had been an actual sale of the Project to a third party.

8.06 Closing of Purchase and Sale

The closing of a purchase and sale held pursuant to this Article VIII shall be held at the principal office of the Company on a Business Day designated by the buying Member within sixty (60) days following the earlier of (i) the effective date upon which the Non-Electing Member has delivered the Purchase Notice pursuant to Section 8.03, or (ii) the expiration of the thirty (30)-day option period set forth in Section 8.03. The selling Member shall transfer to the buying Member (or the buying Member's nominee(s)) the entire Interest of the selling Member free and clear of all liens, security interests, and competing claims and shall deliver to the buying Member (or the buying Member's nominee(s)) such instruments of transfer and such evidence of due authorization, execution, and delivery, and of the absence of any such liens, security interests, or competing claims, as the buying Member (or the buying Member's nominee(s)) shall reasonably request. The Purchase Price for the selling Member's Interest shall be paid by the buying Member by delivering at the closing of a confirmed wire transfer of readily available

funds or one (1) or more certified or bank cashier's checks made payable to the selling Member in an amount equal to the Purchase Price, less the amount of the Deposit paid by the buying Member pursuant to Section 8.04 above (which shall be released to the selling Member at the closing). Effective as of the closing for the purchase of the selling Member's Interest, the selling Member shall withdraw as a member of the Company. In connection with any such withdrawal, the buying Member may cause any nominee designated in the sole and absolute discretion of such Member to be admitted as a substituted member of the Company. Notwithstanding the foregoing, any indemnity of the selling Member and its Affiliates provided for under this Agreement including, without limitation, under Section 10.02(b) shall survive the sale of the Interest of the selling Member and its withdrawal as a member of the Company.

8.07 Representations and Warranties

At the closing, the selling Member shall represent and warrant to the buying Member that the sale of the selling Member's Interest to the buying Member (or its nominee) (i) does not violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which the selling Member is a party (exclusive of any such agreement or other instrument or obligation to which the Company is a party), or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to the selling Member or any of the other properties or assets of the selling Member (exclusive of its Interest in the Company). The selling Member shall also represent and warrant to the buying Member at such closing that no notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any Person, is necessary in connection with the sale of its Interest to the buying Member.

8.08 Repayment of Default Loans

The Purchase Price shall be offset at the closing of such purchase by the then unpaid principal balance of any and all Default Loan(s) (together with all accrued, unpaid interest thereon) made by the buying Member to the selling Member. Such Default Loan(s) (together with all accrued, unpaid interest thereon) shall be deemed paid to the extent of such offset, with such deemed payment to be applied first to the accrued interest thereon and thereafter to the payment of the outstanding principal amount thereof. If the Purchase Price is insufficient to fully offset the then unpaid principal balance of any and all Default Loan(s) (together with all accrued, unpaid interest thereon) made by the buying Member to the selling Member, then the portion of any such Default Loan(s) (and accrued, unpaid interest thereon) that remains outstanding following such offset shall be required to be paid by the selling Member at the closing referenced in Section 8.06. Also, notwithstanding any provision of this Agreement to the contrary, the unpaid balance of any and all Default Loan(s) (including all outstanding principal amounts thereof and all accrued, unpaid interest thereon) made by the selling Member to the buying Member shall be required to be paid by the buying Member at the closing referenced in Section 8.06.

8.09 Release and Indemnity

On or before the closing of a purchase and sale held pursuant to this Article VIII, the buying Member shall use such Member's reasonable and good faith efforts to obtain written releases of the selling Member and the selling Member's Affiliates from all liabilities under all Recourse Documents and Nonrecourse Documents and all other liabilities of the Company for which the selling Member and/or its Affiliates may have personal liability, except to the extent such liabilities arise out of any Bad Acts or Prohibited Transfer of such selling Member or any Affiliate thereof. To the extent the buying Member is unable to obtain such releases on or before the closing, the buying Member and an Affiliate of the buying Member with a net worth reasonably acceptable to the selling Member shall jointly and severally indemnify, defend and hold the selling Member and its Affiliates wholly harmless from and against all such liabilities and guaranties, except to the extent such liabilities arise out of any Bad Acts or Prohibited Transfer of such selling Member or any Affiliate thereof. For purposes of clarification, the release, indemnity and related provisions set forth above in this Section 8.09 shall not apply to any Losses which are incurred by the Defaulting Member or its Affiliates to the extent such liabilities arise under an Affiliate Agreement.

8.10 Interim Event of Default

If the buying Member breaches its obligation under this Article VIII to timely and validly close the purchase of the selling Member's Interest, then (i) the buying Member shall not have any further right to deliver an Election Notice pursuant to Section 8.01 for a period of one (1) year after the date of such default, and (ii) the selling Member shall have the right, but not the obligation, to elect to purchase the Interest of the buying Member by delivering a Purchase Notice to such buying Member within thirty (30) days following such default. If the selling Member makes the election described in clause (ii) above, then the Purchase Price for the buying Member's Interest shall be ninety percent (90%) of the amount that was otherwise determined under Section 8.02 and such purchase and sale shall otherwise be on the other terms and conditions set forth in this Article VIII. If the selling Member delivers a Purchase Notice pursuant to this Section 8.10, then the selling Member shall not be entitled to retain the Deposit under Section 8.04.

8.11 Application of Provisions

The Members acknowledge and agree that if either Member has timely and validly delivered an Election Notice to the other Member and initiated the buy/sell procedures set forth in this Article VIII, then such other Member shall be precluded from delivering an Election Notice unless such buy/sell procedure has been terminated.

ARTICLE IX
REPRESENTATIONS, WARRANTIES, COVENANTS AND OTHER MATTERS

9.01 Tejon Representations

As of the Effective Date, each of the statements in this Section 9.01 shall be a true, accurate and full disclosure of all facts relevant to the matters contained therein. Tejon hereby

represents and warrants as follows for the sole and exclusive benefit of Majestic, each of which is material and is being relied upon by Majestic as of the Effective Date:

(a) Due Formation. Tejon is a duly organized corporation validly existing and in good standing under the laws of the State of California and has the requisite power and authority to enter into and carry out the terms of this Agreement;

(b) Required Actions. All corporate action required to be taken by Tejon to execute and deliver this Agreement has been taken by Tejon and no further approval of any member, partner, shareholder, manager, officer, board, court, or other body is necessary to permit Tejon to execute and deliver this Agreement;

(c) Binding Obligation. This Agreement and all other documents to be executed and delivered by Tejon pursuant to the terms of this Agreement will on the date such Agreement and documents are fully executed and delivered constitute legal, valid, and binding obligations of Tejon, enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect affecting generally the enforcement of creditors' rights, and statutes or rules of equity concerning the enforcement of the remedy of specific performance (collectively, the "**Enforceability Exceptions**");

(d) No Consent. No notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any Person, is necessary in connection with (i) the execution and delivery of this Agreement by Tejon, or (ii) the consummation and performance by Tejon of the transactions contemplated by this Agreement (other than the usual and customary consents and permits required to be issued in connection with the development of the Property);

(e) Violation of Law. Neither the execution and delivery of this Agreement by Tejon, nor the consummation by Tejon of the transactions contemplated hereby, nor compliance by Tejon with any of the provisions hereof will (i) violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under, any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which the Company and/or Tejon is a party as of the Effective Date or to which the Company and/or Tejon or any of the other properties or assets of the Company and/or Tejon may be subject as of the Effective Date, or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to the Company and/or Tejon or any of the other properties or assets of the Company and/or Tejon as of the Effective Date;

(f) No Litigation. To the Actual Knowledge of Tejon, there is no litigation, arbitration, legal or administrative suit, action, proceeding or investigation of

any kind, pending or threatened in writing (nor any basis therefor), which questions, directly or indirectly, the validity or enforceability of this Agreement as to Tejon;

(g) No Member Obligations. Tejon has not incurred any other obligations or liabilities (excluding any obligations or liabilities related to the Property) which could individually or in the aggregate adversely affect Tejon's ability to perform its obligations under this Agreement or which would become obligations or liabilities of Majestic or the Company;

(h) Anti-Terrorism. Neither Tejon, nor any of its Affiliates, nor any of their respective partners, members, shareholders or other equity owners, and none of their respective employees, officers or directors, is, nor will they become, a Person with whom U.S. persons or entities are restricted from doing business under regulations of Office of Foreign Asset Control ("**OFAC**") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked Persons List) or under any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action and is not and will not engage in any dealings or transactions or be otherwise associated with such Person;

(i) No Plan Assets. Tejon does not hold the assets of any "employee benefit plan" as defined by Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, any "plan" as described by Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, or any Person deemed to hold the plan assets of the foregoing;

(j) Financial Statements. The financial statements previously delivered by Tejon to Majestic fairly present the financial condition of Tejon as of the date of such financial statements, and no material adverse change has occurred in the financial condition of Tejon since such date;

(k) Most Knowledgeable Individuals. Lyda and Rentfro are the individuals employed or affiliated with Tejon that have the most knowledge and information regarding the representations and warranties made in this Section 9.01; and

(l) No Untrue Statements. To the Actual Knowledge of Tejon, no representation, warranty or covenant of Tejon in this Agreement contains or will contain any untrue statement of material facts or omits or will omit to state material facts necessary to make the statements or facts contained therein not misleading.

The term "**Actual Knowledge of Tejon**" means the actual present knowledge of Lyda and Rentfro without regard to any imputed or constructive knowledge and without any duty of inquiry or investigation. In no event shall Lyda or Rentfro have any liability for the breach of any of the representations or warranties set forth in this Agreement.

9.02 Majestic Representations

As of the Effective Date, each of the statements in this Section 9.02 shall be a true, accurate and full disclosure of all facts relevant to the matters contained therein. Majestic hereby represents and warrants as follows for the sole and exclusive benefit of Tejon, each of which is material and is being relied upon by Tejon as of the Effective Date:

(a) Due Formation. Majestic is a duly organized limited liability company validly existing and in good standing under the laws of the State of Delaware and has the requisite power and authority to enter into and carry out the terms of this Agreement;

(b) Required Actions. All corporate action required to be taken by Majestic to execute and deliver this Agreement has been taken and no further approval of any member, partner, shareholder, manager, officer, board, court, or other body is necessary to permit Majestic to execute and deliver this Agreement;

(c) Binding Obligation. This Agreement and all other documents to be executed and delivered by Majestic pursuant to the terms of this Agreement will on the date such Agreement and documents are fully executed and delivered constitute legal, valid, and binding obligations of Majestic, enforceable in accordance with their terms, except as such enforceability may be limited by any Enforceability Exception;

(d) No Consent. No notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any Person, is necessary in connection with (i) the execution and delivery of this Agreement, or (ii) the consummation and performance by Majestic of the transactions contemplated by this Agreement (other than the usual and customary consents and permits required to be issued in connection with the development of the Property);

(e) Violation of Law. Neither the execution and delivery of this Agreement, nor the consummation by Majestic of the transactions contemplated hereby, nor compliance by Majestic with any of the provisions hereof will (i) violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under, any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which the Company and/or Majestic is a party as of the Effective Date or to which the Company and/or Majestic or any of the other properties or assets of the Company and/or Majestic may be subject as of the Effective Date, or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to the Company and/or Majestic or any of the other properties or assets of the Company and/or Majestic as of the Effective Date;

(f) No Litigation. To the Actual Knowledge of Majestic, there is no litigation, arbitration, legal or administrative suit, action, proceeding or investigation of

any kind, pending or threatened in writing (nor any basis therefor), which questions, directly or indirectly, the validity or enforceability of this Agreement to Majestic;

(g) No Member Obligations. Majestic has not incurred any obligations or liabilities which could individually or in the aggregate adversely affect Majestic's ability to perform its obligations under this Agreement or which would become obligations or liabilities of Tejon or the Company;

(h) Anti-Terrorism. Neither Majestic, nor any of its Affiliates, nor any of their respective partners, members, shareholders or other equity owners, and none of their respective employees, officers or directors, is, nor will they become, a Person with whom U.S. Persons are restricted from doing business under regulations of OFAC (including those named on OFAC's Specially Designated and Blocked Persons List) or under any statute, executive order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action and is not and will not engage in any dealings or transactions or be otherwise associated with such Persons;

(i) No Plan Assets. Majestic does not hold the assets of any "employee benefit plan" as defined by Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, any "plan" as described by Section 4975(e)(1) of the Internal Revenue Code of 1986, as amended, or any entity deemed to hold the plan assets of the foregoing;

(j) Financial Statements. The financial statements previously delivered by Tejon to Majestic fairly present the financial condition of Tejon as of the date of such financial statements, and no material adverse change has occurred in the financial condition of Tejon since such date;

(k) Most Knowledgeable Individuals. Brett Tremaine and Thomas Simmons are the individuals employed or affiliated with Majestic that have the most knowledge and information regarding the representations and warranties made in this Section 9.02;

(l) No Untrue Statements. To the Actual Knowledge of Majestic, no representation, warranty or covenant of Majestic in this Agreement contains any untrue statement of material facts or omits to state material facts necessary to make the statements or facts contained therein not misleading.

The term "**Actual Knowledge of Majestic**" means the actual present knowledge of Brett Tremaine and Thomas Simmons without regard to any imputed or constructive knowledge and without any duty of inquiry or investigation. In no event shall Brett Tremaine or Thomas Simmons have any liability for the breach of any of the representations or warranties set forth in this Agreement.

9.03 Brokerage Fee Representation and Indemnity

Except for Colliers International Greater Los Angeles, Inc. (which will be entitled to receive a real estate commission in connection with the Company's acquisition of the Property that will be paid solely by Tejon), each Member hereby represents that such Member has not retained any broker, finder, agent or the like in connection with this Agreement or the transactions contemplated herein. Each Member hereby agrees to indemnify, defend and hold the other Member wholly harmless from and against all Losses arising out of any claim for brokerage or other commissions relative to this Agreement, or the transactions contemplated herein insofar as any such claim arises by reason of services alleged to have been rendered to or at the insistence of such indemnifying Member or any Affiliate thereof. No Member shall receive any credit to its Capital Account or Unreturned Contribution Account or otherwise be reimbursed by the Company for any amounts paid by such Member pursuant to this Section 9.03.

9.04 Investment Representations

Each Member agrees as follows with respect to investment representations:

(a) Member Understandings. Each Member understands the following:

(i) No Registration. That the Interests in the Company evidenced by this Agreement have not been registered under the Securities Act of 1933, 15 U.S.C. § 15b et seq., the Delaware Securities Act, the California Corporate Securities Law of 1968 or any other state securities laws (the "**Securities Acts**") because the Company is issuing Interests in the Company in reliance upon the exemptions from the registration requirements of the Securities Acts providing for issuance of securities not involving a public offering;

(ii) Reliance by the Company. That the Company has relied upon the representation made by each Member that the Interest issued to such Member is to be held by such Member for investment; and

(iii) No Distribution. That exemption from registration under the Securities Acts would not be available if any Interest in the Company was acquired by a Member with a view to distribution. Each Member agrees that the Company is under no obligation to register the Interests or to assist the Members in complying with any exemption from registration under the Securities Acts if the Member should at a later date wish to dispose of such its Interest in the Company.

(b) Acquisition for Own Account. Each Member hereby represents to the Company that such Member is acquiring its Interest in the Company for such Member's own account, for investment and not with a view to resale or distribution.

(c) No Public Market. Each Member recognizes that no public market exists with respect to the Interests and no representation has been made that such a public market will exist at a future date.

(d) No Advertisement. Each Member hereby represents that such Member has not received any advertisement or general solicitation with respect to the sale of the Interests.

(e) Pre-Existing Business Relationship. Each Member acknowledges that such Member has a preexisting personal or business relationship with the Company or its officers, directors, or principal interest holders, or, by reason of such Member's business or financial experience or the business or financial experience of such Member's financial advisors (who are not affiliated with the Company), could be reasonably assumed to have the capacity to protect such Member's own interest in connection with the acquisition of its Interest. Each Member further acknowledges that such Member is familiar with the financial condition and prospects of the Company's business, and has discussed with the other Member the current activities of the Company. Each Member believes that the Interest is a security of the kind such Member wishes to purchase and hold for investment, and that the nature and amount of the Interest is consistent with such Member's investment program.

(f) Due Investigation. Before acquiring any Interest in the Company, each Member has investigated the Company and its business and the Company has made available to each Member all information necessary for the Member to make an informed decision to acquire an Interest in the Company. Each Member considers itself to be a Person possessing experience and sophistication as an investor adequate for the evaluation of the merits and risks of the Member's investment in the Company.

9.05 Indemnification Obligations

In addition to the indemnity described in Section 9.03 above, each Member hereby unconditionally and irrevocably covenants and agrees to indemnify, defend and hold harmless the Company, the other Member and such other Member's partners, members, shareholders, officers, directors, employees, agents and other representatives (collectively, the "**Affiliated Parties**") from and against any and all Losses incurred by the other Member and/or such Affiliated Parties to the extent such Losses arise out of any material inaccuracy or material breach of any representations or warranties made by such Member under this Agreement. No Member shall receive any credit to its Capital Account or Unreturned Contribution Account or otherwise be reimbursed by the Company for any amounts paid by such Member pursuant to this Section 9.05.

9.06 Survival of Representations, Warranties and Covenants

Each Member understands the meaning and consequences of the representations, warranties and covenants made by such Member set forth in this Article IX and that the Company and the other Member have relied upon such representations, warranties and covenants. All representations, warranties and covenants contained in this Article IX shall survive the execution of this Agreement, the formation of the Company, the withdrawal of any Member as a member of the Company and the Liquidation of the Company.

ARTICLE X
LIABILITY, EXCULPATION, RESTRICTIONS ON COMPETITION, FIDUCIARY DUTIES AND INDEMNIFICATION

10.01 Liability for Company Claims

Except as otherwise provided by this Agreement, the Delaware Act and/or any other applicable law, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a member of the Company.

10.02 Exculpation, Indemnity and Reliance on Information

The Members hereby agree to the exculpation, indemnity and other provisions set forth below as follows:

(a) Limitation on Covered Person Liability. No authorized person, Member or Officer of the Company, or, if designated by the Executive Committee, any Affiliate or any direct or indirect members, partners, shareholders, directors, officers, managers, trustees or employees of any Member (collectively, the "**Covered Persons**") shall be liable or accountable in damages or otherwise to the Company or to any Member for any error of judgment or any mistake of fact or law or for anything that such Covered Person may do or refrain from doing hereafter, except to the extent caused by any Bad Acts or Prohibited Transfer of such Covered Person or any Affiliate thereof. As used herein, the term "**Bad Acts**" means (i) gross negligence, fraud or willful misconduct, (ii) any act or omission outside the scope of authority granted under this Agreement resulting in damages or liability to a Covered Person, (iii) any breach of this Agreement, and (iv) any action willingly taken by any Guarantor under any Recourse Document for the Project or Non-Recourse Document for the Project without the prior written consent of both Members, which creates liability under any such Recourse Document or Non-Recourse Document. The term "**Prohibited Transfer**" means any transfer of a direct or indirect ownership in the Company (including, without limitation, any transfer of a direct or indirect ownership interest in any Member) that results in a Lender declaring a default or breach of or under any of the loan documents evidencing any Loan obtained by the Company. For purposes of this Agreement, the Bad Act or Prohibited Transfer of any Affiliate or employee of any Person will also be deemed to be the Bad Act or Prohibited Transfer of such Person. The foregoing is subject to any applicable cure period provided under this Agreement.

(b) Indemnity. To the maximum extent permitted by applicable law as it presently exists or may hereafter be amended, the Company hereby agrees to indemnify, defend (with counsel selected by the Executive Committee), protect and hold harmless, each Covered Person, from and against any and all Losses incurred by such Covered Person by reason of anything which such Covered Person may do or refrain from doing that arises out of or relates to the Company to the extent such Losses are not covered by insurance maintained by or for the benefit of such Covered Person. The foregoing

obligation of the Company to indemnify, protect, defend and hold harmless each Covered Person shall extend to any Losses incurred by any Guarantor under any Recourse Document or Nonrecourse Document (or as a result of the rights of contribution described in Section 3.05). Notwithstanding the foregoing terms of this Section 10.02(b), no Covered Person (including any Guarantor) shall be entitled to be indemnified by the Company to the extent any such Losses are incurred by such Covered Person by reason of, or in connection with, any Bad Acts or Prohibited Transfer of such Covered Person. For the avoidance of doubt, in no event will the indemnity obligation of the Company extend to any Losses that may be incurred or that may arise under an Affiliate Agreement.

The Administrative Member may cause the Company to pay any costs and/or expenses incurred by any Covered Person in defending any civil, criminal, administrative or investigative action, suit or proceeding prior to the final disposition of such action, suit or proceeding upon receipt of any undertaking by or on behalf of such Covered Person (or, in the Executive Committee's reasonable discretion, a creditworthy Affiliate thereof) to repay such amount if it shall ultimately be determined that such Covered Person is not entitled to be indemnified by the Company as authorized in this Section 10.02(b). The obligation of the Company to indemnify, defend, protect and hold harmless each Covered Person under any provision of this Agreement shall survive the withdrawal of any Member from the Company and/or the Liquidation of the Company, in each case solely to the extent such obligation of the Company arose prior to such withdrawal or Liquidation.

If a claim for indemnification or payment of expenses under this Section 10.02(b) is not paid in full within thirty (30) calendar days after a written claim therefor by the Covered Person has been received by the Company, then the Covered Person may initiate an action to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action, the Covered Person shall have the burden of proving that the Covered Person was entitled to the requested indemnification or payment of expenses under applicable law.

(c) Reliance upon Information, Opinions, Reports, etc. A Covered Person shall be fully protected in relying in good faith upon the records of the Company, any information received by any Member or the Company with respect to the Project (financial or otherwise), and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Covered Person reasonably believes are within such other Person's professional or expert competence including, without limitation, information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses or cash flow or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

10.03 Limitation on Liability

Notwithstanding anything to the contrary contained in this Agreement (and without limiting any liability a party may have under the Delaware Act or other applicable law to return

any distribution received by such party), no direct or indirect member, manager, partner, shareholder, officer, director, trustee or employee in or of any Member (collectively, the "**Nonrecourse Parties**") shall be personally liable in any manner or to any extent under or in connection with this Agreement, and neither any Member nor the Company shall have any recourse to any assets of any of the Nonrecourse Parties. Neither any Member nor any Nonrecourse Party shall have any liability for any punitive damages, lost profits, special damages or consequential damages based on any claim that arises out of or relates to this Agreement and/or the Company. The limitations on liability provided in this Section 10.03 is in addition to, and not in limitation of, any limitation on liability applicable to any Member or Nonrecourse Party provided by law or by this Agreement or any other contract, agreement or instrument.

10.04 Activities of the Members and Their Affiliates

Subject to the terms hereof, each Member and their respective direct and indirect Affiliates, members, partners, shareholders, directors, managers, officers, employees, agents and trustees shall only be required to devote so much of their time to the business and affairs of the Company as is determined in the reasonable discretion of each such party. Subject to Section 10.05, neither Member nor any of its direct and indirect Affiliates, members, partners, shareholders, directors, officers, managers, employees, agents or trustees shall be prohibited from engaging in other businesses whether or not similar to the business of the Company.

10.05 Restrictions on Competition

(a) Covenant Not to Compete. Each Member (the "**Competing Member**") hereby agrees (as a material inducement to the other Member to enter into this Agreement) that neither such Member nor any Affiliate thereof shall, without the prior written consent of the other Member (the "**Non-Competing Member**"), which consent may be withheld in such Non-Competing Member's sole and absolute discretion, directly or indirectly, whether or not for compensation (as a proprietor, partner, member, lender, shareholder, affiliate, officer, agent, director, consultant, trustee or otherwise) develop or construct a speculative industrial building (i.e., a building constructed without a tenant that has agreed to lease such building) that contains between one hundred twenty-five thousand (125,000) and one million (1,000,000) square feet of gross leasable area that is located in Kern County, California. Notwithstanding the foregoing, the Members acknowledge that (i) Tejon (and/or an Affiliate thereof) owns two (2) industrial projects at the Tejon Ranch Commerce Center commonly referred to as the 606,000 SF Five West Parcel and the 62-acre site known as Pads 18/19 (which are located in the immediate vicinity of the Project), and (ii) the Members and/or one (1) or more of their Affiliates have formed a limited liability company and together may form one (1) or more other limited liability companies or other entities in the future and each Member and its Affiliates may undertake any activities with respect to such real property described in clause (i) or clause (ii) above without regard to the restrictions set forth in this Section 10.05(a).

(b) Termination of Restrictions. Notwithstanding any other provision contained in this Agreement, the restrictions set forth in Section 10.05(a) shall terminate

for each Member on the first to occur of the date that (i) at least ninety percent (90%) of the gross leasable area contained in the Project has been leased, (ii) Tejon or Majestic withdraws as a member of the Company (exclusive of any withdrawal resulting from any Transfer of any Member's Interest to any Permitted Transferee), or (iii) the Company dissolves and liquidates.

(c) Constructive Trust. If the Competing Member (or any Affiliate thereof), directly or indirectly, breaches or violates the terms of Section 10.05(a), then, in addition to any other rights or remedies the Non-Competing Member and/or the Company may have against the Competing Member (or such Affiliate) at law or in equity, the Competing Member shall be accountable to, and shall hold in trust for, the Company, any income, compensation or profit that the Competing Member (or such Affiliate) may derive from engaging in such activities.

(d) Enforceability of Restrictions. If any of the restrictions in this Section 10.05 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time, or over too great a geographical area, or by reason of any such restriction being too extensive in any other respect, then such restriction shall be interpreted to extend only over the maximum period of time for which it may be enforceable, and/or over the maximum geographical area as to which it may be enforceable and/or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action.

(e) Irreparable Damage. Any breach of the covenants contained in this Section 10.05 by the Competing Member and/or any Affiliate thereof will cause irreparable damage to the Company and the Non-Competing Member, the exact amount of which will be difficult to ascertain, and the remedies at law for any such breach will be inadequate. Accordingly, if the Competing Member and/or any Affiliate thereof breaches the covenants contained in this Section 10.05, then in addition to any other remedy which may be available at law or in equity, the Company and the Non-Competing Member shall be entitled to specific performance and injunctive relief, without, in the event of a final judgment, posting a bond or other security.

10.06 Fiduciary Duties

The fiduciary duties otherwise owed by the Members to each other under the Delaware Act or otherwise are limited as follows:

(a) Other Activities. Except as otherwise provided by this Agreement (including, without limitation, Section 10.05), to the maximum extent allowed by law, neither Member shall have any obligations (fiduciary or otherwise) with respect to the Company or to the other Member insofar as making other investment opportunities available to the Company or to the other Member. Except as otherwise provided in this Agreement, each Member may engage in whatever activities such Member may choose, whether the same are competitive with the Company or otherwise, without having or incurring any obligation to offer any interest in such activities to the Company or to the other Member. Except as otherwise provided in this Agreement, neither this Agreement

nor any activities undertaken pursuant hereto shall prevent either Member from engaging in such activities, and to the maximum extent allowed by law, the fiduciary duties of the Members to each other and to the Company shall be limited solely to those arising from the business of the Company.

EACH MEMBER AGREES THAT THE MODIFICATION AND WAIVER OF THE FIDUCIARY DUTIES OF EACH MEMBER PURSUANT TO THIS ARTICLE X ARE FAIR AND REASONABLE AND HAVE BEEN UNDERTAKEN WITH THE INFORMED CONSENT OF EACH MEMBER. TO THE MAXIMUM EXTENT ALLOWED BY LAW, EACH MEMBER AGREES AND COVENANTS NOT TO CONTEST THE VALIDITY OF THE PROVISIONS OF THIS SECTION IN ANY COURT OF LAW (AND/OR IN ANY OTHER PROCEEDING).

(b) Good Faith and Fair Dealing. Except as otherwise provided by this Agreement, each Member intends to limit the standard of care, degree of loyalty and fiduciary duties to the maximum extent allowed by law; provided, however, the foregoing shall not eliminate the implied contractual covenant of good faith and fair dealing. Without limiting the generality of the foregoing, each Member may exercise any of its rights and remedies under this Agreement without regard to any fiduciary duties that are owed to the Company or the other Member including, without limitation, the remedies set forth in Section 3.03 and Articles VII and VIII.

10.07 Non-Exclusivity of Rights

Except as otherwise provided in this Agreement, the rights conferred on any Person by this Article X shall not be exclusive of any other rights which such Person may have or hereafter acquire under any applicable law.

10.08 Amendment or Repeal

Any repeal or modification of the foregoing provisions of this Article X shall not adversely affect any right or protection hereunder of any Person in respect of any act or omission occurring prior to the time of such repeal or modification.

10.09 Insurance

The Company may purchase and maintain insurance, to the extent and in such amounts as are determined by the Executive Committee on behalf of the Covered Persons and such other Persons as the Executive Committee shall determine in its reasonable discretion, against any liability or claim that may be asserted against or expenses that may be incurred by any such Person in connection with the activities of the Company or such indemnities, regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement. The Company may enter into indemnity contracts with Covered Persons and such other Persons as the Executive Committee shall determine and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under Section 10.02(b) hereof and containing such other procedures regarding indemnifications as are appropriate.

ARTICLE XI
BOOKS AND RECORDS

11.01 Books of Account and Bank Accounts

The taxable year of the Company shall be the year ending December 31. The Administrative Member shall maintain accurate and complete books of account and records showing the assets and liabilities, operations, transactions and financial condition of the Company on an accrual basis in accordance with Generally Accepted Accounting Principles, consistently applied. The Administrative Member shall also provide to the other Member within fifteen (15) days after the end of each calendar month (i) an unaudited monthly net cash flow statement setting forth the calculation of net cash flow and all disbursements of cash by the Company, and (ii) an unaudited statement of continuing operations for the Company, including a balance sheet for the Company, as of the end of the month, and a profit and loss statement for the month. The Administrative Member shall also provide to the other Member within fifteen (15) days after the end of each calendar quarter a detailed description of any material deviations from the Approved Business Plan during the preceding calendar quarter. Promptly after written request by the other Member, the Administrative Member shall deliver such other information as is reasonably requested by the other Member. The Administrative Member shall also provide on an annual basis within thirty (30) calendar days after each calendar year annual unaudited statements of the operations of the Company including (A) statement of net assets (balance sheet); (B) statement of operations; (C) statement of cash flows; and (D) statement of changes in Members' capital. The annual financial reports shall be delivered together with a written statement by the Administrative Member that includes (1) a representation by the Administrative Member that such annual statements fairly represent the financial condition of the Company, and (2) a representation by the Administrative Member that such financial statements have been prepared in accordance Generally Accepted Accounting Principles, consistently applied.

Upon not less than seventy-two (72) hours prior notice, the Administrative Member shall cooperate with the other Member, at the Company's sole cost and expense, to conduct an independent inspection and review of the books and records of the Company. The other Member shall have the authority to authorize the preparation of audited financial statements for the Company at the expense of the requesting party. The failure by the Administrative Member to deliver or otherwise cooperate timely with any item to be delivered or request made in accordance with the requirements of this Section 11.01 shall be considered a material breach of the Administrative Member's obligations under this Agreement (provided the foregoing shall not limit any cure rights the Administrative Member may have with respect to such breach under Section 2.16(c)(i) or 7.01(a) above).

During normal business hours at the principal office of the Company, on not less than forty-eight (48) hours prior notice, all of the following shall be made available for inspection and copying by each Member at its own expense: (i) all books and records relating to the business and financial condition of the Company, (ii) a current list of the name and last known business, residence or mailing address of each Member, (iii) a copy of this Agreement, the Certificate of Formation for the Company and all amendments thereto, together with executed copies of any written powers-of-attorney pursuant to which this Agreement, the Certificate of Formation and/or any amendments thereto have been executed, (iv) the amount of cash and a description

and statement of the agreed value of any other property or services contributed by each Member to the capital of the Company and which each Member has agreed to contribute in the future, and (v) the date upon which each Member became a member of the Company.

11.02 Tax Returns

The Administrative Member shall cause to be prepared and timely filed and distributed to each Member, at the expense of the Company (and prepared by an accounting firm approved by the Executive Committee), all required federal and state tax returns for the Company which shall be delivered to the Members by no later than March 31 each year. The failure by the Administrative Member to deliver timely any tax return in accordance with the requirements of this Section 11.02 shall be considered a material breach of the Administrative Member's obligations under this Agreement if (i) such failure is not caused by the other Member's delay in delivering any information reasonably and timely requested in writing by the Administrative Member, and (ii) such failure is not caused by the accounting firm's failure to prepare such tax returns within the estimated timeframe provided by the accounting firm or any failure by the Executive Committee to agree on any accounting treatment or election (provided the foregoing shall not limit any cure rights the Administrative Member may have with respect to such breach under Section 2.16(c)(i) or 7.01(a) above).

The Administrative Member is hereby designated as the "partnership representative" of the Company within the meaning of Section 6223(a) of the Code, as amended by Title XI of the Bipartisan Budget Act of 2015. Following any resignation or removal of Majestic as the Administrative Member of the Company, Tejon shall be the "partnership representative" of the Company. The Administrative Member (or Tejon if it has replaced Majestic as the "partnership representative" of the Company) is specifically directed and authorized to (x) to take whatever steps may be necessary or desirable to perfect its designation as "partnership representative," including filing any forms or documents with the IRS, and (y) to take such other action as may from time to time be required under the Code and the Regulations. The "partnership representative" of the Company shall be entitled to be reimbursed by the Company for all reasonable third-party out-of-pocket costs and expenses incurred in connection with any tax proceeding relating to the Company. Notwithstanding the foregoing, the "partnership representative" of the Company shall (i) provide the Members with prompt notice and copies of all communications with the IRS, (ii) reasonably consult with the Members regarding the resolution of any disputes with the IRS, and (iii) not settle any such dispute, extend the statute of limitations with respect to such dispute, or take any other material action that would bind the Company or the Members in connection with such dispute, unless such decision is approved as a Major Decision. As the "partnership representative" of the Company, the Administrative Member will have the right to make an election to treat any "partnership adjustment" as an adjustment to be taken into account by each Member (and former member) in accordance with Section 6226 of the Code.

ARTICLE XII
DISSOLUTION AND WINDING UP OF THE COMPANY

12.01 Events Causing Dissolution of the Company

Upon any Member's bankruptcy, resignation, withdrawal, expulsion or other cessation to serve or the admission of a new member into the Company, the Company shall not dissolve but the business of the Company shall continue without interruption or break in continuity. However, the Company shall be dissolved and its affairs wound up upon the first to occur of any of the following events:

(a) Failure to Deliver Initial Annual Business Plan. The election of Tejon to dissolve the Company if Majestic does not deliver the initial annual business plan for any reason to the Executive Committee pursuant to Section 2.07 within one hundred fifty (150) days following the Effective Date of this Agreement (provided such election is made prior to the date (if any) that the Executive Committee approves the initial annual business plan for the Company);

(b) Failure to Approve Initial Business Plan. The election of either Member to dissolve the Company if the Executive Committee for any reason does not approve the initial annual business plan in its sole and absolute discretion pursuant to Section 2.07 prior to the first anniversary of the Effective Date (provided such election is made prior to the date (if any) that the Executive Committee approves the initial annual business plan for the Company);

(c) Sale of Assets. The sale, transfer or other disposition by the Company of all or substantially all of its assets and the collection by the Company of all consideration received in such transaction (including, without limitation, the collection of any promissory note received by the Company);

(d) Election of Members. The affirmative election of the Executive Committee to dissolve the Company; or

(e) Decree of Dissolution. The entry of a decree of judicial dissolution pursuant to Section 18-802 of the Delaware Act.

Except as provided above in this Section 12.01, neither Member shall have the right to, and each Member hereby waives to the maximum extent allowed by law the right to, unilaterally seek to dissolve or cause the dissolution of the Company or to unilaterally seek to cause a partial or whole distribution or sale of Company assets whether by court action or otherwise, it being agreed that any actual or attempted dissolution, distribution or sale would cause a substantial hardship to the Company and the other Member.

12.02 Winding Up of the Company

Upon the Liquidation of the Company, the Administrative Member shall proceed to the winding up of the business and affairs of the Company. During such winding up process, the Net Profits, Net Losses and Cash Flow distributions shall continue to be shared by the Members

in accordance with this Agreement. Subject to Section 12.03, the assets shall be liquidated as promptly as consistent with obtaining a fair value therefor, and the proceeds therefrom, to the extent available, shall be applied and distributed by the Company on or before the end of the taxable year of such Liquidation or, if later, within ninety (90) days after such Liquidation, in the following order:

(a) Creditors. First, to creditors of the Company (including Members who are creditors) in the order of priority as provided by law;

(b) Reserves. Second, to establishing any reserves which the Administrative Member reasonably determines are necessary for any contingent, conditional or unmatured liabilities or obligations of the Company; and

(c) Remaining Amounts. Thereafter, to the Members in the order of priority set forth in Section 5.01.

Any reserves withheld pursuant to Section 12.02(b) shall be distributed as soon as practicable, as determined in the reasonable discretion of the Administrative Member, in the order of priority set forth in Section 12.02(c).

The Members believe and intend that the effect of making any and all liquidating distributions in accordance with the provisions of Section 12.02(c) shall result in such liquidating distributions being made to the Members in proportion to the positive balances standing in their respective Capital Accounts. If this is not the result, then the Administrative Member, upon the advice of tax counsel to the Company, is hereby authorized to make such amendments to the provisions of Article IV that are reasonably approved by the Executive Committee as may be necessary to cause such allocations to be in compliance with Code Section 704(b) and the Treasury Regulations promulgated thereunder.

12.03 Distribution of Assets Upon Early Dissolution Events

Following the effective date of any notice delivered to dissolve the Company pursuant to Section 12.01(a) or 12.01(b), (i) Tejon shall not have any duty or obligation to convey (or cause to be conveyed) the Property (or any portion thereof) or any rights related thereto to the Company, and (ii) neither the Company nor Majestic shall have any rights to participate in, or otherwise realize any economic benefit from, the Property (or any rights related thereto). In the case of a dissolution pursuant to Section 12.01(a) or Section 12.01(b), (A) the Company shall transfer, convey and assign (to the extent assignable) to Tejon any and all studies, surveys, plans, engineering and all other materials and rights owned by the Company that in any way relate to or benefit the Property (collectively, the "**Property Materials & Rights**"), and (B) any such transfer, conveyance and assignment shall be made by the Company to Tejon for no consideration on an "AS-IS" basis without any representation or warranty whatsoever from the Company, Majestic and/or any Affiliate thereof. If Tejon's Representatives unreasonably withhold their approval of the Company's initial business plan pursuant to Section 2.07 and the Company is thereafter dissolved at the election of either Member pursuant to Section 12.01(b), then Tejon shall be required to reimburse the Company for all costs and expenses reimbursed or paid for by the Company to procure the Property Materials & Rights if and to the limited extent

Majestic would otherwise receive less than the entire balance standing in its Unreturned Contribution Account upon the dissolution of the Company. Any amounts contributed by Tejon pursuant to this Section 12.03 shall be distributed to the Members in accordance with the terms of Section 5.01.

12.04 Negative Capital Account Restoration

No Member shall have any obligation whatsoever upon the Liquidation of such Member's Interest, the Liquidation of the Company or in any other event, to contribute all or any portion of any negative balance standing in such Member's Capital Account to the Company, to the other Member or to any other Person.

ARTICLE XIII
MISCELLANEOUS

13.01 Amendments

This Agreement may be amended and/or modified only with the written approval of both Members.

13.02 Waiver of Conflict Interest

EACH MEMBER HEREBY ACKNOWLEDGES AND AGREES THAT, IN CONNECTION WITH THE DRAFTING, PREPARATION AND NEGOTIATION OF THIS AGREEMENT AND THE CONTRIBUTION AGREEMENT, THE FORMATION OF THE COMPANY AND ALL OTHER MATTERS RELATED THERETO, (I) ALLEN MATKINS LECK GAMBLE MALLORY & NATSIS LLP HAS ONLY REPRESENTED THE INTERESTS OF TEJON, AND NOT THE INTERESTS OF MAJESTIC, THE COMPANY OR ANY OTHER PARTY, AND (II) SNELL & WILMER LLP HAS ONLY REPRESENTED THE INTERESTS OF MAJESTIC AND NOT THE INTERESTS OF TEJON, THE COMPANY OR ANY OTHER PARTY. THE ATTORNEYS, ACCOUNTANTS AND OTHER EXPERTS WHO PERFORM SERVICES FOR ANY MEMBER MAY ALSO PERFORM SERVICES FOR THE COMPANY. TO THE EXTENT THAT THE FOREGOING REPRESENTATION CONSTITUTES A CONFLICT OF INTEREST, THE COMPANY AND EACH MEMBER HEREBY EXPRESSLY WAIVES ANY SUCH CONFLICT OF INTEREST. EACH MEMBER FURTHER ACKNOWLEDGES THAT THE ATTORNEYS, ACCOUNTANTS AND OTHER EXPERTS WHO PERFORM SERVICES FOR THE COMPANY SHALL NOT BE DEEMED BY VIRTUE OF SUCH REPRESENTATION TO HAVE ALSO REPRESENTED ANY OTHER PARTY IN CONNECTION WITH ANY SUCH MATTERS.

13.03 Partnership Intended Solely for Tax Purposes

The Members have formed the Company as a Delaware limited liability company under the Delaware Act, and do not intend to form a corporation or a general or limited partnership under Delaware or California law (or any other state law). The Members intend the Company to be classified and treated as a partnership solely for federal and state income taxation purposes. Each Member agrees to act consistently with the foregoing provisions of this Section 13.03 for

all purposes, including, without limitation, for purposes of reporting the transactions contemplated herein to the Internal Revenue Service and all state and local taxing authorities.

13.04 Notices

All notices or other communications required or permitted hereunder shall be in writing, and shall be delivered or sent, as the case may be, by any of the following methods: (i) personal delivery, (ii) overnight commercial carrier, (iii) registered or certified mail, postage prepaid, return receipt requested, or (iv) facsimile or email. Any such notice or other communication shall be deemed received and effective upon the earlier of (A) if personally delivered, the date of delivery to the address of the Person to receive such notice; (B) if delivered by overnight commercial carrier, one (1) day following the receipt of such communication by such carrier from the sender, as shown on the sender's delivery invoice from such carrier; (C) if mailed, on the date of delivery as shown by the sender's registry or certification receipt; or (D) if given by facsimile or email, when sent if received by the intended recipient of such facsimile or email prior to 5:00 p.m. on a Business Day or on the next Business Day if not received by the recipient of such facsimile prior to 5:00 p.m. on a Business Day. Any notice or other communication sent by facsimile or email must be confirmed within two (2) Business Days by letter mailed or delivered in accordance with the foregoing to be effective. Any reference herein to the date of receipt, delivery, or giving or effective date, as the case may be, of any notice or communication shall refer to the date such communication becomes effective under the terms of this Section 13.04. Any such notice or other communication so delivered shall be addressed to the party to be served at the address for such party set forth in Section 1.02. The address for either Member may be changed by giving written notice to the other Member in the manner set forth in this Section 13.04. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of the notice or other communication sent.

13.05 Construction of Agreement

The Article and Section headings of this Agreement are used herein for reference purposes only and shall not govern, limit, or be used in construing this Agreement or any provision hereof. Each of the Exhibits attached hereto is incorporated herein by reference and expressly made a part of this Agreement for all purposes. References to any Exhibit made in this Agreement shall be deemed to include this reference and incorporation. Where the context so requires, the use of the neuter gender shall include the masculine and feminine genders, the masculine gender shall include the feminine and neuter genders, the feminine gender shall include the masculine and neuter genders, and the singular number shall include the plural and vice versa. Each Member acknowledges that (i) each Member is of equal bargaining strength; (ii) each Member has actively participated in the drafting, preparation and negotiation of this Agreement; and (iii) any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement, any portion hereof, or any Exhibits attached hereto.

13.06 Counterparts

This Agreement may be executed and delivered in multiple counterparts including by facsimile or .pdf file, each of which shall be deemed an original Agreement, but all of which, taken together, shall constitute one (1) and the same Agreement, binding on the parties hereto. The signature of any party hereto to any counterpart hereof shall be deemed a signature to, and may be appended to, any other counterpart hereof.

13.07 Attorneys' Fees

If any lawsuit, arbitration, mediation or other proceeding is commenced by any Member against any other Member that arises out of, or relates to, this Agreement, then the prevailing Member in such action shall be entitled to recover reasonable attorneys' fees and costs. Any judgment or order entered in any such action shall contain a specific provision providing for the recovery of all costs and expenses of suit including, without limitation, reasonable attorneys' and expert witness fees, costs and expenses incurred in connection with (i) enforcing, perfecting and executing such judgment; (ii) post-judgment motions; (iii) contempt proceedings; (iv) garnishment, levy, and debtor and third-party examinations; (v) discovery; and (vi) bankruptcy litigation.

13.08 Approval Standard

The consent, approval or determination of any Member or Representative required or permitted under this Agreement may be withheld in such party's sole and absolute discretion, unless this Agreement provides that such consent or approval shall not be unreasonably withheld (or another standard is specifically provided for in this Agreement for such matter).

13.09 Further Acts

Each Member covenants, on behalf of such Member and such Member's successors and assigns, to execute, with acknowledgment, verification, or affidavit, if required, any and all documents and writings, and to perform any and all other acts, that may be reasonably necessary or desirable to implement, accomplish, and/or consummate the formation of the Company, the achievement of the Company's purposes, and any other matter contemplated under this Agreement.

13.10 Preservation of Intent

If any provision of this Agreement is determined by any court having jurisdiction to be illegal or in conflict with any laws of any state or jurisdiction, then the Members agree that such provision shall be modified to the extent legally possible so that the intent of this Agreement may be legally carried out. If any of the provisions contained in this Agreement, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect or for any reason, then the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions of this Agreement shall not be in any way impaired or affected, it being intended that the Members' rights and privileges described in this Agreement shall be enforceable to the fullest extent permitted by law.

13.11 Waiver

No consent or waiver, express or implied, by a party to or of any breach or default by any other party in the performance by such other party of such other party's obligations under this Agreement shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party hereunder. Failure on the part of a party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such non-complaining or non-declaring party of the latter's rights hereunder.

13.12 Entire Agreement

This Agreement, together with the Contribution Agreement, contains the entire understanding among the parties hereto with respect to the subject matter hereof and supersedes any and all prior or other contemporaneous understanding, correspondence, negotiations or agreements between them respecting the subject matter hereof.

13.13 Choice of Law

Notwithstanding the place where this Agreement may be executed by any of the parties hereto, the parties expressly acknowledge and agree that all of the terms and provisions of this Agreement shall be construed under the laws of the State of Delaware (without giving effect to the conflicts of laws and principles thereof). In furtherance of the foregoing, and pursuant to Section 17708.01(a) of the California Act, all rights, duties, obligations and remedies of the Members shall be governed by the Delaware Act (without giving effect to the conflicts of laws and principals thereof).

13.14 No Third-Party Beneficiaries

Except as otherwise set forth in Section 3.05 and Article X, the provisions of this Agreement are not intended to be for the benefit of, or enforceable by, any third party and shall not give rise to a right on the part of any third party (i) to enforce or demand enforcement of a Member's obligation to contribute capital, obligation to return distributions, or obligation to make other payments to the Company as set forth in this Agreement, or (ii) to demand that the Company, the Administrative Member or the other Member obtain financing or issue any capital call.

13.15 Successors and Assigns

Subject to the restrictions set forth in Article VI and Section 9.04, this Agreement shall inure to the benefit of and shall bind the parties hereto and their respective personal representatives, successors, and assigns.

13.16 No Usury

Notwithstanding any other provision in this Agreement, the rate of interest charged by the Company or by any Member (and/or any Affiliate thereof) in connection with any obligation under this Agreement shall not exceed the maximum rate permitted by applicable law. To the

extent that any interest charged by the Company or by any Member (and/or Affiliate thereof) shall have been finally adjudicated to exceed the maximum amount permitted by applicable law, such interest shall be retroactively deemed to have been a required repayment of principal (and any such amount paid in excess of the outstanding principal amount shall be promptly returned to the payor). In furtherance of the foregoing, the Members acknowledge and agree that pursuant to the Delaware Act, no obligation of a Member to the Company shall be subject to the defense of usury, and no Member shall impose the defense of usury with respect to any such obligation in any action.

13.17 Venue

If any litigation, claim or lawsuit directly or indirectly arising out of this Agreement is not required to be resolved in accordance with the JAMS procedures provided for under Section 13.18, then each Member hereby irrevocably consents to the maximum extent allowed by law to the exclusive jurisdiction of the state and federal courts located in California and to the exclusive venue of (i) the Eastern District of California for any federal action or proceeding arising out of, or relating to, this Agreement, and (ii) the Superior Court of California located in Kern County, California for any state action or proceeding arising out of, or relating to, this Agreement.

13.18 Dispute Resolution

Any action to resolve any controversy or claim arising out of, or related to in any way to, this Agreement (exclusive of any impasse on any Major Decision) or the Contribution Agreement, including, without limitation, any alleged breach of this Agreement or the Contribution Agreement and any claim based upon any tort theory, however characterized shall be resolved through a binding arbitration before an arbitrator in accordance with the terms of this Section 13.18.

(a) Binding Arbitration. Any Member desiring to bring any action under this Agreement or the Contribution Agreement shall give written notice to the other Member (the "**Arbitration Notice**"), which notice shall state with particularity the nature of the dispute and the demand for relief, making specific reference by Section and title, if applicable, of the provisions of this Agreement or the Contribution Agreement pertaining to the dispute. This arbitration provision and its validity, construction, and performance shall be governed by the Federal Arbitration Act (the "**FAA**") and cases decided thereunder and, to the extent relevant, the laws of the State of California. Further, the terms and procedures governing the enforcement of this Section 13.18 shall be governed by and construed and enforced in accordance with the FAA, and not individual state laws regarding enforcement of arbitration agreements.

(b) Selection of Arbitrator. The Members shall endeavor to agree, within thirty (30) days of the Arbitration Notice, upon a mutually acceptable arbitrator to resolve the dispute. The arbitrator shall be a single former judge of the Superior Court or the Court of Appeal of the State of California or a member in good standing with the California State Bar currently employed by or associated with the office of JAMS/ENDISPUTE ("**JAMS**") located in Los Angeles, California. The arbitrator shall

have no direct or indirect social, political or business relationship of any sort with either of the Members, their respective legal counsel or any other Person materially involved with the Project. If the Members cannot agree upon the arbitrator within such thirty (30)-day period, then JAMS, in its sole discretion, shall provide a list of three (3) arbitrators with the qualifications set forth above. Within ten (10) days of JAMS providing the above-described list, each Member shall be entitled to strike one (1) name from the list and so notify JAMS. JAMS, in its sole discretion, thereafter shall select as arbitrator any one (1) of the persons remaining on the list, and the person so selected shall thereafter serve as arbitrator. If for any reason JAMS is unable or unwilling to make such an appointment, then any Member may apply to the Superior Court of the State of California in and for the County of Los Angeles for appointment of any former judge of the Superior Court or the Court of Appeal of the State of California to serve as arbitrator. The appointment of an arbitrator, whether by JAMS or by the Superior Court pursuant to the foregoing, shall be made, and the arbitrator shall serve, without further objection from any Member, except on the ground of conflict of interest, if any, pursuant to the same rules that would apply if the arbitrator was serving as an active member of the Superior Court or Court of Appeal.

(c) Location of Proceeding. The proceeding shall take place at a City of Los Angeles office of JAMS and shall be conducted pursuant to the provisions of JAMS Comprehensive Arbitration Rules & Procedures in effect on the date of the Arbitration Notice (the "**Rules**"); provided that in all events the rules of evidence in such proceeding shall be governed by the California Evidence Code. Discovery between the parties prior to the arbitration hearing shall be limited to the mutual exchange of relevant documents. Interrogatories and request for admissions shall not be allowed under any circumstance. Depositions of witnesses shall not be permitted, unless it is shown that the witness will be otherwise unavailable and it is necessary to preserve his or her testimony for the hearing. The arbitrator shall have the authority set forth in Section 1282.6 of the California Code of Civil Procedure to issue subpoenas requiring the attendance at the hearing of witnesses, and to issue subpoenas duces tecum for the production at the hearing of books, records, documents and other evidence.

(d) Resolution Dispute. Except as otherwise provided in Section 13.18(c), the arbitrator shall apply Delaware law in resolving the dispute. In resolving the dispute, the arbitrator shall apply the pertinent provisions of this Agreement without departure therefrom in any respect, and the arbitrator shall not have the power to change any of the provisions of the Agreement. The arbitrator shall try all of the issues including, without limitation, any issues that may be raised concerning whether the dispute is subject to the provisions of this Section 13.18 and any and all other issues, whether of fact or of law, and shall hear and decide all motions and matters of any kind. The arbitrator shall not be required to prepare a written statement of decision as to any interlocutory decision, but at the conclusion of the arbitration shall prepare a written statement of decision thereon which shall be final and binding upon the parties, and upon which judgment may be entered in accordance with applicable law in any court having jurisdiction thereof. Any interlocutory decisions by the arbitrator likewise shall be final and binding, except that the arbitrator shall have the power to reconsider such decisions for good cause shown. The Members shall not have the right to appeal the arbitration

award consistent with the JAMS Optional Arbitration Appeal Procedure in effect at the time or any similar successor rules. Subject to the limitations in this Section 13.18, the arbitrator shall have the authority to grant any equitable and legal remedies that would be available in a judicial proceeding. The arbitrator may award interim and final injunctive relief and other remedies, but may not award punitive, exemplary, treble or other enhanced damages. The arbitrator shall have no power or authority to issue any award or determination that would amend or modify this Agreement. Notwithstanding the foregoing, a party shall be permitted to seek a temporary restraining order or injunctive relief in a court of competent jurisdiction with regard to any controversy, dispute or claim between them relating to or arising out of this Agreement, a breach of this Agreement or the termination of the Administrative Member, where such relief is appropriate; provided that other relief shall be pursued through an arbitration proceeding pursuant to this Section 13.18. Each Member shall use reasonable efforts to expedite the arbitration process, and each Member shall have the right to be represented by counsel.

(e) Award of Fees. Subject to the obligation of the arbitrator to award such fees and expenses to the prevailing party as provided in Section 13.07, until the arbitrator issues his or her final statement of decision, each Member shall pay the fees and expenses of its attorneys and experts in connection with the adjudication and one-half of the fees and expenses of the arbitrator; provided, however, that the arbitrator shall have the same power as a judge pursuant to the California Code of Civil Procedure to award sanctions with reference to interlocutory matters. Subject to Section 13.07, the Member shall bear an equal (pro rata) share of any arbitration costs, including any administrative or hearing fees charged by the arbitrator or JAMS.

(f) Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH MEMBER HEREBY WAIVES EACH SUCH MEMBER'S RIGHT TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) BASED UPON OR ARISING OUT OF OR RELATED TO THE COMPANY, THIS AGREEMENT, THE CONTRIBUTION AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING, OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY MEMBER AGAINST THE OTHER MEMBER, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH MEMBER AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY AN ARBITRATOR AS PROVIDED ABOVE BUT THIS WAIVER SHALL BE EFFECTIVE EVEN IF, FOR ANY REASON WHATSOEVER, SUCH CLAIM OR CAUSE OF ACTION CANNOT BE TRIED BY SUCH ARBITRATOR. WITHOUT LIMITING THE FOREGOING, EACH MEMBER FURTHER AGREES THAT EACH SUCH MEMBER'S RIGHT TO A TRIAL BY JURY IS WAIVED TO THE MAXIMUM EXTENT ALLOWED BY LAW BY OPERATION OF THE FOREGOING AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE CONTRIBUTION AGREEMENT OR ANY PROVISION OF EITHER SUCH AGREEMENT. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT

AMENDMENTS, RENEWALS, SUPPLEMENTS, OR MODIFICATIONS TO THIS AGREEMENT AND/OR THE CONTRIBUTION AGREEMENT.

INITIALS OF TEJON

INITIALS OF MAJESTIC

(g) Survivability. The provisions of this Section 13.18 shall survive the withdrawal of any Member from the Company and the dissolution and liquidation of the Company.

13.19 Timing

All dates and times specified in this Agreement are of the essence and shall be strictly enforced.

13.20 Remedies for Breach of this Agreement

Except as otherwise specifically provided in this Agreement, the remedies set forth in this Agreement are cumulative and shall not exclude any other remedies to which a Person may be lawfully entitled.

13.21 Survivability of Representations and Warranties

All representations, warranties and covenants contained in this Agreement including, without limitation, the indemnities contained in Sections 7.10, 8.09, 9.03, 9.05 and 10.02(b) shall survive the execution of this Agreement, the formation of the Company, the withdrawal of any Member and the Liquidation of the Company.

13.22 Reasonableness of Rights and Remedies

THE RIGHTS AND REMEDIES SET FORTH IN THIS AGREEMENT (INCLUDING, WITHOUT LIMITATION, SECTION 3.03 AND ARTICLES VI AND VII) ARE A MATERIAL INDUCEMENT FOR EACH MEMBER TO ENTER INTO THIS AGREEMENT, AND THE MEMBERS WOULD NOT HAVE AGREED TO ENTER INTO THIS AGREEMENT BUT FOR THE AGREEMENT OF EACH MEMBER TO BE BOUND BY SUCH REMEDIES. EACH MEMBER ACKNOWLEDGES AND AGREES THAT THE FOREGOING REMEDIES ARE FAIR AND REASONABLE AND HAVE BEEN ENTERED INTO WITH THE INFORMED CONSENT OF EACH MEMBER. EACH MEMBER FURTHER ACKNOWLEDGES AND AGREES THAT IT WOULD BE IMPRACTICABLE AND EXTREMELY DIFFICULT TO ESTIMATE THE DAMAGES WHICH THE COMPANY AND THE NON-DEFAULTING MEMBER MAY SUFFER IN CONNECTION WITH THE OCCURRENCE OF ANY OF THE DEFAULTS DESCRIBED ABOVE. THEREFORE, EACH MEMBER AGREES THAT THE REMEDIES SET FORTH ABOVE REASONABLY AND FAIRLY REFLECT THE DETRIMENT THAT THE COMPANY AND THE NON-DEFAULTING MEMBER WOULD SUFFER IN SUCH EVENT AND, IN LIGHT OF THE DIFFICULTY IN DETERMINING ACTUAL DAMAGES, REPRESENT A PRIOR AGREEMENT AMONG THE MEMBERS AS TO APPROPRIATE LIQUIDATED

DAMAGES. EACH MEMBER ALSO AGREES THAT THE REMEDIES SET FORTH ABOVE ARE NOT INTENDED AS A FORFEITURE OR PENALTY UNDER DELAWARE OR ANY OTHER APPLICABLE STATE LAW. EACH MEMBER FURTHER COVENANTS NOT TO CONTEST THE VALIDITY OF THE REMEDIES SET FORTH ABOVE AS A PENALTY, FORFEITURE OR OTHERWISE IN ANY COURT OF LAW (AND/OR IN ANY ARBITRATION OR MEDIATION).

13.23 Force Majeure

The time period for each Member to perform any obligation under this Agreement shall be extended for the time period such Member (the "**Obligated Member**") is unable to perform such obligation as a result of any Force Majeure Delay. The term "**Force Majeure Delay**" means any delay as a result of war, national emergency, strikes (other than strikes or labor disturbances limited in scope to primarily the employees of the Obligated Member or any Affiliate thereof), riot or civil unrest, utility failure, acts of God (excluding inclement weather) or other events totally outside the control of the Obligated Member or any Affiliate thereof. Notwithstanding the foregoing, no Force Majeure Delay shall be deemed to exist as a result of (i) the Obligated Member's lack of funds (other than a temporary lack of funds resulting from any event totally outside the control of the Obligated Member described in the preceding sentence), or (ii) any delay solely caused by any act or omission of the Obligated Member or any Affiliate thereof, and in any event, the length of any Force Majeure Delay shall be reduced by (A) the time period that elapses after the tenth Business Day following the initial cause of the delay through the date the Obligated Member notifies the other Member in writing of the delay and the reason for the delay (if the Obligated Member has previously failed to provide such notice to the other Member on or before the tenth Business Day following the initial cause of the delay), or (B) the length of any delay caused by the Obligated Member's failure to promptly exercise and continue to exercise reasonable commercial efforts to remove or overcome such delay. All other delays from acts or events are explicitly excluded from Force Majeure Delays and shall not extend the time period for any Member to perform any of its obligations under this Agreement.

ARTICLE XIV
DEFINITIONS

14.01 Accountant's Notice

The term "**Accountant's Notice**" is defined in Section 7.03.

14.02 Accounting Firm

The term "**Accounting Firm**" means Ernst & Young or such other accounting firm as selected by the Executive Committee.

14.03 Actual Knowledge of Majestic

The term "**Actual Knowledge of Majestic**" is defined in Section 9.02.

14.04 Actual Knowledge of Tejon

The term "**Actual Knowledge of Tejon**" is defined in Section 9.01.

14.05 Additional Contribution Date

The term "**Additional Contribution Date**" is defined in Section 3.02.

14.06 Adjusted Accountant's Notice

The term "**Adjusted Accountant's Notice**" is defined in Section 7.05.

14.07 Adjusted Capital Account

The term "**Adjusted Capital Account**" means, with respect to each Member as of the end of each Fiscal Year of the Company, such Member's Capital Account (i) reduced by any anticipated allocations, adjustments and distributions described in Treasury Regulation Section 1.704-1(b)(2)(ii)(d)(4)-(6), and (ii) increased by the amount of any deficit in such Member's Capital Account that such Member is deemed obligated to restore pursuant to the penultimate sentences of Treasury Regulation Sections 1.704-2(g)(1) and 1.704-2(i)(5) or under Section 1.704-1(b)(2)(ii)(c) of the Treasury Regulations at the end of such Fiscal Year.

14.08 Adjusted Price Determination Notice

The term "**Adjusted Price Determination Notice**" is defined in Section 8.05.

14.09 Administrative Member

The term "**Administrative Member**" is defined in Section 2.03.

14.10 Affiliate

The term "**Affiliate**" means any Person which, directly or indirectly through one (1) or more intermediaries, controls or is controlled by or is under common control with another Person. The term "control" as used herein (including the terms "controlling," "controlled by," and "under common control with") means the possession, direct or indirect, of the power to (i) vote more than fifty percent (50%) of the outstanding voting securities of such Person, or (ii) otherwise direct management policies of such Person by contract or otherwise.

14.11 Affiliate Agreements

The term "**Affiliate Agreements**" is defined in Section 2.15.

14.12 Affiliated Member

The term "**Affiliated Member**" is defined in Section 2.15.

14.13 Affiliated Parties

The term "**Affiliated Parties**" is defined in Section 9.05.

14.14 Agreed Value

The term "**Agreed Value**" is defined in Section 3.01(b).

14.15 Agreement

The term "**Agreement**" means this Limited Liability Company Agreement of TRC-MRC 3, LLC.

14.16 Applicable ABP Date

The term "**Applicable ABP Date**" is defined in Section 2.07.

14.17 Applicable Construction Costs

The term "**Applicable Construction Costs**" is defined in Section 2.10.

14.18 Appraised Value

The term "**Appraised Value**" is defined in Section 7.03(a).

14.19 Approved Business Plan

The term "**Approved Business Plan**" is defined in Section 2.07.

14.20 Arbitration Notice

The term "**Arbitration Notice**" is defined in Section 13.18(a).

14.21 Bad Acts

The term "**Bad Acts**" is defined in Section 10.02(a).

14.22 Book Basis

The term "**Book Basis**" means, with respect to any asset of the Company, the Gross Asset Value (as determined under this Agreement). The Book Basis of all assets of the Company shall be adjusted thereafter by depreciation as provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(g) and any other adjustment to the basis of such assets other than depreciation or amortization.

14.23 Business Day

The term **"Business Day"** means any day other than Saturday, Sunday, or other day on which commercial banks in California are authorized or required to close under the laws of such state or the United States.

14.24 Business Plan Period

The term **"Business Plan Period"** means the twelve (12)-month period ending December 31 of each year; provided that the initial Business Plan Period shall be the period beginning on the Initial Contribution Date and ending on the estimated Project Stabilization Date; and the second Business Plan Period shall be the period beginning on the day after the Project Stabilization Date and ending on the subsequent December 31.

14.25 California Act

The term **"California Act"** means the California Revised Uniform Limited Liability Company Act as set forth in Title 2.6, Chapter 1 et seq. of the California Corporations Code, as hereafter amended from time to time.

14.26 Cap Balance Return

The term **"Cap Balance Return"** means, with respect to each Member, a cumulative amount calculated like interest at the rate of five percent (5%) per annum, compounded monthly, and accrued commencing from and after the Substantial Completion Date on the excess, if any, of (i) the balance standing in such Member's Unreturned Contribution Account, minus (ii) the balance standing in the other Member's Unreturned Contribution Account (both determined as of the date the Cap Balance Return is being calculated), to the extent such difference is a positive number. For financial and income tax reporting purposes, neither accrual nor payment of the Cap Balance Return shall be an expense of the Company nor be treated as a guaranteed payment under Section 707(c) of the Code.

14.27 Capital Account

The term **"Capital Account"** means with respect to each Member, the amount of money contributed by such Member to the capital of the Company, increased by the aggregate fair market value at the time of contribution (as determined by the Executive Committee) of all property contributed by such Member to the capital of the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code), the aggregate amount of all Net Profits allocated to such Member, and any and all items of gross income and gain specially allocated to such Member pursuant to Sections 4.03 and 4.04, and decreased by the amount of money distributed to such Member by the Company (exclusive of any guaranteed payment within the meaning of Section 707(c) of the Code paid to such Member), the aggregate fair market value at the time of distribution (as determined by the Executive Committee) of all property distributed to such Member by the Company (net of liabilities secured by such distributed property that such Member is considered to assume or take subject to under Section 752 of the Code), the amount of any Net Losses allocated to such Member, and any and all losses and deductions, including, without limitation,

any and all partnership and/or partner "nonrecourse deductions" specially allocated to such Member pursuant to Sections 4.03 and 4.04. The foregoing Capital Account definition and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulation Sections 1.704-1(b) and 1.704-2 and shall be interpreted and applied in a manner consistent with such Regulations.

14.28 Capital Call Notice

The term "**Capital Call Notice**" is defined in Section 3.02.

14.29 Cash Flow

The term "**Cash Flow**" means the excess, if any, of all cash receipts of the Company as of any applicable determination date in excess of the sum of (i) all cash disbursements (inclusive of any guaranteed payment within the meaning of Section 707(c) of the Code paid to any Member and any reimbursements made to any Member, but exclusive of distributions to the Members in their capacities as such) of the Company prior to that date, and (ii) any reserve, reasonably determined by Administrative Member, for anticipated cash disbursements, including debt service, that will have to be made before additional cash receipts from third parties will provide the funds therefor.

14.30 Certificates

The term "**Certificates**" is defined in Section 3.03(a).

14.31 Code

The term "**Code**" means the Internal Revenue Code of 1986, as heretofore and hereafter amended from time to time (and/or any corresponding provision of any superseding revenue law).

14.32 Commerce

The term "**Commerce**" is defined in Section 2.04(g).

14.33 Company

The term "**Company**" means the limited liability company created pursuant to this Agreement and the filing of the Certificate of Formation for the Company with the Office of the Delaware Secretary of State in accordance with the provisions of the Delaware Act.

14.34 Competing Member

The term "**Competing Member**" is defined in Section 10.05(a).

14.35 Construction Contract

The term "**Construction Contract**" is defined in Section 2.10.

14.36 Construction Loan

The term "**Construction Loan**" is defined in Section 3.04.

14.37 Consultants

The term "**Consultants**" is defined in Section 2.11.

14.38 Contributing Member

The term "**Contributing Member**" is defined in Section 3.03.

14.39 Contributing Party

The term "**Contributing Party**" is defined in Section 3.05.

14.40 Contribution Agreement

The term "**Contribution Agreement**" is defined in Section 2.07.

14.41 Covered Persons

The term "**Covered Persons**" is defined in Section 10.02(a).

14.42 Default Events

The term "**Default Events**" is defined in Section 7.01.

14.43 Default Loan

The term "**Default Loan**" is defined in Section 3.03(a).

14.44 Default Notice

The term "**Default Notice**" is defined in Section 7.02.

14.45 Defaulting Member

The term "**Defaulting Member**" is defined in Section 7.01.

14.46 Defaulting Member's Purchase Price

The term "**Defaulting Member's Purchase Price**" is defined in Section 7.03.

14.47 Delaware Act

The term "**Delaware Act**" means the Delaware Limited Liability Company Act (6 Del. C. § 18-101, et seq.), as hereafter amended from time to time.

14.48 Delinquent Contribution

The term "**Delinquent Contribution**" is defined in Section 3.03.

14.49 Deposit

The term "**Deposit**" is defined in Section 8.04.

14.50 Design-Builder

The term "**Design-Builder**" is defined in Section 2.10.

14.51 Development Budget

The term "**Development Budget**" is defined in Section 2.08.

14.52 Development Fee

The term "**Development Fee**" is defined in Section 2.11.

14.53 Development Plan

The term "**Development Plan**" is defined in Section 2.08.

14.54 Dilution Percentage

The term "**Dilution Percentage**" is defined in Section 3.03(b).

14.55 Effective Date

The term "**Effective Date**" is defined in the Preamble.

14.56 Electing Member

The term "**Electing Member**" is defined in Section 8.01.

14.57 Election Notice

The term "**Election Notice**" is defined in Section 8.01.

14.58 Enforceability Exceptions

The term "**Enforceability Exceptions**" is defined in Section 9.01(c).

14.59 Equalization Condition

The term "**Equalization Condition**" is defined in Section 3.02(a).

14.60 Executive Committee

The term "**Executive Committee**" is defined in Section 2.01(a).

14.61 FAA

The term "**FAA**" is defined in Section 13.18(a).

14.62 Fiscal Year

The term "**Fiscal Year**" means the twelve (12)-month period ending December 31 of each year; provided that the initial Fiscal Year shall be the period beginning on the Effective Date and ending on December 31, 2018, and the last Fiscal Year shall be the period beginning on January 1 of the calendar year in which the final liquidation and termination of the Company is completed and ending on the date such final liquidation and termination is completed. To the extent any computation or other provision hereof provides for an action to be taken on a Fiscal Year basis, an appropriate proration or other adjustment shall be made in respect of the initial and final Fiscal Years to reflect that such periods are less than full calendar year periods.

14.63 Force Majeure Delay

The term "**Force Majeure Delay**" is defined in Section 13.23.

14.64 Gross Asset Value

The term "**Gross Asset Value**" means, in respect to any asset of the Company, the asset's adjusted tax basis for federal income tax purposes; provided, however, that (i) the Gross Asset Value of any asset contributed or deemed contributed by a Member to the Company or distributed to a Member by the Company shall be the gross fair market value of such asset (without taking into account Section 7701(g) of the Code), as determined by the Executive Committee; and (ii) the Gross Asset Values of all Company assets may be adjusted, by the Executive Committee, to equal their respective gross fair market values (taking into account Section 7701(g) of the Code), as reasonably determined by the Executive Committee, as of (A) the date of the acquisition of an additional interest in the Company by any new or existing member in exchange for more than a de minimis contribution to the capital of the Company, or (B) upon the Liquidation of the Company or the distribution by the Company to a retiring or continuing member of more than a de minimis amount of money or other Company property in reduction of such Member's Interest. Any adjustments made to the Gross Asset Value of Company assets pursuant to the foregoing provisions shall be reflected in the Members' Capital Account balances in the manner set forth in Treasury Regulation Sections 1.704-1(b) and 1.704-2.

14.65 Guarantor(s)

The terms "**Guarantor**" and "**Guarantors**" are defined in Section 3.05.

14.66 Hypothetical Distribution

The term "**Hypothetical Distribution**" means, with respect to each Member and any Fiscal Year, the amount that would be received by such Member (or, in certain cases, reduced as appropriate by the amount such Member would be obligated to pay) if all Company assets were sold for cash equal to their Book Basis, all Company liabilities were satisfied to the extent required by their terms (limited, with respect to each nonrecourse liability to the Book Basis of the assets securing each such liability), and the net assets of the Company were distributed in full to the Members pursuant to Section 5.01.

14.67 Impasse Event

The term "**Impasse Event**" is defined in Section 2.02(k).

14.68 Improvements

The term "**Improvements**" is defined in Section 1.03.

14.69 Initial Contribution Date

The term "**Initial Contribution Date**" is defined in Section 3.01(b).

14.70 Interest

The term "**Interest**" means with respect to each Member, all of such Member's right, title and interest in and to the Net Profits, Net Losses, Cash Flow, distributions and capital of the Company, and any and all other interests therein in accordance with the provisions of this Agreement and the Delaware Act.

14.71 JAMS

The term "**JAMS**" is defined in Section 13.18(b).

14.72 Just Cause Event

The term "**Just Cause Event**" is defined in Section 2.16(c).

14.73 Lender(s)

The terms "**Lender**" and "**Lenders**" are defined in Section 3.04.

14.74 Liquidation

The term "**Liquidation**" means, (i) with respect to the Company the earlier of the date upon which the Company is terminated under Section 708(b)(1) of the Code or the date upon which the Company ceases to be a going concern (even though it may continue in existence for the purpose of winding up its affairs, paying its debts and distributing any remaining balance to its Members), and (ii) with respect to a Member wherein the Company is not in Liquidation,

means the liquidation of a Member's interest in the Company under Treasury Regulation Section 1.761-1(d).

14.75 Loans

The term "**Loans**" is defined in Section 3.04.

14.76 Lockout Date

The term "**Lockout Date**" is defined in Section 8.01.

14.77 Losses

The term "**Losses**" is defined in Section 3.05.

14.78 Lyda

The term "**Lyda**" is defined in Section 2.01(b).

14.79 Majestic

The term "**Majestic**" is defined in the Preamble.

14.80 Majestic Group

The term "**Majestic Group**" is defined in the Section 6.02(e).

14.81 Major Decisions

The term "**Major Decisions**" is defined in Section 2.04.

14.82 Marketing Plan

The term "**Marketing Plan**" is defined in Section 2.13.

14.83 Master Developer Work

The term "**Master Developer Work**" is defined in Section 2.12.

14.84 Member(s)

The term "**Members**" means Tejon and Majestic, collectively; the term "**Member**" means either one (1) of the Members.

14.85 MRC

The term "**MRC**" is defined in Section 6.02(c).

14.86 Net Profits and Net Losses

The terms "**Net Profits**" and "**Net Losses**" mean, for each Fiscal Year or other period, an amount equal to the Company's taxable income or loss, as the case may be, for such year or period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss and deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss); provided, however, for purposes of computing such taxable income or loss, (i) such taxable income or loss shall be adjusted by any and all adjustments required to be made in order to maintain Capital Account balances in compliance with Treasury Regulation Sections 1.704-1(b), and (ii) any and all items of gross income, gain, loss and/or deductions, including, without limitation, any and all partnership and/or partner "nonrecourse deductions" specially allocated to any Member pursuant to Sections 4.03 and 4.04 shall not be taken into account in calculating such taxable income or loss.

14.87 Non-Competing Member

The term "**Non-Competing Member**" is defined in Section 10.05(a).

14.88 Non-Contributing Member

The term "**Non-Contributing Member**" is defined in Section 3.03.

14.89 Non-Contributing Party

The term "**Non-Contributing Party**" is defined in Section 3.05.

14.90 Non-Defaulting Member

The term "**Non-Defaulting Member**" is defined in Section 7.01.

14.91 Non-Electing Member

The term "**Non-Electing Member**" is defined in Section 8.01.

14.92 Nonrecourse Documents

The term "**Nonrecourse Documents**" is defined in Section 3.05.

14.93 Nonrecourse Parties

The term "**Nonrecourse Parties**" is defined in Section 10.03.

14.94 Obligated Member

The term "**Obligated Member**" is defined in Section 13.23.

14.95 OFAC

The term "**OFAC**" is defined in Section 9.01(h).

14.96 Officers

The term "**Officers**" is defined in Section 2.17(a).

14.97 Operating Budget

The term "**Operating Budget**" is defined in Section 2.09.

14.98 Partially Adjusted Capital Account

The term "**Partially Adjusted Capital Account**" means, with respect to each Member and taxable year, the Capital Account of such Member at the beginning of such taxable year, adjusted as set forth in the definition of "Capital Account" for all contributions and distributions during such year and all special allocations pursuant to Sections 4.03 and 4.04, but before giving effect to any allocation to Net Profits or Net Losses for such taxable year pursuant to Section 4.01 or 4.02.

14.99 Percentage Interest

The term "**Percentage Interest**" means, with respect to each Member, the percentage set forth opposite such Member's name on Exhibit "A" attached hereto under the column labeled "Percentage Interest," subject to any adjustment pursuant to Section 3.03(b).

14.100 Permanent Loan

The term "**Permanent Loan**" is defined in Section 3.04.

14.101 Permitted Transferees

The term "**Permitted Transferees**" is defined in Section 6.02.

14.102 Person

The term "**Person**" means a natural person, partnership (whether general or limited), limited liability company, trust, estate, association, corporation, custodian, nominee, or any other individual or entity, in its own or any representative capacity.

14.103 Pre-Development Budget

The term "**Pre-Development Budget**" is defined in Section 2.06.

14.104 Price Determination Notice

The term "**Price Determination Notice**" is defined in Section 8.02.

14.105 Pro Rata Share

The term "**Pro Rata Share**" is defined in Section 3.05.

14.106 Prohibited Transfer

The term "**Prohibited Transfer**" is defined in Section 10.02(a).

14.107 Project

The term "**Project**" is defined in Section 1.03.

14.108 Project Stabilization Date

The term "**Project Stabilization Date**" means the first date that the Company has under lease and occupancy by tenants at least ninety-five percent (95%) of the space available for lease in the Project.

14.109 Property

The term "**Property**" is defined in Section 1.03.

14.110 Property Management Fee

The term "**Property Management Fee**" is defined in Section 2.14.

14.111 Property Material & Rights

The term "**Property Material & Rights**" is defined in Section 12.03.

14.112 Purchase Notice

The term "**Purchase Notice**" is defined in Section 8.03.

14.113 Purchase Price

The term "**Purchase Price**" is defined in Section 8.02.

14.114 Quorum

The term "**Quorum**" is defined in Section 2.02(a).

14.115 Real Estate Assets

The term "**Real Estate Assets**" is defined in the Section 6.02(d).

14.116 Recourse Documents

The term "**Recourse Documents**" is defined in Section 3.05.

14.117 Regulatory Allocations

The term "**Regulatory Allocations**" is defined in Section 4.04.

14.118 Removal Notice

The term "**Removal Notice**" is defined in Section 2.16(c).

14.119 Rentfro

The term "**Rentfro**" is defined in Section 2.01(b).

14.120 Representative(s)

The terms "**Representative**" and "**Representatives**" are defined in Section 2.01(b).

14.121 Response Period

The term "**Response Period**" is defined in Section 2.05.

14.122 Roski

The term "**Roski**" is defined in Section 6.02(c).

14.123 Roski Family

The term "**Roski Family**" is defined in Section 6.02(c).

14.124 Rules

The term "**Rules**" is defined in Section 13.18(c).

14.125 Securities Acts

The term "**Securities Acts**" is defined in Section 9.04(a)(i).

14.126 Shortfall

The term "**Shortfall**" is defined in Section 3.02.

14.127 Stated Value

The term "**Stated Value**" is defined in Section 8.01.

14.128 Substantial Completion Date

The term "**Substantial Completion Date**" means the date that Kern County issues a temporary certificate of occupancy (or its equivalent) for the occupancy of the Project (excepting therefrom all tenant improvements), pursuant to which the local governing authority generally acknowledges that the Project and its construction is complete and available for occupancy for its intended use.

14.129 Target Capital Account

The term "**Target Capital Account**" means, with respect to each Member and any taxable year, an amount (which may be either a positive or a deficit balance) equal to the Hypothetical Distribution such Member would receive (or, in certain cases, reduced as appropriate by the amount such Member would be required to pay), minus the Member's share of Company minimum gain determined pursuant to Treasury Regulation Section 1.704-2(g), and minus the Member's share of partner minimum gain determined in accordance with Treasury Regulation Section 1.704-2(i)(5), all computed immediately prior to the hypothetical sale described in the definition of "Hypothetical Distribution."

14.130 Tejon

The term "**Tejon**" is defined in the Preamble.

14.131 Tejon Group

The term "**Tejon Group**" is defined in the Section 6.02(d).

14.132 Transfer

The term "**Transfer**" is defined in Section 6.01.

14.133 Treasury Regulation

The term "**Treasury Regulation**" means any proposed, temporary and/or final federal income tax regulation promulgated by the United States Department of the Treasury as heretofore and hereafter amended from time to time (and/or any corresponding provisions of any superseding revenue law and/or regulation).

14.134 Unreturned Contribution Account

The term "**Unreturned Contribution Account**" means a separate account to be maintained by the Company for each Member that will be credited by the Agreed Value of the Property (in the case of Tejon), the agreed value of any other property contributed by such Member, and the amount of money contributed (or deemed contributed) by such Member to the capital of the Company and credited to such account pursuant to Sections 3.01(a), 3.01(b), 3.02, 3.03(a) or 3.03(b), and decreased by the amount of money distributed (or deemed distributed) by the Company to such Member pursuant to Sections 3.03(b), 5.01(b) or 5.01(c), and the fair market value at the time of distribution (as determined by the Executive Committee) of any property distributed to such Member by the Company (net of any liabilities secured by such distributed property that such Member is considered to assume or take subject to under Section 752 of the Code) pursuant to Sections 5.01(b) or 5.01(c).

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the day and year first above written.

"Tejon"

TEJON INDUSTRIAL CORP.,
a California corporation

By: _____
Name: ALLEN E. LYDA
Its: EXECUTIVE VICE PRESIDENT

By: _____
Name: JOSEPH N. REMTFRO
Its: EXECUTIVE VICE PRESIDENT

"Majestic"

MAJESTIC TEJON III, LLC,
a Delaware limited liability company

By: Majestic Realty Co.,
a California corporation
Its: Manager

By: _____
Name: EDWARD P. ROSKI, JR.
Its: President and Chairman of the Board

By: _____
Name: _____
Its: _____

EXHIBIT "A"

NAMES, ADDRESSES, PERCENTAGE INTERESTS AND INITIAL CASH CONTRIBUTIONS OF THE MEMBERS

Member	Percentage Interest	Initial Cash Contribution
Tejon Industrial Corp. P.O. Box 1000 Lebec, CA 93243 Attn.: Allen Lyda and Joe Rentfro	50.0%	$100,000[1]
Majestic Tejon III, LLC 13191 Crossroads Parkway North, 6th Floor City of Industry, CA 91746-3497 Attn.: Edward P. Roski, Jr. and Brett A. Tremaine	50.0%	$100,000
Totals	100.0%	$200,000

[1] Tejon is also required to contribute the Property to the Company at the Agreed Value in accordance with Section 3.01(b).

EXHIBIT "B"

LEGAL DESCRIPTION OF THE PROPERTY

[To Be Provided]

EXHIBIT "A"
LEGAL DESCRIPTION

ALL THAT PORTION OF PARCEL MAP NO. 10915-"E", FILED FOR RECORD AUGUST 10, 2016 IN PARCEL MAP BOOK 60, PAGES 119 THROUGH 124 (INCLUSIVE), IN THE OFFICE OF THE KERN COUNTY RECORDER; ALSO BEING A PORTION OF SECTION 31, TOWNSHIP 11 NORTH, RANGE 19 WEST, S.B.M., COUNTY OF KERN, STATE OF CALIFORNIA. BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE WESTERLY LINE OF SAID PARCEL MAP NO. 10915-"E", FROM WHICH POINT THE NORTHWEST CORNER THEREOF BEARS NORTH 14°29'54" WEST 1891.08 FEET, THENCE SOUTH 14°29'54" WEST, ALONG SAID WESTERLY LINE, 985.15 FEET, THENCE SOUTH 82°58'20" EAST, 1565.93 FEET TO A POINT ON THE EASTERLY LINE OF SAID PARCEL MAP, THENCE NORTH 4°07'28" WEST, ALONG SAID EASTERLY LINE, 934.07 FEET, THENCE NORTH 82°58'20" WEST, 1746.75 FEET TO THE POINT OF BEGINNING.

CONTAINING 34.85 ACRES, MORE OR LESS

McINTOSH & ASSOCIATES
661-834-4814 • 661-834-0972
2001 Wheelan Court • Bakersfield, CA 93309

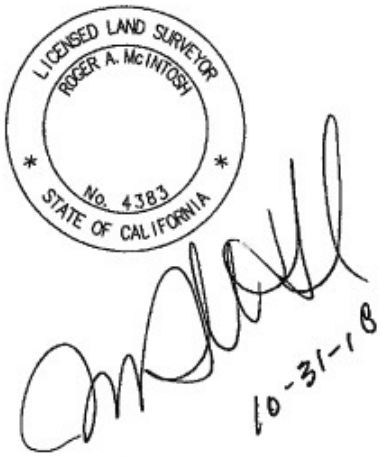


EXHIBIT "C"

PRE-DEVELOPMENT BUDGET

[To Be Provided]

Exhibit "C"

Pre-Development Budget

Cost		Estimate	Note
Architecture & Structural	$	250,000	Commerce Construction
Civil Engineering	$	195,000	McIntosh & Associates
Mechanical Design	$	10,500	Consultant Estimate
Electrical Design	$	22,500	Consultant Estimate
Plumbing Design	$	8,500	Consultant Estimate
Fire Design	$	19,500	Consultant Estimate
Landscape Architecture	$	13,500	Consultant Estimate
Geotechnical Report	$	10,000	Update to Soils Report
Environmental	$	5,000	Update to Phase I
Plan Check Deposit Fees	$	60,000	Estimated Deposit
Title Policy	$	5,500	Estimated Budget
Contingency	$	15,000	2.5% of costs
Pre-Development Totals	**$**	**615,000**	

EXHIBIT "D"

CONTRIBUTION AGREEMENT

[To Be Provided]

CONTRIBUTION AGREEMENT
AND JOINT ESCROW INSTRUCTIONS

I.

SUMMARY AND DEFINITION OF BASIC TERMS

THIS CONTRIBUTION AGREEMENT AND JOINT ESCROW INSTRUCTIONS (this "**Agreement**"), dated as of the Effective Date set forth in Section 1 of this Article I below, is made by and between TEJON INDUSTRIAL CORP., a California corporation ("**Contributor**"), and TRC-MRC 3, LLC, a Delaware limited liability company ("**Company**"). The terms set forth below shall have the meanings set forth below when used in this Agreement.

Terms of Agreement (first reference in this Agreement)	Description
1. **Effective Date** (Preamble):	_____, 2019
2. **Closing Date** (Section 2.2):	On or before the tenth "Business Day" following the date that the "Executive Committee" approves the business plan for the first "Business Plan Period" (as the foregoing terms are defined in the "Company Agreement" (which is defined in Recital B below)) pursuant to Section 2.07 of the Company Agreement.
3. **Contributor's Notice Address** (Section 10):	Tejon Industrial Corp. P.O. Box 1000 4436 Lebec Road Lebec, California 93243 Attention: Allen Lyda and Joe Rentfro Emails: alyda@tejonranch.com; jrentfro@tejonranch.com
4. **Company's Notice Address** (Section 10):	TRC-MRC 3, LLC c/o Majestic Realty Co. 13191 Crossroads Parkway North, 6th Floor City of Industry, California 91746-3497 Attn: Edward P. Roski, Jr. and Brett A. Tremaine Emails: dhunt@majesticrealty.com; btremaine@majesticrealty.com
5. **Escrow Holder** and **Escrow Holder's Notice Address** (Sections 2.1 and 10):	Chicago Title Company 4015 Coffee Road, Suite 100 Bakersfield, California 93308 Attn: Maria Biernat Email: biernat@ctt.com

6. **Title Company** (Section 3.1.1): Chicago Title Company

7. **Contributor's Representatives** (Section 8.1.13): Allen Lyda and Joe Rentfro

8. **Company's Representatives** (Section 9.1.7): Brett Tremaine and Thomas Simmons

II.

RECITALS

A. Contributor is the owner of that certain real property consisting of approximately thirty-three and 60/100ths (33.60) net acres (34.85 gross acres) of vacant land located within the Tejon Ranch Commerce Center (the "**Project**") in the County of Kern, State of California, and described more particularly on Exhibit "A" attached hereto (the "**Land**").

B. Concurrently with this Agreement, Contributor (sometimes also referred to herein as "**TRC Member**") and Majestic Tejon III, LLC, a California limited liability company ("**MRC Member**"), as the members, have entered into that certain Limited Liability Company Agreement of TRC-MRC 3, LLC (the "**Company Agreement**").

C. In connection with the Company Agreement, Contributor (in its capacity as a member of Company) desires to contribute and convey to the capital of Company, and Company desires to accept and acquire and assume from Contributor, all of Contributor's rights, title, interests, duties and obligations in and to the following:

i. Subject to the last sentence of this Recital C, the Land and all of Contributor's interest in all rights, privileges, easements, rights-of-way and appurtenances benefiting the Land including, without limitation, Contributor's interest, if any, in all air rights, easements, rights-of-way and other appurtenances used or connected with the beneficial use or enjoyment of the Land (the Land and all such rights, privileges, easements and appurtenances are sometimes collectively hereinafter referred to as the "**Real Property**"); and

ii. To the extent assignable, those certain warranties, guaranties, licenses, permits, entitlements (subject to the Builder Covenants), governmental approvals and certificates of occupancy and any other intangible personal property described on Exhibit "B" attached hereto, which benefit the Real Property (collectively, the "**Intangible Personal Property**").

The Real Property and the Intangible Personal Property are sometimes collectively hereinafter referred to as the "**Property**." Notwithstanding the foregoing, the "Property" shall not include any rights, privileges or appurtenances retained by Contributor under the Easement (as defined in Recital D below), the Builder Covenants (as defined in Recital E below), the Deed (as defined in Section 4.1.2 below) or the General Assignment (as defined in Section 4.1.4 below).

D. Upon the Closing (as defined in Section 2.2 below), Contributor shall execute and cause the Easement Agreement, in the form attached hereto as Exhibit "C" (the "**Easement**"), to be

recorded in the Official Records of the County of Kern, State of California (the "**Official Records**"), which shall, among other things, provide for an easement over a portion of the Real Property (as more particularly described in the Easement) for the benefit of that certain other real property which is currently owned by Contributor and located within the Project (as more particularly described in the Easement).

E. Upon the Closing, Contributor and Company shall also execute and cause the Declaration of Building Covenants for Lot 8 of Parcel Map 10915-E within Tejon Ranch Commerce Center-East, in the form attached hereto as Exhibit "D" (the "**Builder Covenants**"), to be recorded in the Official Records, with respect to Company's future development of the Real Property in a manner consistent with Contributor's plans for the Project, as more particularly described in the Builder Covenants.

III.

AGREEMENT

NOW, THEREFORE, in consideration of the Company Agreement and the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Contributor and Company hereby agree as follows, and hereby instruct Escrow Holder as follows:

1. Contribution of Property.

Contributor hereby agrees to contribute and convey to the capital of Company, and Company hereby agrees to accept and acquire and assume from Contributor, the Property upon the terms and conditions set forth in this Agreement.

2. Escrow.

2.1 Opening of Escrow. Company and Contributor shall promptly deliver a fully executed copy of this Agreement to Escrow Holder. The date of Escrow Holder's receipt of this Agreement is referred to as the "**Opening of Escrow**." Contributor and Company shall execute and deliver to Escrow Holder any additional or supplementary instructions as may be necessary or convenient to implement the terms of this Agreement and close the transactions contemplated hereby (the "**Supplemental Instructions**"), provided the Supplemental Instructions are consistent with and merely supplement the escrow instructions set forth in this Agreement (the "**Agreement Instructions**") and shall not in any way modify, amend or supersede the Agreement Instructions. The Supplemental Instructions, together with the Agreement Instructions, as they may be amended from time to time by the parties, shall collectively be referred to as the "**Escrow Instructions**." The parties hereto and Escrow Holder acknowledge and agree if there is any conflict between any provision of the Supplemental Instructions and the Agreement Instructions, then the Agreement Instructions shall prevail.

2.2 Close of Escrow/Closing. For purposes of this Agreement, the "**Close of Escrow**" or the "**Closing**" shall mean the date upon which the Deed is recorded in the Official Records. The Close of Escrow shall occur on the Closing Date.

3. Conditions Precedent to the Close of Escrow.

3.1 Conditions Precedent to Company's Obligations. The Close of Escrow and Company's obligations with respect to the transactions contemplated by this Agreement are subject to the timely satisfaction or waiver of the following conditions:

3.1.1 Title Policy. On or before the Closing, Title Company shall have committed to issue to Company an ALTA extended coverage Owner's Policy of Title Insurance (the "**Title Policy**") with liability in an amount equal to Four Dollars ($4.00) per square foot of the net usable area of the Land, reduced by the lien for property taxes not yet payable and adjusted for any prorations or other items described in this Agreement (the "**Agreed Value**"). The Agreed Value of the Land prior to any adjustment for real property taxes not yet payable, prorations and credits equals approximately Five Million Eight Hundred Fifty-Four Thousand Four Hundred Sixty-Four Dollars ($5,854,464) (i.e., (Total Acreage of 33.60 acres x 43,560) x $4.00 = $5,854,464). The Title Policy shall show title to the Property vested in Company, subject only to all matters set forth on Exhibit "E" attached hereto (which shall include, without limitation, the Easement, the Grant Deed, the Builder Covenants and the Notification and Acknowledgment (as defined in Section 4.1.7 below)) (collectively, the "**Permitted Exceptions**"), in the form of the pro-forma with endorsements attached hereto as Exhibit "E." Notwithstanding the foregoing, if Company fails to provide an ALTA survey for the Property acceptable to Title Company for purposes of issuing the Title Policy (at Company's sole cost and expense), then the Title Policy to be issued on the Closing shall be an ALTA standard coverage Owner's Policy of Title Insurance which shall include a general survey exception.

3.1.2 Contributor's Performance. Contributor shall have timely performed all of the obligations required to be performed by Contributor under this Agreement.

3.1.3 Accuracy of Representations and Warranties. All representations and warranties made by Contributor to Company in this Agreement shall be true and correct as of the Closing.

3.1.4 No Material Adverse Change. No material adverse change, as determined by Company in its reasonable discretion, shall have occurred with respect to any aspect, feature or condition of or relating to the Property from and after the Effective Date.

3.2 Failure of Conditions Precedent to Company's Obligations. Company's obligations with respect to the transactions contemplated by this Agreement are subject to the satisfaction of the conditions precedent to such obligations for Company's benefit set forth in Section 3.1 above. Company may unilaterally waive any of Company's conditions described in Section 3.1 above. Any such waiver shall be effective only if the same is (i) in writing, (ii) signed by Company, and (iii) delivered to Contributor on or before the date such condition is to be satisfied. If any of Company's conditions described in Section 3.1 above are not satisfied or waived by Company (as set forth above) on or before the date such condition is to be satisfied, then Company may terminate this Agreement. If Company terminates this Agreement by written notice to Contributor because of the failure of any of Company's conditions described in Section 3.1 above, then Contributor shall each pay all cancellation fees or charges related to this Agreement, and the parties shall have no further rights or obligations to one another under this Agreement (except to the extent any such rights or obligations expressly survive the termination of this Agreement); provided, however, that if the failure of any such condition precedent is due to a default by Contributor under

this Agreement, then Company shall be entitled to exercise the remedies for a default by Contributor under this Agreement as provided in Section 12 below.

3.3 Conditions Precedent to Contributor's Obligations. The Close of Escrow and Contributor's obligations with respect to the transactions contemplated by this Agreement are subject to the timely satisfaction or waiver of the following conditions:

3.3.1 Company's Performance. Company shall have timely performed all of the obligations required by Company under this Agreement.

3.3.2 Accuracy of Representations and Warranties. All representations and warranties made by Company to Contributor in this Agreement shall be true and correct as of the Closing.

3.4 Failure of Conditions Precedent to Contributor's Obligations. Contributor's obligations with respect to the transactions contemplated by this Agreement are subject to the satisfaction of the conditions precedent to such obligations for Contributor's benefit set forth in Section 3.3 above. Contributor may unilaterally waive any of Contributor's conditions described in Section 3.3 above. Any such waiver shall be effective only if the same is (i) in writing, (ii) signed by Contributor, and (iii) delivered to Company on or before the date such condition is to be satisfied. If any of Contributor's conditions described in Section 3.3 above are not satisfied or waived by Contributor (as set forth above) on or before the date such condition is to be satisfied, then Contributor may terminate this Agreement. If Contributor terminates this Agreement by written notice to Company because of the failure of any of Contributor's conditions described in Section 3.3 above, then Company and Contributor shall each pay one-half (1/2) of any cancellation fees or charges related to this Agreement, and the parties shall have no further rights or obligations to one another under this Agreement (except to the extent any such rights or obligations expressly survive the termination of this Agreement); provided, however, that if the failure of any such condition precedent is due to a default by Company under this Agreement, then Contributor shall be entitled to exercise the remedies for a default by Company under this Agreement as provided in Section 12 below.

4. Deliveries to Escrow Holder.

4.1 Contributor's Deliveries. Contributor hereby covenants and agrees to deliver or cause to be delivered to Escrow Holder at least one (1) business day prior to the Closing Date (or other date specified) the following instruments and documents:

4.1.1 Contributor Funds. All costs, expenses and prorations which are Contributor's responsibility under this Agreement;

4.1.2 Deed. A Grant Deed in the form attached hereto as Exhibit "F" (the "**Deed**"), duly executed and acknowledged in recordable form by Contributor, conveying Contributor's interest in the Real Property to Company;

4.1.3 Non-Foreign Certifications. A non-foreign certificate in the form attached hereto as Exhibit "G", duly executed by Contributor, together with the then current form of California Form 593-C (collectively, the "**Tax Certificates**");

4.1.4 General Assignment. Two (2) counterpart originals of the General Assignment in the form attached hereto as Exhibit "H" (the "**General Assignment**"), pursuant to which Contributor shall contribute and assign to Company all of Contributor's right, title and interest in, under and to the Intangible Personal Property, as more particularly set forth therein, duly executed by Contributor;

4.1.5 Easement. Two (2) counterpart originals of the Easement, duly executed and acknowledged in recordable form by Contributor;

4.1.6 Builder Covenants. Two (2) counterpart originals of the Builder Covenants, duly executed and acknowledged in recordable form by Contributor;

4.1.7 Notification and Acknowledgment. Two (2) counterpart originals of the Notification and Acknowledgment in the form attached hereto as Exhibit "I" (the "**Notification and Acknowledgment**"), duly executed and acknowledged in recordable form by Contributor;

4.1.8 Owner's Affidavit. An owner's affidavit in the form reasonably required by Title Company and reasonably approved by Contributor to issue the Title Policy in the form described in Section 3.1.1 above, duly executed by Contributor, including, without limitation, incorporated or separate statements and/or indemnities in the form reasonably approved by Contributor necessary to obtain a non-imputation endorsement from Title Company; and

4.1.9 Proof of Authority. Such proof of Contributor's authority and authorization to enter into this Agreement and the transactions contemplated hereby, and such proof of the power and authority of the individual(s) executing and/or delivering any instruments, documents or certificates on behalf of Contributor to act for and bind Contributor, as may be reasonably required by Title Company.

4.2 Company's Deliveries. Company hereby covenants and agrees to deliver or cause to be delivered to Escrow Holder at least one (1) business day prior to the Closing Date the following funds, instruments and documents:

4.2.1 Company Funds. All costs, expenses and prorations which are Company's responsibility under this Agreement;

4.2.2 PCOR. A Preliminary Change of Ownership Report in the then current form promulgated by the applicable jurisdiction (the "**PCOR**"), duly executed by Company;

4.2.3 General Assignment. Two (2) counterpart originals of the General Assignment, duly executed by Company;

4.2.4 Builder Covenants. Two (2) counterpart originals of the Builder Covenants, duly executed and acknowledged in recordable form by Company;

4.2.5 Notification and Acknowledgment. Two (2) counterpart originals of the Notification and Acknowledgment, duly executed and acknowledged in recordable form by Company; and

4.2.6 Proof of Authority. Such proof of Company's authority and authorization to enter into this Agreement and the transactions contemplated hereby, and such proof

of the power and authority of the individual(s) executing and/or delivering any instruments, documents or certificates on behalf of Company to act for and bind Company, as may be reasonably required by Title Company.

5. Deliveries Upon Close of Escrow.

Upon the Close of Escrow, Escrow Holder shall promptly undertake all of the following:

5.1 Tax Filings. File the information return for the sale of the Property required by Section 6045 of the Internal Revenue Code of 1986, as amended, and the Income Tax Regulations thereunder;

5.2 Prorations. Prorate all matters referenced in Section 6.2 below based upon the statement(s) signed by the parties and delivered to Escrow Holder;

5.3 Recording. Cause the Easement, the Deed, the Builder Covenants and the Notification and Acknowledgment (in that order), and any other documents which the parties hereto may direct, to be recorded in the Official Records in the order directed by the parties (subject to the recording order set forth above), and cause the PCOR to be filed with the appropriate office;

5.4 Company Funds. Disburse from funds deposited by Company with Escrow Holder towards payment of all items and costs chargeable to the account of Company pursuant hereto in payment of such items and costs and disburse the balance of such funds, if any, to Company;

5.5 Documents to Contributor. Deliver to Contributor one (1) fully-executed original of the General Assignment;

5.6 Documents to Company. Deliver to Company one (1) fully-executed original of the General Assignment;

5.7 Title Policy. Direct Title Company to issue the Title Policy to Company; and

5.8 Contributor Funds. Disburse from funds deposited by Contributor with Escrow Holder towards payment of all items and costs chargeable to the account of Contributor pursuant hereto in payment of such items and costs and disburse the balance of such funds, if any, to Contributor.

6. Costs and Expenses; Prorations.

6.1 Costs and Expenses. Company shall pay through escrow (i) the cost of the Title Policy premium and any title endorsements requested by Company, (ii) all documentary transfer taxes assessed by the city and/or county in which the Real Property is located, (iii) the Escrow Holder's fee, and (iv) the recording charges for the recording of the Deed and any other documents, which are requested to be recorded by Company. Contributor shall pay all costs associated with paying off any existing financing on the Property and any delinquent real property taxes. In addition, Company shall pay all legal and professional fees and costs of attorneys and other consultants and agents retained by Company, subject to Sections 14.5 and 15 below. Contributor shall pay all legal and professional fees and costs of attorneys and other consultants and agents retained by Contributor, subject to Sections 14.5 and 15 below. Nothing contained herein shall be deemed to alter or otherwise

modify the obligations of TRC Member and MRC Member to pay their respective attorneys' fees and costs in accordance with the terms of the Company Agreement.

6.2 Prorations. The following prorations between Contributor and Company shall be made by Escrow Holder computed as of the Close of Escrow:

6.2.1 Prorations. Real property taxes and assessments, general and special including, without limitation, any assessments for the CFD (as defined in Section 7.1.6 below), on the Real Property shall be prorated on the basis that Contributor is responsible for (i) all such taxes for the calendar years occurring prior to the Current Tax Period (as defined below), and (ii) that portion of such taxes for the Current Tax Period determined on the basis of the number of days which have elapsed from the first day of the Current Tax Period through the Close of Escrow, inclusive, whether or not the same shall be payable prior to the Close of Escrow. The phrase "**Current Tax Period**" refers to the tax fiscal year in which the Close of Escrow occurs. If as of the Close of Escrow the actual tax bills for the year or years in question are not available and the amount of taxes to be prorated as aforesaid cannot be ascertained, then the rates and assessed valuation of the previous year, with known changes (including any known changes under the CFD assessments for the Current Tax Period), shall be used, and when the actual amount of taxes and assessments for the year or years in question shall be determinable, then such taxes and assessments will be re-prorated (up or down) between the parties to reflect the actual amount of such taxes and assessments. Contributor shall notify Company of the amount of the adjustment, if any, supporting same with copies of the final tax bill, with payment due Contributor or Company, as the case may be, not later than thirty (30) days following such notice. If the Real Property is not a separate tax parcel, then the real property taxes and assessments allocated to the Real Property shall be based on the gross square footage of the Real Property as compared to the gross square footage of the tax parcel(s) in which the Real Property is located. Notwithstanding anything to the contrary in this Agreement, Company hereby acknowledges and agrees that Company shall be solely responsible for any and all special taxes pursuant to the CFD, resulting from the Real Property being classified as "Developed Property" following the issuance of a permit for the development of the Real Property, excluding that portion of such taxes that commence to accrue prior to the Close of Escrow, which shall be the sole obligation of Contributor. All other costs and expenses for any utilities provided to the Real Property accruing on or before the Close of Escrow shall be borne by Contributor.

6.2.2 Final Adjustment. If any prorations, apportionments or computations made under this Section 6.2 shall require final adjustment, then the parties shall make the appropriate adjustments promptly when accurate information becomes available and either party hereto shall be entitled to an adjustment to correct the same. Any corrected adjustment or proration shall be paid in cash to the party entitled thereto.

6.3 Survival. The provisions of this Section 6 shall survive the Closing.

7. AS-IS Contribution.

7.1 Company's Acknowledgment. Company acknowledges that the provisions of this Section 7 have been required by Contributor as a material inducement to enter into the contemplated transactions, and the intent and effect of such provisions have been explained to Company (and MRC Member) and have been understood and agreed to by Company (and MRC Member). As a material inducement to Contributor to enter into this Agreement and to contribute the Property to Company, Company hereby acknowledges and agrees that:

7.1.1 Contributor's Environmental Inquiry. Contributor has delivered to Company the environmental reports described in Exhibit "J" attached hereto (collectively, the "**Environmental Reports**"). If any of the Environmental Reports are updated, supplemented, or corrected prior to the Close of Escrow (collectively, "**Updates**"), then Contributor shall promptly provide Company with copies of such Updates. For purposes of California Health and Safety Code Section 25359.7, Contributor has acted reasonably in relying solely upon the Environmental Reports and the delivery of such reports constitutes written notice to Company under such code section.

7.1.2 Natural Hazard Disclosure Requirement Compliance. Prior to the Closing, Contributor may be required to disclose if the Property lies within the following natural hazard areas or zones: (i) a special flood hazard area designated by the Federal Emergency Management Agency (California Civil Code Section 1102.17); (ii) an area of potential flooding (California Government Code Section 8589.4); (iii) a very high fire hazard severity zone (California Government Code Section 51183.5); (iv) a wildland area that may contain substantial forest fire risks and hazards (California Public Resources Code Section 4136); (v) an earthquake fault zone (California Public Resources Code Section 2621.9); or (vi) a seismic hazard zone (California Public Resources Code Section 2694). Company has been informed by Contributor that Contributor has engaged the services of Disclosure Source (the "**Natural Hazard Expert**") with respect to the Property to examine the maps and other information specifically made available to the public by government agencies for the purpose of enabling Contributor to fulfill its disclosure obligations, if and to the extent such obligations exist, with respect to the natural hazards referred to in California Civil Code Section 1103 and to report the result of its examination to Company and Contributor in writing. The written report prepared by the Natural Hazard Expert regarding the results of its examination fully and completely discharges Contributor from its disclosure obligations referred to in this Section 7.1.2, if and to the extent such obligations exist, and, for the purpose of this Agreement, the provisions of California Civil Code Section 1103.4 regarding the non-liability of Contributor for errors or omissions not within its personal knowledge shall be deemed to apply and the Natural Hazard Expert shall be deemed to be an expert, dealing with matters within the scope of its expertise with respect to the examination and written report regarding the natural hazards referred to above. In no event shall Contributor have any responsibility for matters not actually known to Contributor or of which Contributor should have known.

7.1.3 Condition of Property.

(a) Company acknowledges and agrees that Company's election to acquire the Property shall be based solely upon Company's inspection and investigation of the Property and all documents related thereto, or its opportunity to do so (as well as the representations and warranties of Contributor expressly set forth in this Agreement), and that upon the Closing, the Property shall be contributed on an "AS IS, WHERE IS" condition, without relying upon any representations or warranties, express, implied or statutory, of any kind other than the representations and warranties of Contributor expressly set forth in this Agreement or the Company Agreement. Without limiting the foregoing (and except as otherwise expressly set forth in this Agreement or the Company Agreement), Company acknowledges that neither Contributor nor any other party has made any representations or warranties, express or implied, on which Company is relying as to any matters, directly or indirectly, concerning the Property (or any portion thereof) including, without limitation, the land, the square footage of the Property, improvements and infrastructure, if any, development rights and exactions, expenses associated with the Property, taxes, assessments, bonds,

permissible uses, title exceptions, water or water rights, topography, utilities, availability or capacity of utilities, general plan designations, zoning or other entitlement condition of the Property, soil, subsoil, drainage, environmental or building laws, rules or regulations, toxic waste or Hazardous Materials (as defined in Section 7.1.3(c) below) or any other matters affecting or relating to the Property. The Closing shall be conclusive evidence that (i) Company has fully and completely inspected (or has caused to be fully and completely inspected) the Property, (ii) Company accepts the Property as being in good and satisfactory condition and suitable for Company's purposes, and (iii) to Company's actual knowledge, the Property fully complies with Contributor's covenants and obligations hereunder.

(b) Except as otherwise expressly set forth in this Agreement or the Company Agreement, Company shall perform and rely solely upon its own investigation concerning the proposed use of the Property, the Property's fitness therefor, and the availability of such intended use under applicable statutes, ordinances, and regulations. Company further acknowledges and agrees that Contributor's cooperation with Company in connection with Company's due diligence review of the Property (or any portion thereof), whether by providing a title report, the Environmental Reports and other documents, or permitting inspection of the Property (or any portion thereof), shall not be construed as any warranty or representation, express or implied, of any kind with respect to the Property (or any portion thereof), or with respect to the accuracy, completeness, or relevancy of any such documents.

(c) Without limiting the generality of the foregoing, Company hereby expressly waives, releases and relinquishes any and all claims, causes of action, rights and remedies Company, or its Affiliates (as defined below), or any of its and their respective directors, officers, managers, attorneys, employees, partners, members, shareholders or agents (collectively, the "**Company Parties**"), may now or hereafter have against Contributor, or its Affiliates, or any of its and their respective directors, officers, managers, attorneys, employees, partners, members, shareholders or agents (collectively, the "**Contributor Parties**"), whether known or unknown, with respect to any past, present or future presence or existence of Hazardous Materials on, under or about the Property or with respect to any past, present or future violations of any rules, regulations or laws, now or hereafter enacted, regulating or governing the use, handling, storage, release or disposal of Hazardous Materials, including, without limitation, (i) any and all rights Company may now or hereafter have to seek contribution from Contributor or the Contributor Parties under Section 113(f)(i) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("**CERCLA**"), as amended by the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C.A. § 9613), as the same may be further amended or replaced by any similar law, rule or regulation, (ii) any and all rights Company may now or hereafter have against Contributor or the Contributor Parties under the Carpenter-Presley-Tanner Hazardous Substances Account Act (California Health and Safety Code, Section 25300 et seq.), as the same may be further amended or replaced by any similar law, rule or regulation, (iii) any and all claims, whether known or unknown, now or hereafter existing, with respect to the Property under Section 107 of CERCLA (42 U.S.C.A. § 9607), and (iv) any and all claims, whether known or unknown, based on nuisance, trespass or any other common law or statutory provisions; provided, however that the above waiver, release and relinquishment will not apply to any claims, causes of action, rights or remedies Company may have against Contributor for breach of any express representation set forth in this Agreement. As used

herein, the term "**Hazardous Material(s)**" includes, without limitation, any hazardous or toxic materials, substances or wastes, such as (A) those materials identified in Sections 66680 through 66685 and Sections 66693 through 66740 of Title 22 of the California Administrative Code, Division 4, Chapter 30, as amended from time to time, (B) those materials defined in Section 25501(j) of the California Health and Safety Code, (C) any materials, substances or wastes which are toxic, ignitable, corrosive or reactive and which are regulated by any local governmental authority, any agency of the state of California or any agency of the United States Government, (D) asbestos, (E) petroleum and petroleum-based products, (F) urea formaldehyde foam insulation, (G) polychlorinated biphenyls (PCBs), and (H) freon and other chlorofluorocarbons. As used herein, the term "**Affiliate**" means any person or entity which, directly or indirectly through one (1) or more intermediaries, controls or is controlled by or is under common control with another person or entity; the term "control" as used herein (including the terms "controlling," "controlled by," and "under common control with") means the possession, direct or indirect, of the power to (i) vote more than fifty percent (50%) of the outstanding voting securities of such person or entity, or (ii) otherwise direct management policies of such person by contract or otherwise.

7.1.4 Release. As of the Closing (and subject to Section 7.1.5 below), Company hereby fully and irrevocably releases Contributor and the Contributor Parties from any and all claims that Company or the Company Parties may have or thereafter acquire against Contributor or the Contributor Parties for any cost, loss, liability, damage, expense, demand, action or cause of action (collectively, "**Claims**") arising from or related to any matter of any nature relating to, the Property including, without limitation, the physical condition of the Property, any latent or patent construction defects, errors or omissions, compliance with law matters, Hazardous Materials and other environmental matters within, under or upon, or in the vicinity of the Property. The foregoing release by Company shall include, without limitation, any Claims Company or the Company Parties may have pursuant to any statutory or common law right Company may have to receive disclosures from Contributor, including, without limitation, any disclosures as to the Property's location within areas designated as subject to flooding, fire, seismic or earthquake risks by any federal, state or local entity, the presence of Hazardous Materials on or beneath the Property, the need to obtain flood insurance, the certification of water heater bracing and/or the advisability of obtaining title insurance, or any other condition or circumstance affecting the Property, its financial viability, use or operation, or any portion thereof. This release includes Claims of which Company is presently unaware or which Company does not presently suspect to exist in its favor which, if known by Company, would materially affect Company's release of Contributor and the Contributor Parties. In connection with the general release set forth in this Section 7.1.4, Company specifically waives the provisions of California Civil Code Section 1542, which provides as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

_____
Company's Initials

7.1.5 Limitation on Release. Notwithstanding anything in this Section 7.1 to the contrary, the waivers, releases and relinquishment set forth herein shall not apply to (i) the representations and warranties of Contributor expressly set forth in this Agreement or the Company

Agreement, (ii) the covenants of Contributor expressly set forth in this Agreement (which expressly survive the Closing); (iii) intentional fraud or intentional misrepresentation by Contributor; (iv) any Claims that arise in connection with or under the Company Agreement, the Easement, the Builder Covenants, or any other agreements entered into between Company and Contributor that remain effective following the Closing, (v) except for claims that Company has released under Section 7.1.3(c) above, claims of third parties based on events occurring prior to the Closing, or (vi) any Claims that may arise against Contributor as a result of any interest it holds in other portions of the Project.

7.1.6 Notice of Special Tax for CFD. Company acknowledges that the Tejon Ranch Public Facilities Financing Authority ("**TRPFFA**") established the Tejon Ranch Public Facilities Financing Authority Community Facilities District No. 2008-1 (the "**CFD**"), pursuant to the Mello-Roos Community Facilities Act of 1982. The CFD was established for the purpose of financing the construction of certain infrastructure improvements (such as roads, sewer systems and water systems) and other improvements relating to or benefiting the Property. In connection with the formation of the CFD, the TRPFFA approved a "Rate and Method of Apportionment," which established the rate at which special taxes shall be levied against the portion of the Property encumbered by the CFD to pay debt service on bonds issued by the CFD (a copy of which has been provided to Company).

8. Contributor's Representations and Warranties.

8.1 Representations and Warranties. As of the Effective Date and as of the Close of Escrow, each of the statements in this Section 8.1 shall be a true, accurate and full disclosure of all facts relevant to the matters contained therein. Contributor hereby represents and warrants as follows for the sole and exclusive benefit of Company, each of which is material and is being relied upon by Company as of the Effective Date and as of the Close of Escrow:

8.1.1 Due Formation. Contributor is a duly organized corporation validly existing and in good standing under the laws of the State of California and has the requisite power and authority to enter into and carry out the terms of this Agreement.

8.1.2 Required Actions. All corporate action required to be taken by Contributor to execute and deliver this Agreement has been taken by Contributor and no further approval of any member, partner, shareholder, manager, officer, board, court, or other body is necessary to permit Contributor to execute and deliver this Agreement.

8.1.3 Binding Obligation. This Agreement and all other documents to be executed and delivered by Contributor pursuant to the terms of this Agreement will on the date such Agreement and documents are fully executed and delivered constitute legal, valid, and binding obligations of Contributor, enforceable in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect affecting generally the enforcement of creditors' rights, and statutes or rules of equity concerning the enforcement of the remedy of specific performance (collectively, the "**Enforceability Exceptions**").

8.1.4 No Consent. No notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any person, is necessary in connection with (i) the execution and delivery of this

Agreement by Contributor, or (ii) the consummation and performance by Contributor of the transactions contemplated by this Agreement.

8.1.5 Violation of Law. Neither the execution and delivery of this Agreement by Contributor, nor the consummation by Contributor of the transactions contemplated hereby, nor compliance by Contributor with any of the provisions hereof will (i) violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which Contributor is a party as of the Effective Date or the Close of Escrow, as applicable, or to which Contributor or the Property may be subject as of the Effective Date or the Close of Escrow, as applicable, or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to Contributor or the Property as of the Effective Date or the Close of Escrow, as applicable.

8.1.6 No Litigation. To the Actual Knowledge of Contributor (as defined in Section 8.2 below), there is no litigation, arbitration, legal or administrative suit, action, proceeding or investigation of any kind, pending or threatened in writing (nor any basis therefor), which questions, directly or indirectly, the validity or enforceability of this Agreement as to Contributor.

8.1.7 Compliance with Laws. To the Actual Knowledge of Contributor, neither Contributor nor any of the Contributor Parties have received any written notice that the Property is currently in violation of any federal, state or local law, statute, ordinance, rule or regulation.

8.1.8 Proceedings. There are no lawsuits, actions, arbitrations or proceedings (including, without limitation, condemnation proceedings) pending and served, or, to the Actual Knowledge of Contributor, threatened which affect the Property.

8.1.9 No Leases or Other Property Reports. Contributor has not entered into any leases or other agreements (whether oral or written) affecting or relating to the rights of any party with respect to the possession, use or occupation of the Property or any portion thereof which will be in effect after the Close of Escrow, except for (i) any matters included in the Permitted Exceptions, and (ii) any matters that were otherwise disclosed in writing prior to the Effective Date. Contributor has not granted any person or entity (other than Company pursuant to this Agreement) the right to acquire, lease, encumber or obtain any interest in the Property, except for (A) any matters included in the Permitted Exceptions, and (B) any matters that were otherwise disclosed in writing prior to the Effective Date.

8.1.10 Documents and Materials. All of the documents and other materials relating to the physical and environmental condition of the Property delivered by Contributor to Company on or prior to the Effective Date are true and complete copies of such documents and other materials in Contributor's possession (provided Contributor makes no representation or warranty as to the accuracy of any information contained in such documents or materials).

8.1.11 No Contracts. There are no contracts, warranties, guaranties, bonds or other agreements relating to the Property as of the Effective Date that affect or will affect the Property, except for (i) any matters included in the Permitted Exceptions, and (ii) any matters that were otherwise disclosed in writing prior to the Effective Date.

8.1.12 Environmental. There are no legal actions that have been served and are currently pending against Contributor or to the Actual Knowledge of Contributor against any of the Contributor Parties alleging that the Property contains Hazardous Materials that are in violation of applicable environmental laws, and to the Actual Knowledge of Contributor, other than as may be disclosed in the Environmental Reports, (i) there are no Hazardous Materials located on or under the Property in violation of applicable environmental laws, and (ii) there are no legal actions that have been threatened against Contributor or to the Actual Knowledge of Contributor against any of the Contributor Parties alleging that the Property contains Hazardous Materials that are in violation of applicable environmental laws. To the Actual Knowledge of Contributor, the Environmental Reports constitute all of the final reports concerning environmental matters with respect to the Property that are in Contributor's possession or control.

8.1.13 Most Knowledgeable Individuals. Contributor's Representatives are the individuals employed or affiliated with Contributor that have the most knowledge and information regarding the representations and warranties made in this Section 8.1.

8.1.14 No Untrue Statements. To the Actual Knowledge of Contributor, no representation, warranty or covenant of Contributor in this Agreement contains or will contain any untrue statement of material facts or omits or will omit to state material facts necessary to make the statements or facts contained therein not misleading.

8.2 Actual Knowledge of Contributor. The term "**Actual Knowledge of Contributor**" means the actual present knowledge of Contributor's Representatives without regard to any imputed or constructive knowledge and without any duty of inquiry or investigation. In no event shall any of Contributor's Representatives have any liability for the breach of any of the representations or warranties set forth in this Agreement.

8.3 Survival. The representations and warranties of Contributor set forth in Section 8.1.7 (Compliance with Laws) through Section 8.1.12 (Environmental) (collectively, the "**Property Representations and Warranties**") shall survive for a period of one (1) year after the Close of Escrow. No claim for a breach of any of the Property Representations or Warranties will be actionable or payable if (i) Company does not notify Contributor in writing of such breach and commence a "legal action" thereon within one (1) year after the Close of Escrow, or (ii) the breach in question results from or is based on a condition, state of facts or other matter which was actually known to Company prior to the Close of Escrow.

8.4 Limitations. Notwithstanding anything to the contrary contained in this Agreement, (i) the maximum aggregate liability of Contributor, and the maximum aggregate amount which may be awarded to and collected by Company and/or any other party (including, without limitation, MRC Member) for any breach of any of the Property Representations and Warranties shall, under no circumstances whatsoever, exceed ten percent (10%) of the "Agreed Value of the Property" (as defined in the Company Agreement) (the "**CAP Amount**"); and (ii) no claim by Company (and/or any other party) alleging a breach by Contributor of any of the Property Representations and Warranties may be made, and Contributor shall not be liable for, any judgment in any action based upon any such claim, unless and until such claim, either alone or together with any other claims by Company alleging a breach by Contributor of any such Property Representation and Warranty, is for an aggregate amount in excess of Fifty Thousand Dollars ($50,000) (the "**Floor Amount**"), in which event Contributor's liability respecting any final judgment concerning such claim or claims shall be for the entire amount thereof, subject to the CAP Amount set forth in clause (i) above; provided,

however, that if any such final judgment is for an amount that is less than or equal to the Floor Amount, then Contributor shall have no liability with respect thereto.

9. Company's Representations and Warranties.

9.1 Representations and Warranties. As of the Effective Date and as of the Close of Escrow, each of the statements in this Section 9.1 shall be a true, accurate and full disclosure of all facts relevant to the matters contained therein. Company hereby represents and warrants as follows for the sole and exclusive benefit of Contributor, each of which is material and is being relied upon by Contributor as of the Effective Date and as of the Close of Escrow:

9.1.1 Due Formation. Company is a duly organized limited liability company validly existing and in good standing under the laws of the State of Delaware and has the requisite power and authority to enter into and carry out the terms of this Agreement.

9.1.2 Required Actions. All limited liability company action required to be taken by Company to execute and deliver this Agreement has been taken and no further approval of any member, partner, shareholder, manager, officer, board, court, or other body is necessary to permit Company to execute and deliver this Agreement.

9.1.3 Binding Obligation. This Agreement and all other documents to be executed and delivered by Company pursuant to the terms of this Agreement will on the date such Agreement and documents are fully executed and delivered constitute legal, valid, and binding obligations of Company, enforceable in accordance with their terms, except as such enforceability may be limited by any Enforceability Exception.

9.1.4 No Consent. No notice to, declaration, filing or registration with, or authorization, consent or approval, or permit from, any domestic or foreign governmental regulatory body or authority, or any person, is necessary in connection with (i) the execution and delivery of this Agreement, or (ii) the consummation and performance by Company of the transactions contemplated by this Agreement.

9.1.5 Violation of Law. Neither the execution and delivery of this Agreement, nor the consummation by Company of the transactions contemplated hereby, nor compliance by Company with any of the provisions hereof will (i) violate, conflict with, or result in a breach of any provisions of, or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default) under any note, bond, mortgage, indenture, deed of trust, security or pledge agreement, license, lease, franchise, permit, agreement or other instrument or obligation to which Company is a party or to which Company may be subject, or (ii) violate any judgment, ruling, order, writ, injunction, decree, statute, rule or regulation applicable to Company.

9.1.6 No Litigation. To the Actual Knowledge of Company (as defined in Section 9.2 below), there is no litigation, arbitration, legal or administrative suit, action, proceeding or investigation of any kind, pending or threatened in writing (nor any basis therefor), which questions, directly or indirectly, the validity or enforceability of this Agreement to Company.

9.1.7 Most Knowledgeable Individuals. Company's Representatives are the individuals employed or affiliated with Company that have the most knowledge and information regarding the representations and warranties made in this Section 9.1.

9.1.8 No Untrue Statements. To the Actual Knowledge of Company, no representation, warranty or covenant of Company in this Agreement contains any untrue statement of material facts or omits to state material facts necessary to make the statements or facts contained therein not misleading.

9.2 Actual Knowledge of Company. The term "**Actual Knowledge of Company**" means the actual present knowledge of Company's Representatives without regard to any imputed or constructive knowledge and without any duty of inquiry or investigation. In no event shall any of Company's Representatives have any liability for the breach of any of the representations or warranties set forth in this Agreement.

10. Notices.

All notices or other communications required or permitted hereunder shall be in writing, and shall be delivered or sent, as the case may be, by any of the following methods: (i) personal delivery, (ii) overnight commercial carrier, (iii) registered or certified mail, postage prepaid, return receipt requested, (iv) facsimile, or (v) email. Any such notice or other communication shall be deemed received and effective upon the earlier of (A) if personally delivered, the date of delivery to the address of the person to receive such notice; (B) if delivered by overnight commercial carrier, one (1) day following the receipt of such communication by such carrier from the sender, as shown on the sender's delivery invoice from such carrier; (C) if mailed, on the date of delivery as shown by the sender's registry or certification receipt; (D) if given by facsimile, when sent; or (E) if given by email, when sent. Any notice or other communication sent by facsimile or email must be confirmed within forty-eight (48) hours by letter mailed or delivered in accordance with the foregoing to be effective. Any reference herein to the date of delivery, receipt, giving, or effective date, as the case may be, of any notice or other communication shall refer to the date such communication becomes effective. Notices shall be addressed as follows:

To Contributor:	At Contributor's Notice Address set forth in Section 3 of Article I above
With copies to:	Allen Matkins Leck Gamble Mallory & Natsis LLP 1900 Main Street, 5th Floor Irvine, California 92614 Attention: Paul D. O'Connor, Esq. Email: poconnor@allenmatkins.com
To Company:	At Company's Notice Address set forth in Section 4 of Article I above
With copies to:	Snell & Wilmer L.L.P. One Arizona Center Phoenix, Arizona 85004 Attention: Byron Sarhangian Email: bsarhangian@swlaw.com
To Escrow Holder:	At Escrow Holder's Address set forth in Section 5 of Article I above

Notice of change of address shall be given by written notice in the manner detailed in this Section 10. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of the notice or other communication sent.

11. Broker Commissions.

Except for Colliers International Greater Los Angeles, Inc. (which has been retained by Contributor and will be entitled to receive a real estate commission in connection with Company's acquisition of the Property that will be paid solely by Contributor), Company and Contributor hereby represent and warrant to the other that no broker or finder has been engaged by the representing party, and no finder, brokerage, advisory, or other fee has been incurred by such representing party, in connection with the parties entering into this Agreement or the Company Agreement, or in connection with conveying the Property to Company, or to such representing party's knowledge is in any way connected with the parties entering into this Agreement. If any such claims for fees of brokers, finders, advisors, or other such third parties arise from or are connected with the consummation of this Agreement, then Company and Contributor shall indemnify, defend, and hold the other harmless from and against such claims if they shall be based upon any statement, representation, or agreement by the indemnifying party. Contributor has been informed by Company that MRC Member it is a licensed real estate broker acting as a principal in this transaction. The terms and obligations of this Section 11 shall expressly survive the Closing.

12. Default.

12.1 Default by Contributor. If Contributor fails to perform any of the material covenants or agreements contained herein which are to be performed by Contributor, then Company may, at its option and as its exclusive remedy, either (i) terminate this Agreement by giving written notice of termination to Contributor, and the parties shall have no further rights or obligations to one another under this Agreement (except to the extent any such rights or obligations expressly survive the termination of this Agreement), or (ii) seek specific performance of this Agreement. If Company elects the remedy in clause (ii) above, then Company must commence and file such specific performance action in the appropriate court not later than thirty (30) days following the Closing Date.

12.2 Default by Company.

12.2.1 Caused by MRC Member. If Company fails to perform any material covenant or agreement to be performed by Company under this Agreement as a result of the acts or omissions of MRC Member, then Contributor shall be entitled to pursue any remedies available at law or in equity against Company. Nothing herein shall limit Contributor's rights (in its capacity as a member of Company) under the Company Agreement in the event of a default by MRC Member under the Company Agreement. Notwithstanding any other provision of this Agreement, Company shall not be deemed to be in breach or default hereunder if Company fails to perform any material covenant or agreement to be performed by Company under this Agreement as a result of the acts or omissions of Contributor whether under this Agreement or the Company Agreement.

12.2.2 Caused by TRC Member. If Company fails to perform any material covenant or agreement to be performed by Company under this Agreement as a result of the acts or omissions of TRC Member (in its capacity as a member of Company), then Company shall have the same remedies as set forth in Section 12.1 above for a default by Contributor; provided, however, that

the prosecution, management, and control of any action relating to such default shall be vested solely in MRC Member subject to, and in accordance with, the terms of Section 2.15 of the Company Agreement. Nothing contained in this Agreement shall limit MRC Member's rights under the Company Agreement in the event of a default by Contributor (in its capacity as a member of Company) under the Company Agreement.

12.3 No Consequential Damage. Except as set forth below in this Section 12.3, no party to this Agreement shall have any liability for any punitive damages, lost profits, special damages or consequential damages based on any default or alleged default by any other party under this Agreement. The provisions of the preceding sentence shall not limit the potential liability of Contributor (i) if specific performance of the acquisition of the Property by Company has been made impossible or impracticable due to Contributor's intentional wrongful acts, (ii) for any punitive damages, lost profits, special damages or consequential damages based on the intentional fraud of Contributor, or (iii) for any punitive damages, lost profits, special damages or consequential damages based on the intentional fraud of Company resulting from the acts or omissions of MRC Member.

13. Assignment.

Neither party hereto shall have the right to assign all or any part of its interest in this Agreement created pursuant hereto without the express prior written consent of the other party hereto, which consent may be withheld in each such party's sole and absolute discretion. The foregoing provisions of this Section 13 shall not limit or restrict the rights of any party under the Company Agreement.

14. Miscellaneous.

14.1 Governing Law. The provisions of this Agreement shall be construed and enforced in accordance with the laws of the State of California. Subject to Section 14.6 below, Contributor and Company hereby irrevocably consent to the exclusive jurisdiction of the state and federal courts located in California and to the exclusive venue of Kern County Superior Court and the District Court for the Eastern District of California for any action or proceeding arising out of, or relating to, this Agreement to the maximum extent allowed by law.

14.2 Preservation of Intent. If any provision of this Agreement is determined by any court having jurisdiction to be illegal or in conflict with any laws of any state or jurisdiction, then the parties agree that such provision shall be modified to the extent legally possible so that the intent of this Agreement may be legally carried out. If any provision contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect or for any reason, then the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired or affected, it being intended that all of the parties' rights and privileges shall be enforceable to the maximum extent permitted by law.

14.3 Waiver. No consent or waiver, express or implied, by a party to or of any breach or default by any other party in the performance by such other party of such other party's obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such other party hereunder. Failure on the part of a party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such non-complaining or non-declaring party of the latter's rights hereunder.

14.4 Successors and Assigns. Subject to the provisions of Section 13 above, this Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties hereto.

14.5 Attorneys' Fees. If any litigation, arbitration or other proceeding is commenced between or among the parties or their representatives in any way arising out of, or relating to, this Agreement, then the prevailing party or parties shall be entitled, in addition to such other relief as may be granted, to have and recover from the other party or parties reasonable attorneys' fees and all costs, taxable or otherwise, including, without limitation, those for expert witnesses, of such action. Any judgment or order entered in any legal proceeding shall contain a specific provision providing for the recovery of all costs and expenses of suit including, without limitation, reasonable attorneys' fees, costs and expenses incurred in connection with (i) enforcing, perfecting and executing such judgment; (ii) post judgment motions; (iii) contempt proceedings; (iv) garnishment, levee, and debtor and third-party examinations; (v) discovery; and (vi) bankruptcy litigation.

14.6 Arbitration. Any action to resolve any controversy or claim arising out of, or related to in any way to, this Agreement, including, without limitation, any alleged breach of this Agreement and any claim based upon any tort theory, however characterized shall be resolved through a binding arbitration before an arbitrator in accordance with the terms of Section 13.18 of the Company Agreement, which terms are incorporated herein by reference. Contributor and Company shall each be treated as a "member" under Section 13.18 of the Company Agreement solely for purposes of determining the rights, duties and obligations of Contributor and Company under such arbitration provisions.

14.7 Waiver of Jury Trial. TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH OF CONTRIBUTOR AND COMPANY HEREBY WAIVES EACH SUCH PARTY'S RIGHT TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION (WHETHER AS PLAINTIFF, DEFENDANT OR OTHERWISE) BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING, OR OTHER LITIGATION OF ANY TYPE BROUGHT BY CONTRIBUTOR OR COMPANY AGAINST THE OTHER OF SUCH PARTY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH OF CONTRIBUTOR AND COMPANY AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY AN ARBITRATOR AS PROVIDED ABOVE BUT THIS WAIVER SHALL BE EFFECTIVE EVEN IF, FOR ANY REASON WHATSOEVER, SUCH CLAIM OR CAUSE OF ACTION CANNOT BE TRIED BY SUCH ARBITRATOR. WITHOUT LIMITING THE FOREGOING, EACH OF CONTRIBUTOR AND COMPANY FURTHER AGREES THAT EACH SUCH PARTY'S RIGHT TO A TRIAL BY JURY IS WAIVED TO THE MAXIMUM EXTENT ALLOWED BY LAW BY OPERATION OF THE FOREGOING AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS, OR MODIFICATIONS TO THIS AGREEMENT.

_____ COMPANY'S INITIALS

_____ CONTRIBUTOR'S INITIALS

14.8 Entire Agreement. The Company Agreement and this Agreement (including all exhibits and schedules attached hereto) are the final expression of, and contain the entire agreement between, the parties with respect to the subject matter hereof and supersede all prior understandings with respect thereto. This Agreement may not be modified, changed, supplemented or terminated, nor may any obligations hereunder be waived, except by written instrument signed by the party to be charged or by its agent duly authorized in writing or as otherwise expressly permitted herein. This Agreement may be executed in one (1) or more counterparts, each of which shall be an original, and all of which together shall constitute a single instrument. The parties do not intend to confer any benefit hereunder on any person, firm or corporation other than the parties hereto.

14.9 Time of Essence/Business Days. Contributor and Company hereby acknowledge and agree that time is strictly of the essence with respect to each and every term, condition, obligation and provision hereof and that failure to timely perform any of the terms, conditions, obligations or provisions hereof by either party shall constitute a material breach of and a non-curable (but waivable) default under this Agreement by the party so failing to perform. Unless the context otherwise requires, all periods terminating on a given day, period of days, or date shall terminate at 5:00 p.m. (Pacific time) on such date or dates, and references to "days" shall refer to calendar days except if such references are to "business days" which shall refer to days which are not Saturday, Sunday or a legal holiday. Notwithstanding the foregoing, if any period terminates on a Saturday, Sunday or a legal holiday, under the laws of the State of California, then the termination of such period shall be on the next succeeding business day.

14.10 Construction. Headings at the beginning of each paragraph and subparagraph are solely for the convenience of the parties and are not a part of this Agreement. Whenever required by the context of this Agreement, the singular shall include the plural and the masculine shall include the feminine and vice versa. This Agreement shall not be construed as if it had been prepared by one of the parties, but rather as if both parties had prepared the same. Unless otherwise indicated, all references to sections are to this Agreement. All exhibits and schedules referred to in this Agreement are attached and incorporated by this reference.

15. Scope of Representation.

Contributor and Company each acknowledge and agree that (i) Allen Matkins Leck Gamble Mallory & Natsis LLP has represented the interests of Contributor only, individually and as a member of Company (i.e., as TRC Member), and has not represented MRC Member or Company, (ii) Snell & Wilmer L.L.P. has represented the interests of MRC Member only, and has not represented Contributor (individually or as a member of Company) or Company, and (iii) Company has decided not to retain separate counsel to represent its interest in connection with this Agreement and the transactions contemplated herein.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Contributor and Company have executed this Contribution Agreement and Joint Escrow Instructions as of the Effective Date.

"Contributor"

TEJON INDUSTRIAL CORP.,
a California corporation

By:_____
Name: _____
Its: _____

"Company"

TRC-MRC 3, LLC,
a Delaware limited liability company

By:_____
Name: _____
Its: _____

JOINDER BY ESCROW HOLDER

Escrow Holder hereby acknowledges that it has received this Agreement executed by Contributor and Company and accepts the obligations of and instructions for Escrow Holder set forth herein. Escrow Holder agrees to disburse and/or handle any and all funds and documents in accordance with this Agreement.

Dated: _____, 2019

_____

By: _____
Name: _____
Title: _____

EXHIBIT "A"

LEGAL DESCRIPTION OF LAND

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE UNINCORPORATED AREA OF THE COUNTY OF KERN, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

[Drafting Note: To be provided by Tejon and attached to this Agreement on or before December 1, 2018.]

EXHIBIT "B"

LIST OF INTANGIBLE PERSONAL PROPERTY

[To be provided by Tejon]

EXHIBIT "C"

FORM OF EASEMENT

[To be prepared by Tejon and reasonably approved by Company and attached to this Agreement on or before December 1, 2018.]

EXHIBIT "D"

FORM OF BUILDER COVENANTS

[To be provided by Tejon]

EXHIBIT "E"

PRO FORMA TITLE POLICY

[See Attached]

[To be provided by MRC Member and should reflect the Easement, the Deed, the Builder Covenants and the Notification and Acknowledgment to be recorded upon the Closing]

EXHIBIT "F"

FORM OF DEED

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL
THIS GRANT DEED AND ALL
TAX STATEMENTS TO:

TRC-MRC 3, LLC
P.O. Box 1000
4436 Lebec Road
Lebec, California 93243
Attention: Office of the General Counsel

(Above Space for Recorder's Use Only)

GRANT DEED

APN: _____

THE UNDERSIGNED GRANTOR DECLARES:

Documentary transfer tax is $_____
(X) computed on full value of property conveyed, or
( ) computed on full value, less value of liens and encumbrances remaining at time of sale.

THE PROPERTY IS LOCATED IN UNINCORPORATED AREA
IN THE COUNTY OF KERN, STATE OF CALIFORNIA

FOR VALUABLE CONSIDERATION, receipt of which is hereby acknowledged, TEJON INDUSTRIAL CORP., a California corporation ("**Grantor**"), hereby GRANTS to TRC-MRC 3, LLC, a Delaware limited liability company ("**Grantee**"), the following described real property (the "**Property**") located in Unincorporated Area in the County of Kern, State of California:

SEE EXHIBIT "A"
ATTACHED HERETO AND
INCORPORATED HEREIN BY THIS REFERENCE

RESERVING THEREFROM: All rights reserved to Grantor pursuant to the last two (2) paragraphs of EXHIBIT "A" including, without limitation, any rights to surface entry on the Property to access any such rights **[Drafting Note: We need to double check this after Tejon provides the legal description.]** reserved by Grantor.

AND SUBJECT TO:

1. Taxes and assessments, not delinquent.

2. All other covenants, conditions, restrictions, reservations, rights, rights of way, easements, encumbrances, liens and title matters listed on Exhibit "B" attached hereto and all matters which an accurate survey of the Property would disclose.

3. That certain Easement *(Easement to be described here)* recorded as of the date of this Grant Deed.

4. That certain Development *(Builder Covenants to be described here)* recorded as of the date of this Grant Deed.

IN WITNESS WHEREOF, Grantor has caused this Grant Deed to be executed as of the _____ day of _____, 2019.

TEJON INDUSTRIAL CORP.,
a California corporation

By:_____
Name:_____
Title:_____
Date:_____

Grantee hereby accepts this Grant Deed and the terms and conditions set forth herein by its execution below.

TRC-MRC 3, LLC,
a Delaware limited liability company

By:_____
Name:_____
Title:_____
Date:_____

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Kern)

On _____, before me, _____,
(insert name of notary)
Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature_____ (Seal)

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Kern)

On _____, before me, _____,
(insert name of notary)
Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature_____ (Seal)

EXHIBIT "A"

LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE UNINCORPORATED AREA OF THE COUNTY OF KERN, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

[Drafting Note: To be provided by Tejon and attached to this Agreement on or before December 1, 2018.]

EXHIBIT "B"

EXCEPTIONS TO TITLE

[To be provided by Tejon and attached to this Agreement on or before December 1, 2018.]

EXHIBIT "G"

FORM OF NON-FOREIGN AFFIDAVIT

CONTRIBUTOR'S CERTIFICATE OF NON-FOREIGN STATUS

Section 1445 of the Internal Revenue Code provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. For U.S. tax purposes (including Section 1445), the owner of a disregarded entity (which has legal title to a U.S. real property interest under local law) will be the transferor of the property and not the disregarded entity. To inform TRC-MRC 3, LLC, a Delaware limited liability company ("**Transferee**"), that withholding of tax is not required upon the disposition of a U.S. real property interest, the undersigned hereby certifies the following on behalf of the transferor/seller:

1. The transferor/seller is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Internal Revenue Code and the Income Tax Regulations promulgated thereunder).

2. The transferor/seller is not a disregarded entity as defined in Section 1.1445-2(b)(2)(iii).

3. The transferor's/seller's tax identification number is 77-0500904.

4. The transferor's/seller's business address is P.O. Box 1000, 4436 Lebec Road, Lebec, California 93243.

The transferor/seller understands that this certification may be disclosed to the Internal Revenue Service by Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct, and complete, and I further declare that I have authority to sign this document on behalf of the transferor/seller.

Transferor:

TEJON INDUSTRIAL CORP.,
a California corporation

By:_____
Name:_____
Title:_____

EXHIBIT "H"

FORM OF GENERAL ASSIGNMENT

GENERAL ASSIGNMENT

THIS GENERAL ASSIGNMENT (this "**Assignment**"), dated as of _____, 2019 (the "**Assignment Date**"), is made by and between TEJON INDUSTRIAL CORP., a California corporation ("**Assignor**"), and TRC-MRC 3, LLC, a Delaware limited liability company ("**Assignee**").

RECITALS

A. Pursuant to that certain Contribution Agreement and Joint Escrow Instructions dated as of _____, 2019 (the "**Contribution Agreement**"), Assignee has this day acquired from Assignor that certain real property located in the County of Kern, State of California, as more particularly described on Exhibit "A" attached hereto (the "**Property**").

B. Assignor now desires to contribute and assign to Assignee, to the extent assignable, all of Assignor's right, title and interest in and to those certain warranties, guaranties, licenses, permits, entitlements, governmental approvals and certificates of occupancy and any other intangible personal property described on Exhibit "B" attached hereto, which benefit the Property (collectively, the "**Intangible Personal Property**").

AGREEMENT

In consideration of the acquisition of the Property by Assignee and other good and valuable consideration, the mutual receipt and legal sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Assignment. Assignor hereby contributes, assigns, transfers and sets over unto Assignee, without representation or warranty of any kind, and Assignee hereby accepts from Assignor, any and all of Assignor's right, title and interest in and to the Intangible Personal Property; provided, however, such contribution, assignment and transfer shall not include any rights or claims arising prior to the Assignment Date which Assignor may have against any person with respect to the Intangible Personal Property.

2. Dispute Costs. In the event of any dispute between Assignor and Assignee arising out of the obligations of the parties under this Assignment or concerning the meaning or interpretation of any provision contained herein, the losing party shall pay the prevailing party's costs and expenses of such dispute, including, without limitation, reasonable attorneys' fees and costs. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Assignment shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Assignment and to survive and not be merged into any such judgment.

3. Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed an original, and all of which shall, taken together, be deemed one (1) document.

4. Survival. This Assignment and the provisions hereof shall inure to the benefit of and be binding upon the parties to this Assignment and their respective successors, heirs and permitted assigns.

5. No Third Party Beneficiaries. Except as otherwise expressly set forth herein, Assignor and Assignee do not intend, and this Assignment shall not be construed, to create a third-party beneficiary status or interest in, nor give any third-party beneficiary rights or remedies to, any other person or entity not a party to this Assignment.

6. Governing Law. This Assignment shall be governed by, interpreted under, and construed and enforceable in accordance with, the laws of the State of California.

IN WITNESS WHEREOF, Assignor and Assignee have caused this General Assignment to be executed as of the Assignment Date.

"Assignor"

TEJON INDUSTRIAL CORP.,
a California corporation

By:_____
Name: _____
Its: _____

"Assignee"

TRC-MRC 3, LLC,
a Delaware limited liability company

By:_____
Name: _____
Its: _____

EXHIBIT "A"

LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE UNINCORPORATED AREA OF THE COUNTY OF KERN, STATE OF CALIFORNIA AND IS DESCRIBED AS FOLLOWS:

[Drafting Note: To be provided by Tejon and attached to this Agreement on or before December 1, 2018.]

EXHIBIT "B"

LIST OF INTANGIBLE PERSONAL PROPERTY

[To be provided by Tejon]

EXHIBIT "I"

FORM OF NOTICE AND ACKNOWLEDGMENT

WHEN RECORDED MAIL TO:

Clerk, Board of Supervisors
Kern County Administrative Center
1114 Truxton Avenue
Bakersfield, CA 93301

(Above Space for Recorder's Use Only)

NOTIFICATION, ACKNOWLEDGMENT AND ASSIGNMENT AGREEMENT

This NOTIFICATION, ACKNOWLEDGMENT and ASSIGNMENT AGREEMENT ("**Assignment Agreement**") is entered into to be effective on _____, 2019, by and among the COUNTY OF KERN ("**County**"), TEJON INDUSTRIAL CORP., a California corporation ("**TIC**") and TRC-MRC 3, LLC, a Delaware limited liability company ("**Assignee**"). County, TIC and Assignee are sometimes referred to individually herein as a "**Party**" and collectively as the "**Parties**."

RECITALS:

A. County and TIC have previously entered into that certain Development Agreement between the County of Kern and Tejon Industrial Corp. ("**Development Agreement**") dated November 18, 2005, approved by the County Board of Supervisors by Ordinance G-7311 on _____ **[Drafting Note: Tejon to provide date.]**, to be effective on _____ **[Drafting Note: Tejon to provide date.]**, and recorded on November 17, 2005, as Document No. 0205321293, Kern County Official Records, as amended by that certain unrecorded letter dated December 27, 2011, from the County of Kern to Tejon Ranchcorp, a California corporation.

B. TIC is the Master Developer of the Tejon Ranch Commerce Center ("**Property**"). TIC desires to sell and transfer to Assignee a fee simple interest in the real property described on Exhibit "A" attached hereto ("**Assigned Parcel**") consisting of approximately thirty-four and 85/100ths (34.85) gross acres.

C. Section _____ of the Development Agreement ("Agreement" therein) refers to TIC as "OWNER" and provides in part that:

> "The sale, transfer, lease or assignment of any right or interest under this Agreement shall be made only together with the sale, transfer, ground lease or assignment of all or a part of the Property. Concurrently with any such sale, transfer, ground lease or assignment, or as soon as practicable thereafter, but prior to the issuance of a Construction Permit and PD Modification to an End-User, OWNER shall (i) notify COUNTY in writing of such sale, transfer or assignment; (ii) shall provide COUNTY with a copy of a separate acknowledgment from the Assignee evidencing to COUNTY's sole

satisfaction that the Assignee is aware of and intends to honor its obligations under this Agreement; and (iii) shall at the same time provide COUNTY with an executed agreement, in a form acceptable to COUNTY, by the Assignee providing therein that the Assignee also expressly and unconditionally assumes all the duties and obligations of OWNER in this Agreement with respect to the Parcel or Parcels so sold, transferred, ground leased or assigned."

D. Section _____ of the Development Agreement additionally provides that upon the sale or transfer of a parcel of the Property, the burdens of the Development Agreement are binding upon the Assignee, but the benefits shall not inure to the Assignee until the agreement required by Section _____ is executed. Additionally, upon compliance with the provisions of Section _____ and upon request, the County shall provide the Assignee with a Compliance Certificate stating that the Development Agreement remains valid and in full force and effect and is binding upon the County, TIC and the Assignee.

E. The Parties desire to enter into this Assignment Agreement in order to satisfy and fulfill their respective obligations under Section _____ of the Development Agreement.

NOW, THEREFORE, in consideration of the above recitals and the mutual covenants hereinafter contained and for other good and valuable consideration, the receipt and sufficiency which is hereby acknowledged, the Parties agree as follows:

1. Acknowledgment of Notification

By executing this Assignment Agreement, County acknowledges that TIC has satisfied the notification requirements set forth in Section _____ of the Development Agreement.

2. Acknowledgment and Assumption of Obligations by Assignee

Assignee hereby acknowledges that it has reviewed, is aware of and intends to honor its obligations with respect to the development of the Assigned Parcel pursuant to the terms of the Development Agreement, and additionally expressly and unconditionally assumes all of the duties and obligations of TIC under the Development Agreement with respect to such Assigned Parcel first arising after the date hereof.

3. Continuing Obligations of TIC

TIC acknowledges that pursuant to Section _____ of the Development Agreement, it shall continue to be obligated under the Development Agreement with respect to all portions of the Property retained by TIC and with respect to the installation of all infrastructure improvements to be installed pursuant to the Conditions of Approval for the TIC Development Approvals (as defined in the Development Agreement) as well as the provisions of Section 4 of the Development Agreement.

4. Acknowledgment by County and Compliance Certificate

County acknowledges that by the approval and execution of this Assignment Agreement, TIC and Assignee have fully satisfied and complied with the provisions of Section _____ of the Development Agreement. Approval and execution of this Assignment Agreement by County shall

constitute the Compliance Certificate issued by County contemplated by Section _____ of the Development Agreement, and County states that the Development Agreement remains valid and in full force and effect and is binding upon the County, TIC and Assignee.

COUNTY OF KERN

By:_____
Chairman, Board of Supervisors

APPROVED AS TO CONTENT:
Planning & Development Services

By:_____
Director

APPROVED AS TO FORM:
Office of the County Counsel

By:_____
Deputy

TEJON INDUSTRIAL CORP.,
a California corporation

By:_____
Name:_____
Its:_____

By:_____
Name:_____
Its:_____

TRC-MRC 3, LLC,
a Delaware limited liability company

By:_____
Name:_____
Its:_____

By:_____
Name:_____
Its:_____

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Kern)

On _____, before me, _____,
(insert name of notary)
Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature_____ (Seal)

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Kern)

On _____, before me, _____,
(insert name of notary)
Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature_____ (Seal)

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of Kern)

On _____, before me, _____,
(insert name of notary)
Notary Public, personally appeared _____,
who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature_____ (Seal)

EXHIBIT "J"

ENVIRONMENTAL REPORTS

[To be provided by Tejon and attached to this Agreement on or before December 1, 2018.]

CONTRIBUTION AGREEMENT
AND JOINT ESCROW INSTRUCTIONS

between

TEJON INDUSTRIAL CORP.,
a California corporation,

as Contributor

and

TRC-MRC 3, LLC,
a Delaware limited liability company,

as Company

TABLE OF CONTENTS

Exhibits:

INDEX

Page(s)

Page(s)

EXHIBIT "E"

CONSTRUCTION CONTRACT

[To Be Provided]

AIA® Document A141™ – 2014

Standard Form of Agreement Between Owner and Design-Builder

AGREEMENT made as of the31st day of October in the year 2018

BETWEEN the Owner:

TRC-MRC 3, LLC
a Delaware limited liability company
13191 Crossroads Parkway North, 6th Floor
City of Industry, CA 91764

and the Design-Builder:

Commerce Construction Co. , L.P.
13191 Crossroads Parkway North, 6th Floor
City of Industry, CA 91764

for the following Project:

Majestic Tejon 3 Job #13080
Wheeler Ridge, Tejon Ranch, California
An approximately 34 gross acres and sf is 579,040

The Owner and Design-Builder agree as follows.

ADDITIONS AND DELETIONS:
The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed. A vertical line in the left margin of this document indicates where the author has added necessary information and where the author has added to or deleted from the original AIA text.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

Consultation with an attorney is also encouraged with respect to professional licensing requirements in the jurisdiction where the Project is located.

TABLE OF ARTICLES

TABLE OF EXHIBITS

ARTICLE 1 GENERAL PROVISIONS

§ 1.1 Owner's Criteria – Paragraph Deleted

(Paragraph deleted)

§ 1.1.1 – Paragraph Deleted

§ 1.1.2 – The Owner's design requirements for the Project and related documentation:

See attached Exhibit D – Building Outline Specifications and Exhibit F – List of Drawings.

N/A

§ 1.1.3 – The Project's physical characteristics:

(Paragraph deleted)
An approximately 579,040 square foot cross dock industrial warehouse building situated on approximately 34 gross acres and approximately 33 net acres

§ 1.1.4 - Paragraph Deleted

N/A

§ 1.1.5
(Paragraphs deleted)
- Paragraph Deleted

§ 1.1.6 - The Owner's budget for the Work to be provided by the Design-Builder is set forth below:

See Exhibit A

N/A

§ 1.1.7 - The Owner's design and construction milestone dates: See Exhibit A

.1

N/A

.2 :

N/A

.3

N/A

.4

N/A

.5

N/A

§ 1.1.8 – The Owner requires the Design-Builder to retain the following Consultants (if necessary) at the Design-Builder's cost:

.1 Consultants:

Geotechnical/Testing/Special Inspections SEI Soils Engineering
Civil Engineering – McIntosh and Associates
Surveying – McIntosh and Associates
Traffic Engineering – Advantec Consulting Engineers
Cultural Assessments – W&S Consultants
Biological Assessments – Dudek
Petroleum Engineering – PetroTECH Resources

§ 1.1.9 – Additional Owner's Criterial upon which the Agreement is based:
N/A

§ 1.1.10 - The Design-Builder shall confirm that the information included in the Owner's Criteria complies with applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities.

§ 1.1.10.1 - If the Owner's Criteria conflicts with applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities, the Design-Builder shall notify the Owner of the conflict.

§ 1.1.11 - If there is a change in the Owner's Criteria, the Owner and the Design-Builder shall execute a Modification in accordance with Article 6.

§ 1.1.12 - Paragraph Deleted

§ 1.2 Project Team

§ 1.2.1 The Owner identifies the following representative in accordance with Section 7.1.1:

Tom Simmons
Vice President
Majestic Realty Co.
13191 Crossroads Parkway North, 6th Floor
City of Industry, CA 91746
(562) 948-4347 Office Phone

§ 1.2.2 The persons or entities, in addition to the Owner's representative, who are required to review the Design-Builder's Submittals are as follows:

Joe Rentfro
Vice President
Tejon Ranch Company
4436 Lebec Road
Tejon Ranch, CA 93243
(661) 663-4207 Office Phone

§ 1.2.3 The Owner will retain the following consultants and separate contractors:

§ 1.2.4 The Design-Builder identifies the following representative in accordance with Section 3.1.2:

Matthew Vawter
District Manager
Commerce Construction Co., L.P.
13191 Crossroads Parkway North, 6th Floor
City of Industry, CA 91746
(562) 948-4395

§ 1.2.5 Neither the Owner's nor the Design-Builder's representative shall be changed without ten (10 days' written notice to the other party.

§ 1.3 Binding Dispute Resolution

For any Claim not otherwise resolved under Sections 14.1, 14.2, or 14.3, the method of binding dispute resolution shall be the following:

(Check the appropriate box. If the Owner and Design-Builder do not select a method of binding dispute resolution below, or do not subsequently agree in writing to a binding dispute resolution other than litigation, Claims will be resolved by litigation in a court of competent jurisdiction.)

[X] Arbitration pursuant to Section 14.4

[ ] Litigation in a court of competent jurisdiction

[ ] Other: *(Specify)*

§ 1.4 Definitions

§ 1.4.1 Design-Build Documents. The Design-Build Documents consist of this Agreement between Owner and Design-Builder and its attached Exhibits (hereinafter, the "Agreement"); other documents listed in this Agreement; and Modifications issued after execution of this Agreement. A Modification is (1) a written amendment to the Contract signed by both parties, including the Design-Build Amendment, (2) a Change Order, or (3) a Change Directive.

§ 1.4.2 The Contract. The Design-Build Documents form the Contract. The Contract represents the entire and integrated agreement between the parties and supersedes prior negotiations, representations or agreements, either written or oral. The Contract may be amended or modified only by a Modification. The Design-Build Documents shall not be construed to create a contractual relationship of any kind between any persons or entities other than the Owner and the Design-Builder.

§ 1.4.3 The Work. The term "Work" means the design, construction and related services required to fulfill the Design-Builder's obligations under the Design-Build Documents, whether completed or partially completed, and includes all labor, materials, equipment and services provided or to be provided by the Design-Builder. The Work may constitute the whole or a part of the Project.

§ 1.4.4 The Project. The Project is the total design and construction of which the Work performed under the Design-Build Documents may be the whole or a part, and may include design and construction by the Owner and by separate contractors.

§ 1.4.5 Instruments of Service. Instruments of Service are representations, in any medium of expression now known or later developed, of the tangible and intangible creative work performed by the Design-Builder, Contractor(s), Architect, and Consultant(s) under their respective agreements. Instruments of Service may include, without limitation, studies, surveys, models, sketches, drawings, specifications, digital models and other similar materials.

§ 1.4.6 Submittal. A Submittal is any submission to the Owner for review and approval demonstrating how the Design-Builder proposes to conform to the Design-Build Documents for those portions of the Work for which the Design-Build Documents require Submittals. Submittals include, but are not limited to, shop drawings, product data, and samples. Submittals are not Design-Build Documents unless incorporated into a Modification.

§ 1.4.7 Owner. The Owner is the person or entity identified as such in the Agreement and is referred to throughout the Design-Build Documents as if singular in number. The term "Owner" means the Owner or the Owner's authorized representative.

§ 1.4.8 Design-Builder. The Design-Builder is the person or entity identified as such in the Agreement and is referred to throughout the Design-Build Documents as if singular in number. The term "Design-Builder" means the Design-Builder or the Design-Builder's authorized representative.

§ 1.4.9 Consultant. A Consultant is a person or entity providing professional services for the Design-Builder for all or a portion of the Work, and is referred to throughout the Design-Build Documents as if singular in number. To the extent

required by the relevant jurisdiction, the Consultant shall be lawfully licensed to provide the required professional services.

§ 1.4.10 Architect. The Architect is a person or entity providing design services for the Design-Builder for all or a portion of the Work, and is lawfully licensed to practice architecture in the applicable jurisdiction. The Architect is referred to throughout the Design-Build Documents as if singular in number.

§ 1.4.11 Contractor. A Contractor is a person or entity performing all or a portion of the construction, required in connection with the Work, for the Design-Builder. The Contractor shall be lawfully licensed, if required in the jurisdiction where the Project is located. The Contractor is referred to throughout the Design-Build Documents as if singular in number and means a Contractor or an authorized representative of the Contractor.

§ 1.4.12 Confidential Information. Confidential Information is information containing confidential or business proprietary information that is clearly marked as "confidential."

§ 1.4.13 Contract Time. Unless otherwise provided, Contract Time is the period of time, including authorized adjustments, as set forth in the Design-Build Amendment for Substantial Completion of the Work.

§ 1.4.14 Day. The term "day" as used in the Design-Build Documents shall mean calendar day unless otherwise specifically defined.

§ 1.4.15 Contract Sum. The Contract Sum is the amount to be paid to the Design-Builder for performance of the Work after execution of the Design-Build Amendment, as identified in Article A.1 of the Design-Build Amendment.

(Paragraph deleted)

ARTICLE 2 COMPENSATION AND PROGRESS PAYMENTS

§ 2.1 Compensation for Work Performed Prior To Execution of Design-Build Amendment

§ 2.1.1 Unless otherwise agreed, payments for Work performed prior to Execution of the Design-Build Amendment shall be made monthly. For the Design-Builder's performance of Work prior to the execution of the Design-Build Amendment, the Owner shall compensate the Design-Builder as follows: Owner shall compensate Design-Builder for architectural and structural engineering services rendered by Design-Builder and its Consultants and Engineers prior to Execution of the Design-Build Amendment if Owner ultimately decides to forego the construction phase services contemplated within the Design-Build Amendment. The limit of the compensation for the architectural and structural engineering services shall be no more than two and one half (2.50%) percent of the Cost of the Work, as further defined in the Design-Build Amendment. Owner shall also be responsible for the actual cost of other Consultants hired by Design-Builder for services rendered in connection with this Agreement.

(Insert amount of, or basis for, compensation, including compensation for any Sustainability Services, or indicate the exhibit in which the information is provided. If there will be a limit on the total amount of compensation for Work performed prior to the execution of the Design-Build Amendment, state the amount of the limit.)

§ 2.1.2 The hourly billing rates for services of the Design-Builder and the Design-Builder's Architect, Consultants and Contractors, if any, are set forth below.

(If applicable, attach an exhibit of hourly billing rates or insert them below.)

Individual or Position	Rate

§ 2.1.3 Compensation for Reimbursable Expenses Prior To Execution of Design-Build Amendment

§ 2.1.3.1 Reimbursable Expenses are in addition to compensation set forth in Section 2.1.1 and 2.1.2 and include expenses, directly related to the Project, incurred by the Design-Builder and the Design-Builder's Architect, Consultants, and Contractors, as follows:

.1 Transportation and authorized out-of-town travel and subsistence;

.2 Dedicated data and communication services, teleconferences, Project web sites, and extranets;

.3 Fees paid for securing approval of authorities having jurisdiction over the Project;
.4 Printing, reproductions, plots, standard form documents;
.5 Postage, handling and delivery;
.6 Expense of overtime work requiring higher than regular rates, if authorized in advance by the Owner;
.7 Renderings, physical models, mock-ups, professional photography, and presentation materials requested by the Owner;
.8 All taxes levied on professional services and on reimbursable expenses; and
.9 Other Project-related expenditures, if authorized in advance by the Owner.

§ 2.1.3.2 For Reimbursable Expenses, the compensation shall be the expenses the Design-Builder and the Design-Builder's Architect, Consultants and Contractors incurred, plus an administrative fee of percent (%) of the expenses incurred. See Exhibit A

§ 2.1.4 Payments to the Design-Builder Prior To Execution of Design-Build Amendment

§ 2.1.4.1 Payments are due and payable upon presentation of the Design-Builder's invoice. Amounts unpaid ( ) days after the invoice date shall bear interest at the rate entered below, or in the absence thereof at the legal rate prevailing from time to time at the principal place of business of the Design-Builder.
(Insert rate of monthly or annual interest agreed upon.)

0.50% per month

§ 2.1.4.2 Records of Reimbursable Expenses and services performed on the basis of hourly rates shall be available to the Owner at mutually convenient times for a period of two years following execution of the Design-Build Amendment or termination of this Agreement, whichever occurs first.

§ 2.2 Contract Sum and Payment for Work Performed After Execution of Design-Build Amendment

For the Design-Builder's performance of the Work after execution of the Design-Build Amendment, the Owner shall pay to the Design-Builder the Contract Sum in current funds as agreed in the Design-Build Amendment.

(Paragraph deleted)

ARTICLE 3 GENERAL REQUIREMENTS OF THE WORK OF THE DESIGN-BUILD CONTRACT

§ 3.1 General

§ 3.1.1 The Design-Builder shall comply with any applicable licensing requirements in the jurisdiction where the Project is located.

§ 3.1.2 The Design-Builder shall designate in writing a representative who is authorized to act on the Design-Builder's behalf with respect to the Project.

§ 3.1.3 The Design-Builder shall perform the Work in accordance with the Design-Build Documents. The Design-Builder shall not be relieved of the obligation to perform the Work in accordance with the Design-Build Documents by the activities, tests, inspections or approvals of the Owner, although extensions of time shall reasonably be granted in the event of delays caused by such activities.

§ 3.1.3.1 The Design-Builder shall perform the Work in compliance with applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities. If the Design-Builder performs Work contrary to applicable laws, statutes, ordinances, codes, rules and regulations, and lawful orders of public authorities, the Design-Builder shall assume responsibility for such Work and shall bear the costs attributable to correction.

§ 3.1.3.2 Neither the Design-Builder nor any Contractor, Consultant, or Architect shall be obligated to perform any act which they believe will violate any applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities. If the Design-Builder determines that implementation of any instruction received from the Owner, including those in the Owner's Criteria, would cause a violation of any applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities, the Design-Builder shall notify the Owner in writing. Upon verification by the Owner that a change to the Owner's Criteria is required to remedy the violation, the Owner and the Design-Builder shall execute a Modification in accordance with Article 6. In the event it is found that implementation would not violate any laws, statutes, ordinances, codes, rules, regulations, or lawful orders of public

authorities, it shall be the Design-Builder's responsibility to maintain the contract schedule at no additional cost to the Owner.

§ 3.1.4 The Design-Builder shall be responsible to the Owner for acts and omissions of the Design-Builder's employees, Architect, Consultants, Contractors, and their agents and employees, and other persons or entities performing portions of the Work, to the extent the Architect, Consultant, and Contractor are employees of Design-Builder.

§ 3.1.5 General Consultation. The Design-Builder shall schedule and conduct periodic meetings with the Owner to review matters such as procedures, progress, coordination, and scheduling of the Work.

§ 3.1.6 When applicable law requires that services be performed by licensed professionals, the Design-Builder shall provide those services through qualified, licensed professionals. The Owner understands and agrees that the services of the Design-Builder's Architect and the Design-Builder's other Consultants are performed in the sole interest of, and for the exclusive benefit of, the Design-Builder.

§ 3.1.7 The Design-Builder, with the assistance of the Owner, shall prepare and file documents required to obtain necessary approvals of governmental authorities having jurisdiction over the Project.

§ 3.1.8 Progress Reports

§ 3.1.8.1 The Design-Builder shall keep the Owner informed of the progress and quality of the Work. On a monthly basis, or otherwise as agreed to by the Owner and Design-Builder, the Design-Builder may submit written progress reports to the Owner.

.1 Work Completed for the period;
.2 Project schedule status;
.3 Submittal schedule and status report, including a summary of outstanding Submittals;
.4 Responses to requests for information to be provided by the Owner;
.5 Approved Change Orders and Change Directives;
.6 Pending Change Order and Change Directive status reports;
.7 Tests and inspection reports;
.8 Status report of Work rejected by the Owner
.9 Status of Claims previously submitted in accordance with Article 14
.10 Cumulative total of the Cost of the Work to date including the Design-Builder's compensation and Reimbursable Expenses, if any;
.11 Current Project cash-flow and forecast reports; and
.12 Additional information as agreed to by the Owner and Design-Builder

§ 3.1.8.2

(Paragraphs deleted)

- Paragraph Deleted

§ 3.1.9 Design-Builder's Schedules

§ 3.1.9.1

§ 3.1.9.2 The Design-Builder shall perform the Work in general accordance with the schedule as outlined in 1.1.7.1 or the most most recent schedules submitted to and approved by the Owner.

§ 3.1.10 Certifications. Upon the Owner's written request, the Design-Builder shall obtain from the Architect, Consultants, and Contractors, and furnish to the Owner, certifications with respect to the documents and services provided by the Architect, Consultants, and Contractors (a) that, to the best of their knowledge, information and belief, the documents or services to which the certifications relate (i) are consistent with the Design-Build Documents, except to the extent specifically identified in the certificate, and (ii) comply with applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of public authorities governing the design of the Project; and (b) that the Owner and its consultants shall be entitled to rely upon the accuracy of the representations and statements contained in the certifications. The Design-Builder's Architect, Consultants, and Contractors shall not be required to execute certificates or consents that would require knowledge, services or responsibilities beyond the scope of their services.

§ 3.1.11 Design-Builder's Submittals

§ 3.1.11.1 Prior to submission of any Submittals, the Design-Builder shall prepare a Submittal schedule, and shall submit the schedule for the Owner's approval, if requested by the Owner. The Owner's approval shall not unreasonably be delayed or withheld. The Submittal schedule shall (1) be coordinated with the Design-Builder's schedule provided in Section 3.1.9.1, (2) allow the Owner reasonable time to review Submittals, and (3) be periodically updated to reflect the progress of the Work. If the Design-Builder fails to submit a Submittal schedule, the Design-Builder shall not be entitled to any increase in Contract Sum or extension of Contract Time based on the time required for review of Submittals.

§ 3.1.11.2 By providing Submittals the Design-Builder represents to the Owner that it has (1) reviewed and approved them, (2) determined and verified materials, field measurements and field construction criteria related thereto, or will do so and (3) checked and coordinated the information contained within such Submittals with the requirements of the Work and of the Design-Build Documents.

§ 3.1.11.3 The Design-Builder shall perform no portion of the Work for which the Design-Build Documents require Submittals until the Owner has approved the respective Submittal.

§ 3.1.11.4 The Work shall be in accordance with approved Submittals except that the Design-Builder shall not be relieved of its responsibility to perform the Work consistent with the requirements of the Design-Build Documents. The Work may deviate from the Design-Build Documents only if the Design-Builder has notified the Owner in writing of a deviation from the Design-Build Documents at the time of the Submittal and a Modification is executed authorizing the identified deviation. The Design-Builder shall not be relieved of responsibility for errors or omissions in Submittals by the Owner's approval of the Submittals.

§ 3.1.11.5 All professional design services or certifications to be provided by the Design-Builder, including all drawings, calculations, specifications, certifications, shop drawings and other Submittals, shall contain the signature and seal of the licensed design professional preparing them. Submittals related to the Work designed or certified by the licensed design professionals, if prepared by others, shall bear the licensed design professional's written approval. The Owner and its consultants shall be entitled to rely upon the adequacy, accuracy and completeness of the services, certifications or approvals performed by such design professionals.

§ 3.1.12 Warranty. The Design-Builder warrants to the Owner that materials and equipment furnished under the Contract will be of good quality and new unless the Design-Build Documents require or permit otherwise. The Design-Builder further warrants that the Work will conform to the requirements of the Design-Build Documents and will be free from patent and latent defects, except for those inherent in the quality of the Work or otherwise expressly permitted by the Design-Build Documents. Work, materials, or equipment not conforming to these requirements may be considered defective. The Design-Builder's warranty excludes remedy for damage or defect caused by abuse, alterations to the Work not executed by the Design-Builder, improper or insufficient maintenance, improper operation, normal wear and tear and normal usage, and damages caused by Owner's Contractors or Tenants performing work as authorized and coordinated by Owner and Design-Builder (Design Builder shall be required to protect any work performed out of sequence that may be subject to damage, due to being performed out of sequence, by Owner's scheduled work). If required by the Owner, the Design-Builder shall furnish satisfactory evidence as to the kind and quality of materials and equipment. Unless provided otherwise by law or outlined in Design-Build criteria, Design-Builder warrants work for one year. Material and equipment warranties shall be as provided by manufacturers and a minimum of one year.

§ 3.1.13 Royalties, Patents and Copyrights

§ 3.1.13.1 The Design-Builder shall pay all royalties and license fees.

§ 3.1.13.2 The Design-Builder shall defend suits or claims for infringement of copyrights and patent rights to the extent such suits or claims arise out of or relate to the Work, and shall hold the Owner and its separate contractors and consultants harmless from loss on account thereof. The Design-Builder shall not be responsible for such defense or loss when a particular design, process or product of a particular manufacturer or manufacturers is required by the Owner, or where the copyright violations are required in the Owner's Criteria. However, if the Design-Builder has reason to believe that the design, process or product required in the Owner's Criteria is an infringement of a copyright or a patent, the Design-Builder shall be responsible for such loss unless such information is promptly furnished to the Owner. If the Owner receives notice from a patent or copyright owner of an alleged violation of a patent or copyright,

attributable to the Design-Builder, the Owner shall give prompt written notice to the Design-Builder within fifteen (15) days.

§ 3.1.14 Indemnification

§ 3.1.14.1 To the fullest extent permitted by law, the Design-Builder shall indemnify and hold harmless the Owner, including the Owner's agents, shareholders, partners, joint venturers, officers, directors, managers, representatives and employees, from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Work, except to the extent where injury or death of any person or damage to or loss of property was caused by the active or sole negligence, or willful misconduct, of the party to be indemnified. Such obligation shall not be construed to negate, abridge, or reduce other rights or obligations of indemnity that would otherwise exist as to a party or person described in this Section 3.1.14.

§ 3.1.14.2 The indemnification obligation under this Section 3.1.14 shall not be limited by a limitation on amount or type of damages, compensation, or benefits payable by or for Design-Builder, Architect, a Consultant, a Contractor, or anyone directly or indirectly employed by them, under workers' compensation acts, disability benefit acts or other employee benefit acts.

§ 3.1.15 Contingent Assignment of Agreements

§ 3.1.15.1 Each agreement for a portion of the Work is assigned by the Design-Builder to the Owner at Owner's sole option and request, provided that

.1 assignment is effective only after termination of the Contract by the Owner for cause, pursuant to Sections 13.1.4 or 13.2.2, and only for those agreements that the Owner accepts by written notification to the Design-Builder and the Architect, Consultants, and Contractors whose agreements are accepted for assignment; and

.2 assignment is subject to the prior rights of the surety, if any, obligated under bond relating to the Contract.

When the Owner accepts the assignment of an agreement, the Owner assumes the Design-Builder's rights from the original date of the agreement and rights and obligations from the date of the assignment.

§ 3.1.15.2

§ 3.1.15.3

§ 3.1.16 Design-Builder's Insurance and Bonds. The Design-Builder shall purchase and maintain insurance and provide bonds as set forth in Exhibit B.

(Paragraph deleted)

ARTICLE 4 WORK PRIOR TO EXECUTION OF THE DESIGN-BUILD AMENDMENT (If applicable)

§ 4.1 General

§ 4.1.1 Any information submitted by the Design-Builder, and any interim decisions made by the Owner, shall be for the purpose of facilitating the design process and shall not modify the Owner's Criteria unless the Owner and Design-Builder execute a Modification.

§ 4.1.2 The Design-Builder may advise the Owner on proposed site use and improvements, selection of materials, and building systems and equipment. The Design-Builder shall also provide the Owner with recommendations, consistent with the Owner's Criteria, on constructability; availability of materials and labor; time requirements for procurement, installation and construction; and factors related to construction cost including, but not limited to, costs of alternative designs or materials, preliminary budgets, life-cycle data, and possible cost reductions.

§ 4.2 Evaluation of the Owner's Criteria

§ 4.2.1 The Design-Builder may schedule and conduct meetings with the Owner and any other necessary individuals or entities to discuss and review the Owner's Criteria as set forth in Section 1.1.The Design-Builder shall thereafter again meet with the Owner to discuss a preliminary evaluation of the Owner's Criteria. The preliminary evaluation shall address possible alternative approaches to design and construction of the Project and include the Design-Builder's recommendations, if any, with regard to accelerated or fast-track scheduling, procurement, or phased construction.

The preliminary evaluation shall consider cost information, constructability, and procurement and construction scheduling issues.

§ 4.2.2 After the Design-Builder meets with the Owner and presents the preliminary evaluation, the Design-Builder shall provide a written report to the Owner, summarizing the Design-Builder's evaluation of the Owner's Criteria. The report shall also include

.1 allocations of program functions, detailing each function and their square foot areas;

.2 a preliminary estimate of the Cost of the Work, and, if necessary, recommendations to adjust the Owner's Criteria to conform to the Owner's budget;

.3 a preliminary schedule, which shall include proposed design milestones; dates for receiving additional information from, or for work to be completed by, the Owner; anticipated date for the Design-Builder's Proposal; and dates of periodic design review sessions with the Owner; and

.4 the following:
(List additional information, if any, to be included in the Design-Builder's written report.)

§ 4.2.3 The Owner shall review the Design-Builder's written report and, if acceptable, provide the Design-Builder with written consent to proceed to the development of the Preliminary Design as described in Section 4.3. The consent to proceed shall not be understood to modify the Owner's Criteria unless the Owner and Design-Builder execute a Modification.

§ 4.3 Preliminary Design

§ 4.3.1 Upon the Owner's issuance of a written consent to proceed under Section 4.2.3, the Design-Builder shall prepare and submit a Preliminary Design to the Owner. The Preliminary Design shall include a report identifying any deviations from the Owner's Criteria, and shall include the following:

.1 Confirmation of the allocations of program functions;

.2 Site plan;

.3 Building plans, sections and elevations;

.4 Structural system;

.5 Selections of major building systems, including but not limited to mechanical, electrical and plumbing systems; and

.6 Outline specifications or sufficient drawing notes describing construction materials.

The Preliminary Design may include some combination of physical study models, perspective sketches, or digital modeling.

§ 4.3.2 The Owner shall review the Preliminary Design and, if acceptable, provide the Design-Builder with written consent to proceed to development of the Design-Builder's Proposal. The Preliminary Design shall not modify the Owner's Criteria unless the Owner and Design-Builder execute a Modification.

§ 4.4 Design-Builder's Proposal

§ 4.4.1 Upon the Owner's issuance of a written consent to proceed under Section 4.3.2, the Design-Builder shall prepare and submit the Design-Builder's Proposal to the Owner. The Design-Builder's Proposal shall include the following:

.1 A list of the Preliminary Design documents and other information, including the Design-Builder's clarifications, assumptions and deviations from the Owner's Criteria, upon which the Design-Builder's Proposal is based;

.2 The proposed Contract Sum, including the compensation method and, if based upon the Cost of the Work plus a fee, a written statement of estimated cost organized by trade categories, allowances, contingencies, Design-Builder's Fee, and other items that comprise the Contract Sum;

.3 The proposed date the Design-Builder shall achieve Substantial Completion;

.4 An enumeration of any qualifications and exclusions, if applicable;

.5 A list of the Design-Builder's key personnel, Contractors and suppliers; and

.6 The date on which the Design-Builder's Proposal expires.

§ 4.4.2 Submission of the Design-Builder's Proposal shall constitute a representation by the Design-Builder that it has visited the site and become familiar with reasonably known local conditions under which the Work is to be completed.

§ 4.4.3 If the Owner and Design-Builder agree on a proposal, the Owner and Design-Builder shall execute the Design-Build Amendment setting forth the terms of their agreement.

(Paragraph deleted)

ARTICLE 5 WORK FOLLOWING EXECUTION OF THE DESIGN-BUILD AMENDMENT

§ 5.1 Construction Documents

§ 5.1.1 Upon the execution of the Design-Build Amendment, the Design-Builder shall prepare Construction Documents. The Construction Documents shall establish the quality levels of materials and systems required. The Construction Documents shall be consistent with the Design-Build Documents.

§ 5.1.2 The Design-Builder shall provide the Construction Documents to the Owner for the Owner's information. If the Owner discovers any deviations between the Construction Documents and the Design-Build Documents, the Owner shall promptly notify the Design-Builder of such deviations in writing. The Construction Documents shall not modify the Design-Build Documents unless the Owner and Design-Builder execute a Modification. The failure of the Owner to discover any such deviations shall not relieve the Design-Builder of the obligation to perform the Work in accordance with the Design-Build Documents.

§ 5.2 Construction

§ 5.2.1 **Commencement.** Except as permitted in Section 5.2.2, construction shall not commence prior to execution of the Design-Build Amendment.

§ 5.2.2 If the Owner and Design-Builder agree in writing, construction may proceed prior to the execution of the Design-Build Amendment. However, such authorization shall not waive the Owner's right to reject the Design-Builder's Proposal.

§ 5.2.3 The Design-Builder shall supervise and direct the Work, using the Design-Builder's best skill and attention. The Design-Builder shall be solely responsible for, and have control over, construction means, methods, techniques, sequences and procedures, and for coordinating all portions of the Work under the Contract, unless the Design-Build Documents give other specific instructions concerning these matters. Design-Builder shall also be responsible for all project safety, safety plans and implementation, and job site safety and oversight.

§ 5.2.4 The Design-Builder shall be responsible for inspection of portions of Work already performed to determine that such portions are in proper condition to receive subsequent Work.

§ 5.3 Labor and Materials

§ 5.3.1 Unless otherwise provided in the Design-Build Documents, the Design-Builder shall provide and pay for labor, materials, equipment, tools, construction equipment and machinery, water, heat, utilities, transportation, and other facilities and services, necessary for proper execution and completion of the Work, whether temporary or permanent, and whether or not incorporated or to be incorporated in the Work.

§ 5.3.2 When a material or system is specified in the Design-Build Documents, the Design-Builder may make substitutions only in accordance with Article 6.

§ 5.3.3 The Design-Builder shall enforce strict discipline and good order among the Design-Builder's employees and other persons carrying out the Work. The Design-Builder shall not permit employment of unfit persons or persons not properly skilled in tasks assigned to them.

§ 5.4 Taxes

The Design-Builder shall pay sales, consumer, use and similar taxes, for the Work provided by the Design-Builder, that are legally enacted when the Design-Build Amendment is executed, whether or not yet effective or merely scheduled to go into effect.

§ 5.5 Permits, Fees, Notices and Compliance with Laws

§ 5.5.1 Unless otherwise provided in the Design-Build Documents, the Design-Builder shall secure and pay for the building permit as well as any other permits, fees, licenses, and inspections by government agencies, necessary for proper execution of the Work and Substantial Completion of the Project.

§ 5.5.2 The Design-Builder shall comply with and give notices required by applicable laws, statutes, ordinances, codes, rules and regulations, and lawful orders of public authorities, applicable to performance of the Work.

§ 5.5.3 Concealed or Unknown Conditions. If the Design-Builder encounters conditions at the site that are (1) subsurface or otherwise concealed physical conditions that differ materially from those indicated in the Design-Build Documents or (2) unknown physical conditions of an unusual nature that differ materially from those ordinarily found to exist and generally recognized as inherent in construction activities of the character provided for in the Design-Build Documents, the Design-Builder shall promptly provide notice to the Owner before conditions are disturbed and in no event later than 10 days after first observance of the conditions. The Owner shall promptly investigate such conditions and, if the Owner determines that they differ materially and cause an increase or decrease in the Design-Builder's cost of, or time required for, performance of any part of the Work, shall recommend in writing an equitable adjustment in the Contract Sum or Contract Time, or both. If the Owner determines that the conditions at the site are not materially different from those indicated in the Design-Build Documents and that no change in the terms of the Contract is justified, the Owner shall promptly notify the Design-Builder in writing, stating the reasons. If the Design-Builder disputes the Owner's determination or recommendation, the Design-Builder may proceed as provided in Article 14.

§ 5.5.4 If, in the course of the Work, the Design-Builder encounters human remains, or recognizes the existence of burial markers, archaeological sites, or wetlands, not indicated in the Design-Build Documents, the Design-Builder shall immediately suspend any operations that would affect them and shall notify the Owner. Upon receipt of such notice, the Owner shall promptly take any action necessary to obtain governmental authorization required to resume the operations. The Design-Builder shall continue to suspend such operations until otherwise instructed by the Owner but shall continue with all other operations that do not affect those remains or features. Reasonable extensions of time shall be granted for such conditions. In the event of a dispute, the parties shall pursue resolution as provided in Article 14. Requests for adjustments in the Contract Sum and Contract Time arising from the existence of such remains or features shall be granted or resolved as provided in Articles 8 and 14.

§ 5.6 Allowances

§ 5.6.1 The Design-Builder shall include in the Contract Sum all allowances stated in the Design-Build Documents. Items covered by allowances shall be supplied for such amounts, and by such persons or entities as the Owner may direct, but the Design-Builder shall not be required to employ persons or entities to whom the Design-Builder has reasonable objection.

§ 5.6.2 Unless otherwise provided in the Design-Build Documents,

.1 allowances shall cover the cost to the Design-Builder of materials and equipment delivered at the site and all required taxes, less applicable trade discounts;

.2 the Design-Builder's costs for unloading and handling at the site, labor, installation costs, overhead, profit, and other expenses contemplated for stated allowance amounts, shall be included in the allowances; and

.3 whenever costs are more than or less than allowances, the Contract Sum shall be adjusted accordingly by Change Order. The amount of the Change Order shall reflect (1) the difference between actual costs and the allowances under Section 5.6.2.1 and (2) changes in Design-Builder's costs under Section 5.6.2.2.

§ 5.6.3 The Owner shall make selections of materials and equipment with reasonable promptness for allowances requiring Owner selection. In the event the Owner causes delays in making such selections, the Design Builder shall be granted a reasonable extension of Contract Time, and any disputes regarding the same shall be resolved pursuant to Article 14.

§ 5.7 Key Personnel, Contractors and Suppliers

§ 5.7.1 The Design-Builder shall not employ personnel, or contract with Contractors or suppliers to whom the Owner has made reasonable and timely objection. The Design-Builder shall not be required to contract with anyone to whom the Design-Builder has made reasonable and timely objection.

§ 5.7.2 If the Design-Builder changes any of the personnel, Contractors or suppliers identified in the Design-Build Amendment, the Design-Builder shall notify the Owner and provide the name and qualifications of the new personnel, Contractor or supplier. The Owner shall reply within 14 days to the Design-Builder in writing, stating (1) whether the Owner has reasonable objection to the proposed personnel, Contractor or supplier or (2) that the Owner requires additional time to review. Failure of the Owner to reply within the 14-day period shall constitute notice of no reasonable objection.

§ 5.7.3 Except for those persons or entities already identified or required in the Design-Build Amendment, the Design-Builder, as soon as practicable after execution of the Design-Build Amendment, shall furnish in writing to the Owner the names of persons or entities (including those who are to furnish materials or equipment fabricated to a special design) proposed for each principal portion of the Work. The Owner may reply within 14 days to the Design-Builder in writing stating (1) whether the Owner has reasonable objection to any such proposed person or entity or (2) that the Owner requires additional time for review. Failure of the Owner to reply within the 14-day period shall constitute notice of no reasonable objection. Design-Builder shall make a good faith effort to secure 3 bids in all major trades.

§ 5.7.3.1 If the Owner has reasonable objection to a person or entity proposed by the Design-Builder, based on financial stability and/or capacity, safety record, ability to perform, past experience with person or entity, or second hand knowledge of either performance or business dealings by person or entity that deem the person or entity unqualified, the Design-Builder shall propose another to whom the Owner has no reasonable objection and the contract amount would remain unchanged. If Owner objects to a person or entity and the objection is not based on financial stability and/or capacity, safety record, ability to perform, past experience or second hand knowledge of either performance or business dealings, the Design-Builder shall proposed another to whom the Owner has no reasonable objection. If the rejected person or entity was reasonably capable of performing the Work, the Contract Sum shall be increased or decreased by the difference between low bidder and Owner selected bidder, if any, occasioned by such change, and an appropriate Change Order shall be issued before commencement of the substitute person or entity's Work. However, no increase in the Contract Sum or Contract Time shall be allowed for such change unless the Design-Builder has acted promptly and responsively in submitting names as required. Owner and Design-Builder shall execute an "Authorization to Proceed" form for each expenditure prior to Design-Builder contracting for work. This process will be the vehicle for Owner and Design-Builder to review bids, discuss objections and review proposed alternates.

§ 5.8 Documents and Submittals at the Site

The Design-Builder shall maintain at the site for the Owner one copy of the Design-Build Documents and a current set of the Construction Documents, in good order and marked currently to indicate field changes and selections made during construction, and one copy of approved Submittals. The Design-Builder shall deliver these items to the Owner in accordance with Section 9.10.2 as a record of the Work as constructed.

§ 5.9 Use of Site

The Design-Builder shall confine operations at the site to areas permitted by applicable laws, statutes, ordinances, codes, rules and regulations, lawful orders of public authorities, and the Design-Build Documents, and shall not unreasonably encumber the site with materials or equipment.

§ 5.10 Cutting and Patching

The Design-Builder shall not cut, patch or otherwise alter fully or partially completed construction by the Owner or a separate contractor except with written consent of the Owner and of such separate contractor; such consent shall not be unreasonably withheld. The Design-Builder shall not unreasonably withhold from the Owner or a separate contractor the Design-Builder's consent to cutting or otherwise altering the Work.

§ 5.11 Cleaning Up

§ 5.11.1 The Design-Builder shall keep the premises and surrounding area free from accumulation of waste materials or rubbish caused by operations under the Contract. At completion of the Work, the Design-Builder shall remove

waste materials, rubbish, the Design-Builder's tools, construction equipment, machinery and surplus materials from and about the Project.

§ 5.11.2 If the Design-Builder fails to clean up as provided in Section 5.11.1 within three (3) business days after receipt of written notice and an opportunity to cure from the Owner, the Owner may do so, and Owner shall be entitled to reimbursement from the Design-Builder.

§ 5.12 Access to Work

The Design-Builder shall provide the Owner and its separate contractors and consultants access to the Work in preparation and progress wherever located. The Design-Builder shall notify the Owner regarding Project safety criteria and programs, which the Owner, and its contractors and consultants, shall comply with while at the site.

§ 5.13 Construction by Owner or by Separate Contractors

§ 5.13.1 Owner's Right to Perform Construction and to Award Separate Contracts

§ 5.13.1.1 The Owner reserves the right to perform other construction or operations related to the Project with the Owner's own forces; and to award separate contracts in connection with other portions of the Project, or other construction or operations on the site, under terms and conditions identical or substantially similar to this Contract, including those terms and conditions related to insurance and waiver of subrogation. However, except as otherwise provided in this Agreement, including, without limitation, in the event of a dispute or default by Design-Builder, nothing in this Contract shall give the Owner the right to perform construction or operations or award separate contracts with respect to any portion of the Design-Builder's scope of Work on this Project. The Owner shall notify the Design-Builder promptly after execution of any separate contract. If the Design-Builder claims that delay or additional cost is involved because of such action by the Owner, the Design-Builder shall make a Claim as provided in Article 14.

§ 5.13.1.2 When separate contracts are awarded for different portions of the Project or other construction or operations on the site, the term "Design-Builder" in the Design-Build Documents in each case shall mean the individual or entity that executes each separate agreement with the Owner.

§ 5.13.1.3 The Owner shall provide for coordination of the activities of the Owner's own forces, and of each separate contractor, with the Work of the Design-Builder, who shall cooperate with them. The Design-Builder shall participate with other separate contractors and the Owner in reviewing their construction schedules. The Design-Builder shall make any revisions to the construction schedule deemed necessary after a joint review and mutual agreement. The construction schedules shall then constitute the schedules to be used by the Design-Builder, separate contractors and the Owner until subsequently revised.

§ 5.13.1.4 Unless otherwise provided in the Design-Build Documents, when the Owner performs construction or operations related to the Project with the Owner's own forces or separate contractors, the Owner shall be deemed to be subject to the same obligations, and to have the same rights, that apply to the Design-Builder under the Contract.

§ 5.14 Mutual Responsibility

§ 5.14.1 The Design-Builder shall afford the Owner and separate contractors reasonable opportunity for introduction and storage of their materials and equipment and performance of their activities, and shall connect and coordinate the Design-Builder's construction and operations with theirs as required by the Design-Build Documents.

§ 5.14.2 If part of the Design-Builder's Work depends upon construction or operations by the Owner or a separate contractor, the Design-Builder shall, prior to proceeding with that portion of the Work, prepare a written report to the Owner, identifying reasonably apparent discrepancies or defects in the construction or operations by the Owner or separate contractor that would render it unsuitable for proper execution and results of the Design-Builder's Work. Failure of the Design-Builder to report shall constitute an acknowledgment that the Owner's or separate contractor's completed or partially completed construction is fit and proper to receive the Design-Builder's Work, except as to defects not then reasonably discoverable.

§ 5.14.3 The Design-Builder shall reimburse the Owner for costs the Owner incurs that are payable to a separate contractor because of the Design-Builder's delays, improperly timed activities or defective construction. The Owner shall be responsible to the Design-Builder for costs the Design-Builder incurs because of a separate contractor's or

Owner's delays, improperly timed activities, damage to the Work or defective construction. In the event of a dispute, the Owner or Design-Builder shall make a claim as provided in Article 14.

§ 5.14.4 The Design-Builder shall promptly remedy damage the Design-Builder wrongfully causes to completed or partially completed construction or to property of the Owner or separate contractors as provided in Section 10.2.5.

§ 5.14.5 The Owner and each separate contractor shall have the same responsibilities for cutting and patching the Work as the Design-Builder has with respect to the construction of the Owner or separate contractors in Section 5.10.

§ 5.15 Owner's Right to Clean Up

If a dispute arises among the Design-Builder, separate contractors and the Owner as to the responsibility under their respective contracts for maintaining the premises and surrounding area free from waste materials and rubbish, the Owner may clean up and will allocate the cost among those responsible.

(Paragraph deleted)

ARTICLE 6 CHANGES IN THE WORK

§ 6.1 General

§ 6.1.1 Changes in the Work may be accomplished after execution of the Contract by Change Order or Change Directive, subject to the limitations stated in this Article 6 and elsewhere in the Design-Build Documents.

§ 6.1.2 A Change Order shall be based upon agreement between the Owner and Design-Builder. The Owner may issue a Change Directive without agreement by the Design-Builder.

§ 6.1.3 Changes in the Work shall be performed under applicable provisions of the Design-Build Documents, and the Design-Builder shall proceed promptly, unless otherwise provided in the Change Order or Change Directive.

§ 6.2 Change Orders

A Change Order is a written instrument signed by the Owner and Design-Builder stating their agreement upon all of the following:

.1 The change in the Work;

.2 The amount of the adjustment, if any, in the Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation; and

.3 The extent of the adjustment, if any, in the Contract Time.

§ 6.3 Change Directives

§ 6.3.1 A Change Directive is a written order signed by the Owner directing a change in the Work prior to agreement on adjustment, if any, in the Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation, or Contract Time. The Owner may by Change Directive, without invalidating the Contract, order changes in the Work within the general scope of the Contract consisting of additions, deletions or other revisions, the Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation, and Contract Time being adjusted accordingly.

§ 6.3.2 A Change Directive shall be used in the absence of total agreement on the terms of a Change Order.

§ 6.3.3 If the Change Directive provides for an adjustment to the Contract Sum or, if prior to execution of the Design-Build Amendment, an adjustment in the Design-Builder's compensation, the adjustment shall be based on one of the following methods:

.1 Mutual acceptance of a lump sum properly itemized and supported by sufficient substantiating data to permit evaluation;

.2 Unit prices stated in the Design-Build Documents or subsequently agreed upon;

.3 Cost to be determined in a manner agreed upon by the parties and a mutually acceptable fixed or percentage fee; or

.4 As provided in Section 6.3.7.

§ 6.3.4 If unit prices are stated in the Design-Build Documents or subsequently agreed upon, and if quantities originally contemplated are materially changed in a proposed Change Order or Change Directive so that application of

such unit prices to quantities of Work proposed will cause substantial inequity to the Owner or Design-Builder, the applicable unit prices shall be equitably adjusted.

§ 6.3.5 Upon receipt of a Change Directive, the Design-Builder shall promptly proceed with the change in the Work involved and advise the Owner of the Design-Builder's agreement or disagreement with the method, if any, provided in the Change Directive for determining the proposed adjustment in the Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation, or Contract Time.

§ 6.3.6 A Change Directive signed by the Design-Builder indicates the Design-Builder's agreement therewith, including adjustment in Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation, and Contract Time or the method for determining them. Such agreement shall be effective immediately and shall be recorded as a Change Order.

§ 6.3.7 If the Design-Builder does not respond to the Owner within ten (10) days of receipt of a Change Directive or disagrees with the method for adjustment in the Contract Sum or, if prior to execution of the Design-Build Amendment, the method for adjustment in the Design-Builder's compensation, the Owner shall determine the method and the adjustment on the basis of reasonable expenditures and savings of those performing the Work attributable to the change, including, in case of an increase, an amount for overhead and profit as set forth in the Agreement, or if no such amount is set forth in the Agreement, a reasonable amount. In such case, and also under Section 6.3.3.3, the Design-Builder shall keep and present, in such form as the Owner may prescribe, an itemized accounting together with appropriate supporting data. Unless otherwise provided in the Design-Build Documents, costs for the purposes of this Section 6.3.7 shall be limited to the following:

.1 Additional costs of professional services;

.2 Costs of labor, including social security, unemployment insurance, fringe benefits required by agreement or custom, and workers' compensation insurance;

.3 Costs of materials, supplies and equipment, including cost of transportation, whether incorporated or consumed;

.4 Rental costs of machinery and equipment, exclusive of hand tools, whether rented from the Design-Builder or others;

.5 Costs of premiums for all bonds and insurance, permit fees, and sales, use or similar taxes related to the Work; and

.6 Additional costs of supervision, field office personnel, and any other additional general conditions directly attributable to the change.

.7 Rental costs for materials and equipment kept on the Project site.

.8 Overhead and profit.

§ 6.3.8 The amount of credit to be allowed by the Design-Builder to the Owner for a deletion or change that results in a net decrease in the Contract Sum or, if prior to execution of the Design-Build Amendment, in the Design-Builder's compensation, shall be actual net cost. When both additions and credits covering related Work or substitutions are involved in a change, the allowance for overhead and profit shall be figured on the basis of net increase, if any, with respect to that change.

§ 6.3.9 Pending final determination of the total cost of a Change Directive to the Owner, the Design-Builder may request payment for Work completed under the Change Directive in Applications for Payment. The Owner will make an interim determination for purposes of certification for payment for those costs deemed to be reasonably justified. The Owner's interim determination of cost shall adjust the Contract Sum or, if prior to execution of the Design-Build Amendment, the Design-Builder's compensation, on the same basis as a Change Order, subject to the right of Design-Builder to disagree and assert a Claim in accordance with Article 14.

§ 6.3.10 When the Owner and Design-Builder agree with a determination concerning the adjustments in the Contract Sum or, if prior to execution of the Design-Build Amendment, the adjustment in the Design-Builder's compensation and Contract Time, or otherwise reach agreement upon the adjustments, such agreement shall be effective immediately and the Owner and Design-Builder shall execute a Change Order. Change Orders may be issued for all or any part of a Change Directive.

(Paragraph deleted)

ARTICLE 7 OWNER'S RESPONSIBILITIES

§ 7.1 General

§ 7.1.1 The Owner shall designate in writing a representative who shall have express authority to bind the Owner with respect to all Project matters requiring the Owner's approval or authorization. This designation shall be given at the time of execution of this Agreement.

§ 7.1.2 The Owner shall render decisions in a timely manner and in accordance with the Design-Builder's schedule agreed to by the Owner. The Owner shall furnish to the Design-Builder, within 15 days after receipt of a written request, information necessary and relevant for the Design-Builder to evaluate, give notice of or enforce mechanic's lien rights. Such information shall include a correct statement of the record legal title to the property on which the Project is located, usually referred to as the site, and the Owner's interest therein.

§ 7.2 Information and Services Required of the Owner

§ 7.2.1 The Owner shall furnish information or services required of the Owner by the Design-Build Documents with reasonable promptness, and in no event later than fifteen (15) days after request.

§ 7.2.2 The Owner shall provide, to the extent under the Owner's control and if not required by the Design-Build Documents to be provided by the Design-Builder, the results and reports of prior tests, inspections or investigations conducted for the Project involving structural or mechanical systems; chemical, air and water pollution; hazardous materials; or environmental and subsurface conditions and information regarding the presence of pollutants at the Project site. Upon receipt of a written request from the Design-Builder, the Owner shall also provide surveys describing physical characteristics, legal limitations and utility locations for the site of the Project, and a legal description of the site under the Owner's control.

§ 7.2.3 The Owner shall promptly obtain easements, zoning variances, and legal authorizations or entitlements regarding site utilization where essential to the execution of the Project.

§ 7.2.4 The Owner shall cooperate with the Design-Builder in securing building and other permits, licenses and inspections.

§ 7.2.5 The services, information, surveys and reports required to be provided by the Owner under this Agreement, shall be furnished at the Owner's expense, and except as otherwise specifically provided in this Agreement or elsewhere in the Design-Build Documents or to the extent the Owner advises the Design-Builder to the contrary in writing, the Design-Builder shall be entitled to rely upon the accuracy and completeness thereof. In no event shall the Design-Builder be relieved of its responsibility to exercise proper precautions relating to the safe performance of the Work.

§ 7.2.6 If the Owner observes or otherwise becomes aware of a fault or defect in the Work or non-conformity with the Design-Build Documents, the Owner shall give prompt written notice thereof to the Design-Builder, and in no event later than five (5) days after becoming aware of same.

§ 7.2.7 Prior to the execution of the Design-Build Amendment, the Design-Builder may request in writing that the Owner provide reasonable evidence that the Owner has made financial arrangements to fulfill the Owner's obligations under the Design-Build Documents and the Design-Builder's Proposal. Thereafter, the Design-Builder may only request such evidence if (1) the Owner fails to make payments to the Design-Builder as the Design-Build Documents require; (2) a change in the Work materially changes the Contract Sum; or (3) the Design-Builder identifies in writing a reasonable concern regarding the Owner's ability to make payment when due. The Owner shall furnish such evidence as a condition precedent to commencement or continuation of the Work or the portion of the Work affected by a material change. Any delays by the Owner in this regard shall entitle Design-Builder to reasonable adjustments in Contract Sum or, if prior to execution of the Design-Build Amendment, the Design-Builder's compensation, and Contract Time. After the Owner furnishes the evidence, the Owner shall not materially vary such financial arrangements without prior notice to the Design-Builder.

§ 7.2.8 Except as otherwise provided in the Design-Build Documents or when direct communications have been specially authorized, the Owner shall communicate through the Design-Builder with persons or entities employed or retained by the Design-Builder as such persons are identified in Paragraph 7.2.8 of this Agreement.

§ 7.2.9 Unless required by the Design-Build Documents to be provided by the Design-Builder, the Owner shall, upon request from the Design-Builder, furnish the services of geotechnical engineers or other consultants for investigation of subsurface, air, and water conditions when such services are reasonably necessary to properly carry out the design services furnished by the Design-Builder. In such event, the Design-Builder shall specify the services required. Such services may include, but are not limited to, test borings, test pits, determinations of soil bearing values, percolation tests, evaluations of hazardous materials, ground corrosion and resistivity tests, and necessary operations for anticipating subsoil conditions. The services of geotechnical engineer(s) or other consultants shall include preparation and submission of all appropriate reports and professional recommendations. The Owner shall disclose the results and reports of all such investigation and/or testing conducted for the Project to the Design-Builder within fifteen (15) days of the Owner becoming aware of such results and/or receiving such reports.

§ 7.2.10 The Owner shall purchase and maintain insurance as set forth in Exhibit B.

§ 7.3 Submittals

§ 7.3.1 The Owner shall review and approve or take other appropriate action on Submittals. Review of Submittals is not conducted for the purpose of determining the accuracy and completeness of other details, such as dimensions and quantities; or for substantiating instructions for installation or performance of equipment or systems; or for determining that the Submittals are in conformance with the Design-Build Documents, all of which remain the responsibility of the Design-Builder as required by the Design-Build Documents. The Owner's action will be taken in accordance with the submittal schedule approved by the Owner or, in the absence of an approved submittal schedule, with reasonable promptness while allowing sufficient time in the Owner's judgment to permit adequate review. Any delays by the Owner in this regard shall entitle Design-Builder to reasonable adjustments in Contract Sum or, if prior to execution of the Design-Build Amendment, the Design-Builder's compensation, and Contract Time. The Owner's review of Submittals shall not relieve the Design-Builder of the obligations under Sections 3.1.11, 3.1.12, and 5.2.3. The Owner's review shall not constitute approval of safety precautions or, unless otherwise specifically stated by the Owner, of any construction means, methods, techniques, sequences or procedures. The Owner's approval of a specific item shall not indicate approval of an assembly of which the item is a component.

§ 7.3.2 Upon review of the Submittals required by the Design-Build Documents, the Owner shall promptly notify the Design-Builder of any claims of non-conformance with the Design-Build Documents the Owner discovers.

§ 7.4 Visits to the site by the Owner shall not be construed to create an obligation on the part of the Owner to make on-site inspections to check the quality or quantity of the Work. The Owner shall neither have control over or charge of, nor be responsible for, the construction means, methods, techniques, sequences or procedures, or for the safety precautions and programs in connection with the Work, because these are solely the Design-Builder's rights and responsibilities under the Design-Build Documents.

§ 7.5 The Owner shall not be responsible for the Design-Builder's failure to perform the Work in accordance with the requirements of the Design-Build Documents. The Owner shall not have control over or charge of, and will not be responsible for acts or omissions of the Design-Builder, Architect, Consultants, Contractors, or their agents or employees, or any other persons or entities performing portions of the Work for the Design-Builder.

§ 7.6 The Owner has the authority to reject Work that does not conform to the Design-Build Documents by giving written notice to the Design-Builder. The Owner shall have authority to require inspection or testing of the Work in accordance with Section 15.5.2, whether or not such Work is fabricated, installed or completed. However, neither this authority of the Owner nor a decision made in good faith either to exercise or not to exercise such authority shall give rise to a duty or responsibility of the Owner to the Design-Builder, the Architect, Consultants, Contractors, material and equipment suppliers, their agents or employees, or other persons or entities performing portions of the Work.

§ 7.7 The Owner shall determine the date or dates of Substantial Completion in accordance with Section 9.8 and the date of final completion in accordance with Section 9.10.

§ 7.8 Owner's Right to Stop Work

If the Design-Builder fails to correct Work which is not in accordance with the requirements of the Design-Build Documents as required by Section 11.2 or persistently fails to carry out Work in accordance with the Design-Build Documents, the Owner may issue a written order to the Design-Builder to stop the Work, or any portion thereof, until the cause for such order has been eliminated; however, the right of the Owner to stop the Work shall not give rise to a

duty on the part of the Owner to exercise this right for the benefit of the Design-Builder or any other person or entity, except to the extent required by Section 5.13.1.3.

§ 7.9 Owner's Right to Carry Out the Work

If the Design-Builder defaults or neglects to carry out the Work in accordance with the Design-Build Documents and fails within a ten-day period after receipt of written notice from the Owner to commence and continue correction of such default or neglect with diligence and promptness, the Owner may, without prejudice to other remedies the Owner may have, correct such deficiencies. In such case, an appropriate Change Order shall be issued deducting from payments then or thereafter due the Design-Builder the reasonable cost of correcting such deficiencies. If payments then or thereafter due the Design-Builder are not sufficient to cover such amounts, the Design-Builder shall pay the difference to the Owner.

ARTICLE 8 TIME

§ 8.1 Progress and Completion

§ 8.1.1 Time limits stated in the Design-Build Documents are of the essence of the Contract. By executing the Design-Build Amendment the Design-Builder confirms that the Contract Time is a reasonable period for performing the Work.

§ 8.1.2 The Design-Builder shall not, except by agreement of the Owner in writing, commence the Work prior to the effective date of insurance, other than property insurance, required by this Contract. The Contract Time shall not be adjusted as a result of the Design-Builder's failure to obtain insurance required under this Contract.

§ 8.1.3 The Design-Builder shall proceed expeditiously with adequate forces and shall achieve Substantial Completion within the Contract Time.

§ 8.2 Delays and Extensions of Time

§ 8.2.1 If the Design-Builder is delayed at any time in the commencement or progress of the Work by an act or neglect of the Owner or of a consultant or separate contractor employed by the Owner; or by changes ordered in the Work by the Owner; or by labor disputes, fire, unusual delay in deliveries, unavoidable casualties or other causes beyond the Design-Builder's control; or by delay authorized by the Owner pending mediation and binding dispute resolution or by other causes that the Owner determines may justify delay, then the Contract Time shall be extended by Change Order for such reasonable time as the Owner and Design-Builder shall mutually agree upon. In the event Owner and Design-Builder are not able to mutually agree on an extension of time, then Owner shall determine a reasonable time extension and provide to Design-Builder in writing the amount of Contract Time to be extended.

§ 8.2.2 Claims relating to time shall be made in accordance with applicable provisions of Article 14.

§ 8.2.3 This Section 8.2 does not preclude recovery of damages for delay by either party under other provisions of the Design-Build Documents.

(Paragraph deleted)

ARTICLE 9 PAYMENT APPLICATIONS AND PROJECT COMPLETION

§ 9.1 Contract Sum

The Contract Sum is stated in the Design-Build Amendment.

§ 9.2 Schedule of Values

Where the Contract Sum is based on a stipulated sum or Guaranteed Maximum Price, the Design-Builder, prior to the first Application for Payment after execution of the Design-Build Amendment shall submit to the Owner a schedule of values allocating the entire Contract Sum to the various portions of the Work and prepared in such form and supported by such data to substantiate its accuracy as the Owner may require. This schedule, unless objected to by the Owner, shall be used as a basis for reviewing the Design-Builder's Applications for Payment.

§ 9.3 Applications for Payment

§ 9.3.1 At least ten days before the date established for each progress payment, the Design-Builder shall submit to the Owner an itemized Application for Payment for completed portions of the Work. The application shall be notarized, if required, and supported by data substantiating the Design-Builder's right to payment as the Owner may require, such

as copies of requisitions from the Architect, Consultants, Contractors, and material suppliers, and shall reflect retainage if provided for in the Design-Build Documents.

§ 9.3.1.1 As provided in Section 6.3.9, Applications for Payment may include requests for payment on account of changes in the Work that have been properly authorized by Change Directives, or by interim determinations of the Owner, but not yet included in Change Orders.

§ 9.3.1.2 Applications for Payment shall not include requests for payment for portions of the Work for which the Design-Builder does not intend to pay the Architect, Consultant, Contractor, material supplier, or other persons or entities providing services or work for the Design-Builder, unless such Work has been performed by others whom the Design-Builder intends to pay.

§ 9.3.2 Unless otherwise provided in the Design-Build Documents, payments shall be made for services provided as well as materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work. If approved in advance by the Owner, payment may similarly be made for materials and equipment suitably stored off the site at a location agreed upon in writing. Payment for materials and equipment stored on or off the site shall be conditioned upon compliance by the Design-Builder with procedures satisfactory to the Owner to establish the Owner's title to such materials and equipment or otherwise protect the Owner's interest, and shall include the costs of applicable insurance, storage and transportation to the site for such materials and equipment stored off the site.

§ 9.3.3 The Design-Builder warrants that title to all Work, other than Instruments of Service, covered by an Application for Payment will pass to the Owner no later than the time of payment. The Design-Builder further warrants that, upon submittal of an Application for Payment, all Work for which Certificates for Payment have been previously issued and payments received from the Owner shall, to the best of the Design-Builder's knowledge, information and belief, be free and clear of liens, claims, security interests or encumbrances in favor of the Design-Builder, Architect, Consultants, Contractors, material suppliers, or other persons or entities entitled to make a claim by reason of having provided labor, materials and equipment relating to the Work.

§ 9.3.4 Design-Builder shall indemnify the Owner for all liens filed against the property by subcontractors of any tier and suppliers.

§ 9.4 Certificates for Payment

The Owner shall, within seven days after receipt of the Design-Builder's Application for Payment, issue to the Design-Builder a Certificate for Payment indicating the amount the Owner determines is properly due, and notify the Design-Builder in writing of the Owner's reasons for withholding certification in whole or in part as provided in Section 9.5.1.

§ 9.5 Decisions to Withhold Certification

§ 9.5.1 The Owner may withhold a Certificate for Payment in whole or in part to the extent reasonably necessary to protect the Owner due to the Owner's determination that the Work has not progressed to the point indicated in the Design-Builder's Application for Payment, or the quality of the Work is not in accordance with the Design-Build Documents. If the Owner is unable to certify payment in the amount of the Application, the Owner will notify the Design-Builder as provided in Section 9.4. The Owner and Design-Builder shall cooperate and act in good faith with each other to promptly resolve any such disputes and allow Design-Builder to receive Certificate(s) of Payment. If the Design-Builder and Owner cannot agree on a revised amount, the Owner will promptly issue a Certificate for Payment for the amount that the Owner deems to be due and owing. The Owner shall not unreasonably withhold Certificates of Payment, but may withhold a Certificate for Payment or, because of subsequently discovered evidence, may nullify the whole or a part of a Certificate for Payment previously issued to such extent as may be reasonably necessary to protect the Owner from loss for which the Design-Builder is responsible because of

.1 defective Work, including design and construction, not remedied;
.2 third party claims filed or reasonable evidence indicating probable filing of such claims unless security acceptable to the Owner is provided by the Design-Builder;
.3 failure of the Design-Builder to make payments properly to the Architect, Consultants, Contractors or others, for services, labor, materials or equipment;
.4 reasonable evidence that the Work cannot be completed for the unpaid balance of the Contract Sum;
.5 damage to the Owner or a separate contractor;

.6 reasonable evidence that the Work will not be completed within the Contract Time, and that the unpaid balance would not be adequate to cover actual or liquidated damages for the anticipated delay; or

.7 repeated failure to carry out the Work in accordance with the Design-Build Documents.

§ 9.5.2 When the above reasons for withholding certification are removed, certification will be made for amounts previously withheld.

§ 9.5.3 If the Owner withholds certification for payment under Section 9.5.1.3, the Owner may, at its sole option, issue joint checks to the Design-Builder and to the Architect or any Consultants, Contractor, material or equipment suppliers, or other persons or entities providing services or work for the Design-Builder to whom the Design-Builder failed to make payment for Work properly performed or material or equipment suitably delivered.

§ 9.6 Progress Payments

§ 9.6.1 After the Owner has issued a Certificate for Payment, the Owner shall make payment in the manner and within the time provided in the Design-Build Documents.

§ 9.6.2 The Design-Builder shall pay each Architect, Consultant, Contractor, and other person or entity providing services or work for the Design-Builder no later than the time period required by applicable law, but in no event more than seven days after receipt of payment from the Owner the amount to which the Architect, Consultant, Contractor, and other person or entity providing services or work for the Design-Builder is entitled, reflecting percentages actually retained from payments to the Design-Builder on account of the portion of the Work performed by the Architect, Consultant, Contractor, or other person or entity. The Design-Builder shall, by appropriate agreement with each Architect, Consultant, Contractor, and other person or entity providing services or work for the Design-Builder, require each Architect, Consultant, Contractor, and other person or entity providing services or work for the Design-Builder to make payments to subconsultants and subcontractors in a similar manner.

§ 9.6.3 The Owner will, on request and if practicable, furnish to the Architect, a Consultant, Contractor, or other person or entity providing services or work for the Design-Builder, information regarding percentages of completion or amounts applied for by the Design-Builder and action taken thereon by the Owner on account of portions of the Work done by such Architect, Consultant, Contractor or other person or entity providing services or work for the Design-Builder.

§ 9.6.4 The Owner has the right to request written evidence from the Design-Builder that the Design-Builder has properly paid the Architect, Consultants, Contractors, or other person or entity providing services or work for the Design-Builder, amounts paid by the Owner to the Design-Builder for the Work. If the Design-Builder fails to furnish such evidence within seven days, the Owner shall have the right to contact the Architect, Consultants, and Contractors to ascertain whether they have been properly paid. The Owner shall have no obligation to pay or to see to the payment of money to a Consultant or Contractor, except as may otherwise be required by law.

§ 9.6.5 Design-Builder payments to material and equipment suppliers shall be treated in a manner similar to that provided in Sections 9.6.2, 9.6.3 and 9.6.4.

§ 9.6.6 A Certificate for Payment, a progress payment, or partial or entire use or occupancy of the Project by the Owner shall not constitute acceptance of Work not in accordance with the Design-Build Documents.

§ 9.6.7 Unless the Design-Builder provides the Owner with a payment bond in the full penal sum of the Contract Sum, payments received by the Design-Builder for Work properly performed by the Architect, Consultants, Contractors and other person or entity providing services or work for the Design-Builder, shall be held by the Design-Builder for the Architect and those Consultants, Contractors, or other person or entity providing services or work for the Design-Builder, for which payment was made by the Owner. Nothing contained herein shall require money to be placed in a separate account and not commingled with money of the Design-Builder, shall create any fiduciary liability or tort liability on the part of the Design-Builder for breach of trust or shall entitle any person or entity to an award of punitive damages against the Design-Builder for breach of the requirements of this provision.

§ 9.7 Failure of Payment

If the Owner does not issue a Certificate for Payment or provide written notice of the Owner's reasons for withholding certification within the time required by the Design-Build Documents, then the Design-Builder may, upon seven

additional days' written notice to the Owner, stop the Work until payment of the amount owing has been received. The Contract Time shall be extended appropriately and the Contract Sum shall be increased by the amount of the Design-Builder's reasonable costs of shut-down, delay and start-up, plus interest as provided for in the Design-Build Documents.

§ 9.8 Substantial Completion

§ 9.8.1 Substantial Completion is the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Design-Build Documents so that the Owner can occupy or utilize the Work for its intended use. The date of Substantial Completion is the date certified by the Owner in accordance with this Section 9.8.

§ 9.8.2 When the Design-Builder considers that the Work, or a portion thereof which the Owner agrees to accept separately, is substantially complete, the Design-Builder shall prepare and submit to the Owner a comprehensive list of items to be completed or corrected prior to final payment. Failure to include an item on such list does not alter the responsibility of the Design-Builder to complete all Work in accordance with the Design-Build Documents.

§ 9.8.3 Upon receipt of the Design-Builder's list, the Owner shall make an inspection to determine whether the Work or designated portion thereof is substantially complete. If the Owner's inspection discloses any item, whether or not included on the Design-Builder's list, which is not sufficiently complete in accordance with the Design-Build Documents so that the Owner can occupy or utilize the Work or designated portion thereof for its intended use, the Design-Builder shall, before issuance of the Certificate of Substantial Completion, complete or correct such item upon notification by the Owner. In such case, the Design-Builder shall then submit a request for another inspection by the Owner to determine Substantial Completion.

§ 9.8.4 Prior to issuance of the Certificate of Substantial Completion under Section 9.8.5, the Owner and Design-Builder shall discuss and then determine the parties' obligations to obtain and maintain property insurance following issuance of the Certificate of Substantial Completion.

§ 9.8.5 When the Work or designated portion thereof is substantially complete, the Design-Builder will prepare for the Owner's signature a Certificate of Substantial Completion that shall, upon the Owner's signature, establish the date of Substantial Completion; establish responsibilities of the Owner and Design-Builder for security, maintenance, heat, utilities, damage to the Work and insurance; and fix the time within which the Design-Builder shall finish all items on the list accompanying the Certificate. Warranties required by the Design-Build Documents shall commence on the date of Substantial Completion of the Work or designated portion thereof unless otherwise provided in the Certificate of Substantial Completion.

§ 9.8.6 The Certificate of Substantial Completion shall be submitted by the Design-Builder to the Owner for written acceptance of responsibilities assigned to it in the Certificate. Upon the Owner's acceptance, and consent of surety, if any, the Owner shall make payment of retainage applying to the Work or designated portion thereof. Payment shall be adjusted for Work that is incomplete or not in accordance with the requirements of the Design-Build Documents.

§ 9.9 Partial Occupancy or Use

§ 9.9.1 The Owner may occupy or use any completed or partially completed portion of the Work at any stage when such portion is designated by separate agreement with the Design-Builder, provided such occupancy or use is consented to, by endorsement or otherwise, by the insurer providing property insurance and authorized by public authorities having jurisdiction over the Project. Such partial occupancy or use may commence whether or not the portion is substantially complete, provided the Owner and Design-Builder have accepted in writing the responsibilities assigned to each of them for payments, retainage, if any, security, maintenance, heat, utilities, damage to the Work and insurance, and have agreed in writing concerning the period for correction of the Work and commencement of warranties required by the Design-Build Documents. When the Design-Builder considers a portion substantially complete, the Design-Builder shall prepare and submit a list to the Owner as provided under Section 9.8.2. Consent of the Design-Builder to partial occupancy or use shall not be unreasonably withheld. The stage of the progress of the Work shall be determined by written agreement between the Owner and Design-Builder.

§ 9.9.2 Immediately prior to such partial occupancy or use, the Owner and Design-Builder shall jointly inspect the area to be occupied or portion of the Work to be used in order to determine and record the condition of the Work.

§ 9.9.3 Unless otherwise agreed upon, partial occupancy or use of a portion or portions of the Work shall not constitute acceptance of Work not complying with the requirements of the Design-Build Documents.

§ 9.10 Final Completion and Final Payment

§ 9.10.1 Upon receipt of the Design-Builder's written notice that the Work is ready for final inspection and acceptance and upon receipt of a final Application for Payment, the Owner will promptly make such inspection. When the Owner finds the Work acceptable under the Design-Build Documents and the Contract fully performed, the Owner will, subject to Section 9.10.2, promptly issue a final Certificate for Payment.

§ 9.10.2 Neither final payment nor any remaining retained percentage shall become due until the Design-Builder submits to the Owner (1) an affidavit that payrolls, bills for materials and equipment, and other indebtedness connected with the Work, for which the Owner or the Owner's property might be responsible or encumbered, (less amounts withheld by Owner) have been paid or otherwise satisfied, (2) a certificate evidencing that insurance required by the Design-Build Documents to remain in force after final payment is currently in effect, (3) a written statement that the Design-Builder knows of no substantial reason that the insurance will not be renewable to cover the period required by the Design-Build Documents, (4) consent of surety, if any, to final payment, (5) as-constructed record copy of the Construction Documents marked to indicate field changes and selections made during construction, (6) manufacturer's warranties, product data, and maintenance and operations manuals, and (7) if required by the Owner, other data establishing payment or satisfaction of obligations, such as receipts, or releases and waivers of liens, claims, security interests, or encumbrances, arising out of the Contract, to the extent and in such form as may be designated by the Owner. If an Architect, a Consultant, or a Contractor, or other person or entity providing services or work for the Design-Builder, refuses to furnish a release or waiver required by the Owner, the Design-Builder may furnish a bond satisfactory to the Owner to indemnify the Owner against such liens, claims, security interests, or encumbrances. If such liens, claims, security interests, or encumbrances remains unsatisfied after payments are made, the Design-Builder shall refund to the Owner all money that the Owner may be compelled to pay in discharging such liens, claims, security interests, or encumbrances, including all costs and reasonable attorneys' fees.

§ 9.10.3 If, after Substantial Completion of the Work, final completion thereof is materially delayed through no fault of the Design-Builder or by issuance of Change Orders affecting final completion, the Owner shall, upon application by the Design-Builder, and without terminating the Contract, make payment of the balance due for that portion of the Work fully completed and accepted. If the remaining balance for Work not fully completed or corrected is less than retainage stipulated in the Design-Build Documents, and if bonds have been furnished, the written consent of surety to payment of the balance due for that portion of the Work fully completed and accepted shall be submitted by the Design-Builder to the Owner prior to issuance of payment. Such payment shall be made under terms and conditions governing final payment, except that it shall not constitute a waiver of claims.

§ 9.10.4 The making of final payment shall constitute Owner's acceptance of the Project and acknowledgement that all punch list items, unless documented otherwise, are complete. Final payment and Owner's acceptance does not preclude Owner from filing claims related to

.1 liens, Claims, security interests or encumbrances arising out of the Contract and unsettled;
.2 failure of the Work to comply with the requirements of the Design-Build Documents; or
.3 terms of all warranties required by the Design-Build Documents and local, state and federal laws.

§ 9.10.5 Acceptance of final payment by the Design-Builder shall constitute a waiver of claims by the Design-Builder except those previously made in writing and identified by the Design-Builder as unsettled at the time of final Application for Payment.

(Paragraph deleted)

ARTICLE 10 PROTECTION OF PERSONS AND PROPERTY

§ 10.1 Safety Precautions and Programs

The Design-Builder shall be responsible for initiating, maintaining and supervising all safety precautions and programs in connection with the performance of the Contract.

§ 10.2 Safety of Persons and Property

§ 10.2.1 The Design-Builder shall be responsible for precautions for the safety of, and reasonable protection to prevent damage, injury or loss to

.1 employees on the Work and other persons who may be affected thereby;

.2 the Work and materials and equipment to be incorporated therein, whether in storage on or off the site, under care, custody or control of the Design-Builder or the Architect, Consultants, or Contractors, or other person or entity providing services or work for the Design-Builder; and

.3 other property at the site or adjacent thereto, such as trees, shrubs, lawns, walks, pavements, roadways, or structures and utilities not designated for removal, relocation or replacement in the course of construction.

§ 10.2.2 The Design-Builder shall comply with, and give notices required by, applicable laws, statutes, ordinances, codes, rules and regulations, and lawful orders of public authorities, bearing on safety of persons or property, or their protection from damage, injury or loss.

§ 10.2.3 The Design-Builder shall implement, erect, and maintain, as required by existing conditions and performance of the Contract, reasonable safeguards for safety and protection, including posting danger signs and other warnings against hazards, promulgating safety regulations, and notify owners and users of adjacent sites and utilities of the safeguards and protections.

§ 10.2.4 When use or storage of explosives or other hazardous materials or equipment, or unusual methods, are necessary for execution of the Work, the Design-Builder shall exercise utmost care, and carry on such activities under supervision of properly qualified personnel.

§ 10.2.5 The Design-Builder shall promptly remedy damage and loss (other than damage or loss insured under property insurance required by the Design-Build Documents) to property referred to in Sections 10.2.1.2 and 10.2.1.3, caused in whole or in part by the Design-Builder, the Architect, a Consultant, a Contractor, or anyone directly or indirectly employed by any of them, or by anyone for whose acts they may be liable and for which the Design-Builder is responsible under Sections 10.2.1.2 and 10.2.1.3; except damage or loss attributable to acts or omissions of the Owner, or anyone directly or indirectly employed by the Owner, or by anyone for whose acts the Owner may be liable, and not attributable to the fault or negligence of the Design-Builder. The foregoing obligations of the Design-Builder are in addition to the Design-Builder's obligations under Section 3.1.14.

§ 10.2.6 The Design-Builder shall designate a responsible member of the Design-Builder's organization, at the site, whose duty shall be the prevention of accidents. This person shall be the Design-Builder's superintendent unless otherwise designated by the Design-Builder in writing to the Owner.

§ 10.2.7 The Design-Builder shall not permit any part of the construction or site to be loaded so as to cause damage or create an unsafe condition.

§ 10.2.8 Injury or Damage to Person or Property. If the Owner or Design-Builder suffers injury or damage to person or property because of an act or omission of the other, or of others for whose acts such party is legally responsible, written notice of the injury or damage, whether or not insured, shall be given to the other party within a reasonable time not exceeding 21 days after discovery. The notice shall provide sufficient detail to enable the other party to investigate the matter.

§ 10.3 Hazardous Materials

§ 10.3.1 The Design-Builder is responsible for compliance with any requirements included in the Design-Build Documents regarding hazardous materials. If the Design-Builder encounters a hazardous material or substance not addressed in the Design-Build Documents and if reasonable precautions will be inadequate to prevent foreseeable bodily injury or death to persons resulting from a material or substance, including but not limited to asbestos or polychlorinated biphenyl (PCB), encountered on the site by the Design-Builder, the Design-Builder shall, upon recognizing the condition, immediately stop Work in the affected area and report the condition to the Owner in writing. If it is deemed that the hazardous materials or substances encountered are not related to or the result of Design-Builder's performance of the Work or entry on the jobsite, any delays to Design-Builder caused by such stoppage in Work shall entitle Design-Builder to an extension of Contract Time and an increase in the Contract, including reasonable additional costs of shut-down, delay and start-up.

§ 10.3.2 Upon receipt of the Design-Builder's written notice, the Owner shall obtain the services of a licensed laboratory to verify the presence or absence of the material or substance reported by the Design-Builder and, in the event such material or substance is found to be present, to cause it to be rendered harmless. Unless otherwise required

by the Design-Build Documents, the Owner shall furnish in writing to the Design-Builder the names and qualifications of persons or entities who are to perform tests verifying the presence or absence of such material or substance or who are to perform the task of removal or safe containment of such material or substance. The Design-Builder will promptly reply to the Owner in writing stating whether or not the Design-Builder has reasonable objection to the persons or entities proposed by the Owner. If the Design-Builder has an objection to a person or entity proposed by the Owner, the Owner shall propose another to whom the Design-Builder has no reasonable objection. When the material or substance has been rendered harmless, Work in the affected area shall resume upon written agreement of the Owner and Design-Builder. By Change Order, the Contract Time shall be extended appropriately and the Contract Sum shall be increased in the amount of the Design-Builder's reasonable additional costs of shut-down, delay and start-up.

§ 10.3.3 To the fullest extent permitted by law, and if it is established that the hazardous materials or substances were not related to or the result of the Design-Builder's performance of the Work or entry on the jobsite, the Owner shall indemnify and hold harmless the Design-Builder, the Architect, Consultants, and Contractors, and employees of any of them, from and against claims, damages, losses and expenses, including but not limited to attorneys' fees, arising out of or resulting from performance of the Work in the affected area, if in fact the material or substance presents the risk of bodily injury or death as described in Section 10.3.1 and has not been rendered harmless, provided that such claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death, or to injury to, or destruction of, tangible property (other than the Work itself), except to the extent that such damage, loss or expense is due to the fault or negligence of the party seeking indemnity.

§ 10.3.4 The Owner shall not be responsible under this Section 10.3 for materials or substances the Design-Builder brings to the site.

§ 10.3.5 The Design-Builder shall indemnify the Owner for the cost and expense the Owner incurs (1) for remediation of a material or substance the Design-Builder brings to the site and negligently handles, or (2) where the Design-Builder fails to perform its obligations under Section 10.3.1, except to the extent that the cost and expense are due to the Owner's fault or negligence.

§ 10.3.6 If, without negligence on the part of the Design-Builder, the hazardous material or substance preexisted the date Design-Builder commenced site disturbance (and Design-Builder was not aware of its existence or contractually obligated to protect hazardous substance or material in place), the Design-Builder is held liable by a government agency for the cost of remediation of a hazardous material or substance solely by reason of performing Work as required by the Design-Build Documents, the Owner shall indemnify the Design-Builder for all cost and expense thereby incurred.

§ 10.4 Emergencies

In an emergency affecting safety of persons or property, the Design-Builder shall act, at the Design-Builder's discretion, to prevent threatened damage, injury or loss.

(Paragraph deleted)

ARTICLE 11 UNCOVERING AND CORRECTION OF WORK

§ 11.1 Uncovering of Work

The Owner may request to examine a portion of the Work that the Design-Builder has covered to determine if the Work has been performed in accordance with the Design-Build Documents. Such requests shall only be made as reasonably necessary to facilitate the proper execution of the Work and Substantial Completion of the Project. If such Work is in accordance with the Design-Build Documents, the Owner and Design-Builder shall execute a Change Order to adjust the Contract Time and Contract Sum, as appropriate. If such Work is not in accordance with the Design-Build Documents, the costs of uncovering and correcting the Work shall be at the Design-Builder's expense and the Design-Builder shall not be entitled to a change in the Contract Time unless the condition was caused by the Owner or a separate contractor in which event the Owner shall be responsible for payment of such costs and the Contract Time will be adjusted as appropriate.

§ 11.2 Correction of Work

§ 11.2.1 Before or After Substantial Completion. The Design-Builder shall promptly correct Work rejected by the Owner or failing to conform to the requirements of the Design-Build Documents, whether discovered before or after Substantial Completion and whether or not fabricated, installed or completed. Costs of correcting such rejected Work, including additional testing and inspections, the cost of uncovering and replacement, and compensation for any design

consultant employed by the Owner whose expenses and compensation were made necessary thereby, shall be at the Design-Builder's expense, and not the Owner's. Design-Builder reserves the right to pursue recovery of such costs from any responsible architect, contractor, subcontractor, consultant, and/or other entity, as applicable.

§ 11.2.2 After Substantial Completion

§ 11.2.2.1 In addition to the Design-Builder's obligations under Section 3.1.12, if, within one year after the earlier date of (1) Substantial Completion of the Work or designated portion thereof, or (2) partial use and/or occupancy by the Owner and the commencement of warranties established under Section 9.9.1, or (3) by terms of an applicable special warranty required by the Design-Build Documents, any of the Work is found not to be in accordance with the requirements of the Design-Build Documents, the Design-Builder shall correct it promptly after receipt of written notice from the Owner to do so unless the Owner has previously given the Design-Builder a written acceptance of such condition. The Owner shall give such notice promptly after discovery of the condition. If the Design-Builder fails to correct nonconforming Work within a reasonable time during that period after receipt of notice from the Owner, the Owner may correct it in accordance with Section 7.9.

§ 11.2.2.2 The one-year period for correction of Work shall be extended with respect to portions of Work first performed after partial use and/or occupancy by the Owner by the period of time between partial use and/or occupancy by the Owner and the actual completion of that portion of the Work.

§ 11.2.2.3 The one-year period for correction of Work shall not be extended by corrective Work performed by the Design-Builder pursuant to this Section 11.2.

§ 11.2.3 The Design-Builder shall remove from the site portions of the Work that are not in accordance with the requirements of the Design-Build Documents and are neither corrected by the Design-Builder nor accepted by the Owner.

§ 11.2.4 The Design-Builder shall bear the cost of correcting destroyed or damaged construction of the Owner or separate contractors, whether completed or partially completed, caused by the Design-Builder's correction or removal of Work that is not in accordance with the requirements of the Design-Build Documents.

§ 11.2.5 Nothing contained in this Section 11.2 shall be construed to establish a period of limitation with respect to other obligations the Design-Builder has under the Design-Build Documents. Establishment of the one-year period for correction of Work as described in Section 11.2.2 relates only to the specific obligation of the Design-Builder to correct the Work, and has no relationship to the time within which the obligation to comply with the Design-Build Documents may be sought to be enforced, nor to the time within which proceedings may be commenced to establish the Design-Builder's liability with respect to the Design-Builder's obligations other than specifically to correct the Work.

§ 11.3 Acceptance of Nonconforming Work

If the Owner prefers to accept Work that is not in accordance with the requirements of the Design-Build Documents, the Owner may do so instead of requiring its removal and correction, in which case the Contract Sum will be adjusted as appropriate and equitable. Such adjustment shall be effected whether or not final payment has been made.

(Paragraph deleted)

ARTICLE 12 COPYRIGHTS AND LICENSES

§ 12.1 Drawings, specifications, and other documents furnished by the Design-Builder, including those in electronic form, are Instruments of Service. The Design-Builder, and the Architect, Consultants, Contractors, and any other person or entity providing services or work for any of them, shall be deemed the authors and owners of their respective Instruments of Service, including the Drawings and Specifications, and shall retain all common law, statutory and other reserved rights, including copyrights. Submission or distribution of Instruments of Service to meet official regulatory requirements, or for similar purposes in connection with the Project, is not to be construed as publication in derogation of the reserved rights of the Design-Builder and the Architect, Consultants, and Contractors, and any other person or entity providing services or work for any of them.

§ 12.2 The Design-Builder and the Owner warrant that in transmitting Instruments of Service, or any other information, the transmitting party is the copyright owner of such information or has permission from the copyright owner to transmit such information for its use on the Project.

§ 12.3 Upon execution of the Agreement, the Design-Builder grants to the Owner a limited, irrevocable and non-exclusive license to use the Instruments of Service solely and exclusively for purposes of constructing, using, maintaining, altering and adding to the Project, provided that the Owner substantially performs its obligations, including prompt payment of all sums when due, under the Design-Build Documents. The license granted under this section permits the Owner to authorize its consultants and separate contractors to reproduce applicable portions of the Instruments of Service solely and exclusively for use in performing services or construction for the Project. If the Design-Builder rightfully terminates this Agreement for cause as provided in Section 13.1.4 or 13.2.1 the license granted in this Section 12.3 shall terminate.

§ 12.3.1 The Design-Builder shall obtain non-exclusive licenses from the Architect, Consultants, and Contractors, that will allow the Design-Builder to satisfy its obligations to the Owner under this Article 12. The Design-Builder's licenses from the Architect and its Consultants and Contractors shall also grant to the Owner a limited, irrevocable and non-exclusive license solely and exclusively for the purposes of constructing, completing, using, maintaining, altering and adding to the project, provided that Owner has paid Design-Builder for the design portion of the Work and Owner provides the Architect, Consultant, or Contractor to Owner's written agreement to indemnify and hold harmless the Architect, Consultant, or Contractor from all costs and expenses, including the cost of defense, related to claims and causes of actions asserted by any third party or entity to the extent such costs arise from the Owner's alteration, not previously approved by Architect, Consultant or Contractor, and subsequent use of the Instruments of Service.

§ 12.3.2 In the event the Owner alters the Instruments of Service without the author's written authorization or uses the Instruments of Service without retaining the authors of the Instruments of Service, the Owner releases the Design-Builder, Architect, Consultants, Contractors and any other person or entity providing services or work for any of them, from all claims and causes of action arising from or related to such uses. The Owner, to the extent permitted by law, further agrees to indemnify and hold harmless the Design-Builder, Architect, Consultants, Contractors and any other person or entity providing services or work for any of them, from all costs and expenses, including the cost of defense, related to claims and causes of action asserted by any third person or entity to the extent such costs and expenses arise from the Owner's alteration or use of the Instruments of Service under this Section 12.3.2. The terms of this Section 12.3.2 shall not apply if the Owner rightfully terminates this Agreement for cause under Sections 13.1.4 or 13.2.2.

(Paragraph deleted)

ARTICLE 13 TERMINATION OR SUSPENSION

§ 13.1 Termination or Suspension Prior to Execution of the Design-Build Amendment

§ 13.1.1 If the Owner fails to make payments to the Design-Builder for Work prior to execution of the Design-Build Amendment in accordance with this Agreement, such failure shall be considered substantial nonperformance and cause for termination or, at the Design-Builder's option, cause for suspension of performance of services under this Agreement. If the Design-Builder elects to suspend the Work, the Design-Builder shall give seven days' written notice to the Owner before suspending the Work. In the event of a suspension of the Work, the Design-Builder shall have no liability to the Owner for delay or damage caused by the suspension of the Work. Before resuming the Work, the Design-Builder shall be paid all sums due prior to suspension and any expenses incurred in the interruption and resumption of the Design-Builder's Work. The Design-Builder's compensation for, and time to complete, the remaining Work shall be equitably adjusted.

§ 13.1.2 If the Owner suspends the Project, the Design-Builder shall be compensated for the Work performed prior to notice of such suspension. When the Project is resumed, the Design-Builder shall be compensated for expenses incurred in the interruption and resumption of the Design-Builder's Work. The Design-Builder's compensation for, and time to complete, the remaining Work shall be equitably adjusted.

§ 13.1.3 If the Owner suspends the Project for more than 90 cumulative days for reasons other than the fault of the Design-Builder, the Design-Builder may terminate this Agreement by giving not less than seven days' written notice.

§ 13.1.4 Either party may terminate this Agreement upon not less than seven days' written notice should the other party fail substantially to perform in accordance with the terms of this Agreement through no fault of the party initiating the termination.

§ 13.1.5 The Owner may terminate this Agreement upon not less than seven days' written notice to the Design-Builder for the Owner's convenience and without cause.

§ 13.1.6 In the event of termination not the fault of the Design-Builder, the Design-Builder shall be compensated for Work performed prior to termination, together with Reimbursable Expenses then due and any other expenses directly attributable to termination for which the Design-Builder is not otherwise compensated. In no event shall the Design-Builder's compensation under this Section 13.1.6 be greater than the compensation set forth in Section 2.1.

§ 13.2 Termination or Suspension Following Execution of the Design-Build Amendment

§ 13.2.1 Termination by the Design-Builder

§ 13.2.1.1 The Design-Builder may terminate the Contract if the Work is stopped for a period of 30 consecutive days through no act or fault of the Design-Builder, the Architect, a Consultant, or a Contractor, or their agents or employees, or any other persons or entities performing portions of the Work under direct or indirect contract with the Design-Builder, for any of the following reasons:

.1 Issuance of an order of a court or other public authority having jurisdiction that requires all Work to be stopped;

.2 An act of government, such as a declaration of national emergency that requires all Work to be stopped;

.3 Because the Owner has not issued a Certificate for Payment and has not notified the Design-Builder of the reason for withholding certification as provided in Section 9.5.1, or because the Owner has not made payment on a Certificate for Payment within the time stated in the Design-Build Documents; or

.4 The Owner has failed to furnish to the Design-Builder promptly, upon the Design-Builder's request, reasonable evidence as required by Section 7.2.7.

§ 13.2.1.2 The Design-Builder may terminate the Contract if, through no act or fault of the Design-Builder, the Architect, a Consultant, a Contractor, or their agents or employees or any other persons or entities performing portions of the Work under direct or indirect contract with the Design-Builder, repeated suspensions, delays or interruptions of the entire Work by the Owner as described in Section 13.2.3 constitute in the aggregate more than 100 percent of the total number of days scheduled for completion, or 120 days in any 365-day period, whichever is less.

§ 13.2.1.3 If one of the reasons described in Section 13.2.1.1 or 13.2.1.2 exists, the Design-Builder may, upon seven days' written notice to the Owner, terminate the Contract and recover from the Owner payment for Work executed, including reasonable overhead and profit, costs incurred by reason of such termination, and damages.

§ 13.2.1.4 If the Work is stopped for a period of 60 consecutive days through no act or fault of the Design-Builder or any other persons or entities performing portions of the Work under contract with the Design-Builder because the Owner has repeatedly failed to fulfill the Owner's obligations under the Design-Build Documents with respect to matters important to the progress of the Work, the Design-Builder may, upon seven additional days' written notice to the Owner, terminate the Contract and recover from the Owner as provided in Section 13.2.1.3.

§ 13.2.2 Termination by the Owner For Cause

§ 13.2.2.1 The Owner may terminate the Contract if the Design-Builder

.1 fails to submit the Proposal by the date required by this Agreement, or if no date is indicated, within a reasonable time consistent with the date of Substantial Completion;

.2 repeatedly refuses or fails to supply an Architect, or enough properly skilled Consultants, Contractors, or workers or proper materials;

.3 fails to make payment to the Architect, Consultants, or Contractors for services, materials or labor in accordance with their respective agreements with the Design-Builder;

.4 repeatedly disregards applicable laws, statutes, ordinances, codes, rules and regulations, or lawful orders of a public authority; or

.5 is otherwise guilty of substantial breach of a provision of the Design-Build Documents.

§ 13.2.2.2 When any of the above reasons exist, the Owner may without prejudice to any other rights or remedies of the Owner and after giving the Design-Builder and the Design-Builder's surety, if any, seven days' written notice, terminate employment of the Design-Builder and may, subject to any prior rights of the surety:

.1 Exclude the Design-Builder from the site and take possession of all materials, equipment, tools and construction equipment and machinery if purchased for the project.;

.2 Accept assignment of the Architect, Consultant and Contractor agreements pursuant to Section 3.1.15; and

.3 Finish the Work by whatever reasonable method the Owner may deem expedient. Upon written request of the Design-Builder, the Owner shall furnish to the Design-Builder a detailed accounting of the costs incurred by the Owner in finishing the Work.

§ 13.2.2.3 When the Owner terminates the Contract for one of the reasons stated in Section 13.2.2.1, the Design-Builder shall not be entitled to receive further payment until the Work is finished.

§ 13.2.2.4 If the unpaid balance of the Contract Sum exceeds costs of finishing the Work and any other damages incurred and disputed amount claimed by the Owner and not expressly waived, such excess shall be paid to the Design-Builder for the actual unpaid costs incurred in performing the Work as of the date of termination. If such costs and damages exceed the unpaid balance and any other damages and disputed amounts claimed by Design-Builder, the Design-Builder shall pay the difference to the Owner. The obligation for such payments shall survive termination of the Contract.

§ 13.2.3 Suspension by the Owner for Convenience

§ 13.2.3.1 The Owner may, without cause, order the Design-Builder in writing to suspend, delay or interrupt the Work in whole or in part for such period of time as the Owner may determine subject to the provisions of this article.

§ 13.2.3.2 The Contract Sum and Contract Time shall be adjusted for increases in the cost and time caused by suspension, delay or interruption as described in Section 13.2.3.1. Adjustment of the Contract Sum shall include profit. No adjustment shall be made to the extent

.1 that performance is, was or would have been so suspended, delayed or interrupted by another cause for which the Design-Builder is responsible; or

.2 that an equitable adjustment is made or denied under another provision of the Contract.

§ 13.2.4 Termination by the Owner for Convenience

§ 13.2.4.1 The Owner may, at any time, terminate the Contract for the Owner's convenience and without cause.

§ 13.2.4.2 Upon receipt of written notice from the Owner of such termination for the Owner's convenience, the Design-Builder shall

.1 cease operations as directed by the Owner in the notice;

.2 take actions necessary, or that the Owner may direct, for the protection and preservation of the Work; and,

.3 except for Work directed to be performed prior to the effective date of termination stated in the notice, terminate all existing Project agreements, including agreements with the Architect, Consultants, Contractors, and purchase orders, and enter into no further Project agreements and purchase orders.

§ 13.2.4.3 In case of such termination for the Owner's convenience, the Design-Builder shall be entitled to receive payment for Work executed, and costs incurred by reason of such termination, along with any commitments which had become firm prior to termination including reasonable overhead and profit for the Work actually executed.

(Paragraph deleted)

ARTICLE 14 CLAIMS AND DISPUTE RESOLUTION

§ 14.1 Claims

§ 14.1.1 Definition. A Claim is a demand or assertion by one of the parties seeking, as a matter of right, payment of money, extensions of time, and/or other relief with respect to the terms of the Contract. The term "Claim" also includes other disputes and matters in question between the Owner and Design-Builder arising out of or relating to the Contract. The responsibility to substantiate Claims shall rest with the party making the Claim.

§ 14.1.2 Time Limits on Claims. The Owner and Design-Builder shall commence all claims and causes of action, whether in contract, tort, breach of warranty or otherwise, against the other, arising out of or related to the Contract in accordance with the requirements of the binding dispute resolution method selected in Section 1.3, within the time period specified by applicable law, but in any case not more than 10 years after the date of Substantial Completion of the Work. The Owner and Design-Builder waive all claims and causes of action not commenced in accordance with this Section 14.1.2.

§ 14.1.3 Notice of Claims

§ 14.1.3.1 Prior To Final Payment. Prior to Final Payment, Claims by either the Owner or Design-Builder must be initiated by written notice to the other party within 21 days after occurrence of the event giving rise to such Claim or within 21 days after the claimant first recognizes the condition giving rise to the Claim, whichever is later.

§ 14.1.3.2 Claims Arising After Final Payment. After Final Payment, Claims by either the Owner or Design-Builder that have not otherwise been waived pursuant to Sections 9.10.4 or 9.10.5, must be initiated by prompt written notice to the other party. The notice requirement in Section 14.1.3.1 and the Initial Decision requirement as a condition precedent to mediation in Section 14.2.1 shall not apply.

§ 14.1.4 Continuing Contract Performance. Pending final resolution of a Claim, except as otherwise agreed in writing or as provided in Section 9.7 and Article 13, the Design-Builder shall proceed diligently with performance of the Contract and the Owner shall continue to make payments in accordance with the Design-Build Documents.

§ 14.1.5 Claims for Additional Cost. If the Design-Builder intends to make a Claim for an increase in the Contract Sum, written notice as provided herein shall be given before proceeding to execute the portion of the Work that relates to the Claim. Prior notice is not required for Claims relating to an emergency endangering life or property arising under Section 10.4 or for Work performed under the Owner's directive.

§ 14.1.6 Claims for Additional Time

§ 14.1.6.1 If the Design-Builder intends to make a Claim for an increase in the Contract Time, written notice as provided herein shall be given. The Design-Builder's Claim shall include an estimate of cost and of probable effect of delay on progress of the Work. In the case of a continuing delay, only one Claim is necessary.

§ 14.1.6.2 If adverse weather conditions are the basis for a Claim for additional time, such Claim shall be documented by data substantiating that weather conditions were abnormal for the period of time, could not have been reasonably anticipated, and had an adverse effect on the scheduled construction.

§ 14.1.7 Claims for Consequential Damages

The Design-Builder and Owner waive Claims against each other for consequential damages arising out of or relating to this Contract. This mutual waiver includes

.1 damages incurred by the Owner for rental expenses, for losses of use, income, profit, financing, business and reputation, and for loss of management or employee productivity or of the services of such persons; and

.2 damages incurred by the Design-Builder for losses of financing, business and reputation, and for loss of profit except anticipated profit arising directly from the Work.

This mutual waiver is applicable, without limitation, to all consequential damages due to either party's termination in accordance with Article 13. Nothing contained in this Section 14.1.7 shall be deemed to preclude an award of liquidated damages, when applicable, in accordance with the requirements of the Design-Build Documents.

§ 14.2 Initial Decision

§ 14.2.1 An initial decision shall be required as a condition precedent to mediation of all Claims between the Owner and Design-Builder initiated prior to the date final payment is due, excluding those arising under Sections 10.3 and 10.4 of the Agreement and Sections B.3.2.9 and B.3.2.10 of Exhibit B to this Agreement, unless 30 days have passed after the Claim has been initiated with no decision having been rendered. Unless otherwise mutually agreed in writing, the Owner shall render the initial decision on Claims.

§ 14.2.2 Procedure

§ 14.2.2.1 Claims Initiated by the Owner. If the Owner initiates a Claim, the Design-Builder shall provide a written response to Owner within ten days after receipt of the notice required under Section 14.1.3.1. Thereafter, the Owner shall render an initial decision within ten days of receiving the Design-Builder's response: (1) withdrawing the Claim in whole or in part, (2) approving the Claim in whole or in part, or (3) suggesting a compromise.

§ 14.2.2.2 Claims Initiated by the Design-Builder. If the Design-Builder initiates a Claim, the Owner will take one or more of the following actions within ten days after receipt of the notice required under Section 14.1.3.1: (1) request

additional supporting data, (2) render an initial decision rejecting the Claim in whole or in part, (3) render an initial decision approving the Claim, (4) suggest a compromise or (5) indicate that it is unable to render an initial decision because the Owner lacks sufficient information to evaluate the merits of the Claim.

§ 14.2.3 In evaluating Claims, the Owner may, but shall not be obligated to, consult with or seek information from persons with special knowledge or expertise who may assist the Owner in rendering a decision. The retention of such persons shall be at the Owner's expense.

§ 14.2.4 If the Owner requests the Design-Builder to provide a response to a Claim or to furnish additional supporting data, the Design-Builder shall respond, within ten days after receipt of such request, and shall either (1) provide a response on the requested supporting data, (2) advise the Owner when the response or supporting data will be furnished or (3) advise the Owner that no supporting data will be furnished. Upon receipt of the response or supporting data, if any, the Owner will either reject or approve the Claim in whole or in part.

§ 14.2.5 The Owner's initial decision shall (1) be in writing; (2) state the reasons therefor; and (3) identify any change in the Contract Sum or Contract Time or both. The initial decision shall be final and binding on the parties but subject to Sections 14.3 and 14.4 of this Agreement.

§ 14.2.6 Deleted

(Paragraph deleted)

§ 14.2.7 If a Claim relates to or is the subject of a mechanic's lien, the party asserting such Claim may proceed in accordance with applicable law to comply with the lien notice or filing deadlines.

(Paragraph deleted)

§ 14.3 Mediation

§ 14.3.1 Claims, disputes, or other matters in controversy arising out of or related to the Contract, except those waived as provided for in Sections 9.10.4, 9.10.5, and 14.1.7, may be subject to mediation upon mutual agreement of the Owner and the Design-Builder.

§ 14.3.2 If the parties endeavor to resolve their Claims by mediation, unless the parties mutually agree otherwise, the mediation shall be administered by the American Arbitration Association in accordance with its Construction Industry Mediation Procedures in effect on the date of the Agreement, as may be modified upon mutual agreement of the parties. A request for mediation shall be made in writing, delivered to the other party to the Contract, and filed with the person or entity administering the mediation. The request may be made concurrently with the filing of binding dispute resolution proceedings but, in such event, mediation shall proceed in advance of binding dispute resolution proceedings, which shall be stayed pending mediation for a period of 60 days from the date of filing, unless stayed for a longer period by agreement of the parties or court order. If an arbitration proceeding is stayed pursuant to this Section 14.3.2, the parties may nonetheless proceed to the selection of the arbitrator(s) and agree upon a schedule for later proceedings.

§ 14.3.3 The parties shall share the mediator's fee and any filing fees equally. The mediation shall be held in the county where the Project is located, unless another location is mutually agreed upon. Agreements reached in mediation shall be enforceable as settlement agreements in any court having jurisdiction.

§ 14.4 Arbitration

§ 14.4.1 If the parties have selected arbitration as the method for binding dispute resolution in Section 1.3, any Claim subject to, but not resolved by, mediation shall be subject to arbitration which, unless the parties mutually agree otherwise, shall be administered by the American Arbitration Association in accordance with its Construction Industry Arbitration Rules in effect on the date of the Agreement. A demand for arbitration shall be made in writing, delivered to the other party to the Contract, and filed with the person or entity administering the arbitration. The party filing a notice of demand for arbitration must assert in the demand all Claims then known to that party on which arbitration is permitted to be demanded.

§ 14.4.1.1 A demand for arbitration shall be made within a reasonable time after Claim, dispute, or other matter has arisen, but in no event shall it be made after the date when the institution of legal or equitable proceedings based on the

Claim would be barred by the applicable statute of limitations or statute of repose. For statute of limitations or statute of repose purposes, receipt of a written demand for arbitration by the person or entity administering the arbitration shall constitute the institution of legal or equitable proceedings based on the Claim.

§ 14.4.2 The award rendered by the arbitrator or arbitrators shall be final, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction. The parties agree the arbitrator shall have no power, jurisdiction, or authority to award punitive or exemplary damages to any party.

§ 14.4.3 The foregoing agreement to arbitrate, and other agreements to arbitrate with an additional person or entity duly consented to by parties to the Agreement, shall be specifically enforceable under applicable law in any court having jurisdiction thereof.

§ 14.4.4 Consolidation or Joinder

§ 14.4.4.1 Either party, at its sole discretion, may consolidate an arbitration conducted under this Agreement with any other arbitration to which it is a party provided that (1) the arbitration agreement governing the other arbitration permits consolidation, (2) the arbitrations to be consolidated substantially involve common questions of law or fact, and (3) the arbitrations employ materially similar procedural rules and methods for selecting arbitrator(s).

§ 14.4.4.2 Either party, at its sole discretion, may include by joinder persons or entities substantially involved in a common question of law or fact whose presence is required if complete relief is to be accorded in arbitration, provided that the party sought to be joined consents in writing to such joinder. Consent to arbitration involving an additional person or entity shall not constitute consent to arbitration of any claim, dispute or other matter in question not described in the written consent.

§ 14.4.4.3 The Owner and Design-Builder grant to any person or entity made a party to an arbitration conducted under this Section 14.4, whether by joinder or consolidation, the same rights of joinder and consolidation as the Owner and Design-Builder under this Agreement.

(Paragraph deleted)

ARTICLE 15 MISCELLANEOUS PROVISIONS

§ 15.1 Governing Law

The Contract shall be governed by the laws of the State where the Project is located, except that, if the parties have selected arbitration as the method of binding dispute resolution, the Federal Arbitration Act shall govern Section 14.4.

§ 15.2 Successors and Assigns

§ 15.2.1 The Owner and Design-Builder, respectively, bind themselves, their partners, successors, assigns and legal representatives to the covenants, agreements and obligations contained in the Design-Build Documents. Except as provided in Section 15.2.2, neither party to the Contract shall assign the Contract as a whole without written consent of the other. If either party attempts to make such an assignment without such consent, that party shall nevertheless remain legally responsible for all obligations under the Contract.

§ 15.2.2 The Owner may, without consent of the Design-Builder, assign the Contract to a lender providing construction financing for the Project, if the lender assumes the Owner's rights and obligations under the Design-Build Documents. The Design-Builder shall execute all consents reasonably required to facilitate such assignment.

§ 15.2.3 If the Owner requests the Design-Builder, Architect, Consultants, or Contractors to execute certificates, other than those required by Section 3.1.10, the Owner shall submit the proposed language of such certificates for review at least 14 days prior to the requested dates of execution. If the Owner requests the Design-Builder, Architect, Consultants, or Contractors to execute consents reasonably required to facilitate assignment to a lender, the Design-Builder, Architect, Consultants, or Contractors shall execute all such consents that are consistent with this Agreement, provided the proposed consent is submitted to them for review at least 14 days prior to execution. The Design-Builder, Architect, Consultants, and Contractors shall not be required to execute certificates or consents that would require knowledge, services or responsibilities beyond the scope of their services.

§ 15.3 Written Notice

Written notice shall be deemed to have been duly served if delivered in person to the individual reasonably having authority to accept such notice, to a member of the firm or entity, or to an officer of the corporation for which it was

intended; or if delivered at, or sent by registered or certified mail or by courier service providing proof of delivery to, the last business address known to the party giving notice.

§ 15.4 Rights and Remedies

§ 15.4.1 Duties and obligations imposed by the Design-Build Documents, and rights and remedies available thereunder, shall be in addition to and not a limitation of duties, obligations, rights and remedies otherwise imposed or available by law.

§ 15.4.2 No action or failure to act by the Owner or Design-Builder shall constitute a waiver of a right or duty afforded them under the Contract, nor shall such action or failure to act constitute approval of or acquiescence in a breach thereunder, except as may be specifically agreed in writing.

§ 15.5 Tests and Inspections

§ 15.5.1 Tests, inspections and approvals of portions of the Work shall be made as required by the Design-Build Documents and by applicable laws, statutes, ordinances, codes, rules and regulations or lawful orders of public authorities. Unless otherwise provided, the Design-Builder shall make arrangements for such tests, inspections and approvals with an independent testing laboratory or entity acceptable to the Owner, or with the appropriate public authority, and shall bear all related costs of tests, inspections and approvals. The Design-Builder shall give the Owner timely notice of when and where tests and inspections are to be made so that the Owner may be present for such procedures. The Owner shall bear costs of (1) tests, inspections or approvals that do not become requirements until after bids are received or negotiations concluded, and (2) tests, inspections or approvals where building codes or applicable laws or regulations prohibit the Owner from delegating their cost to the Design-Builder.

§ 15.5.2 If the Owner determines that portions of the Work require additional testing, inspection or approval not included under Section 15.5.1, the Owner will instruct the Design-Builder to make arrangements for such additional testing, inspection or approval by an entity acceptable to the Owner, and the Design-Builder shall give timely notice to the Owner of when and where tests and inspections are to be made so that the Owner may be present for such procedures. Such costs, except as provided in Section 15.5.3, shall be at the Owner's expense.

§ 15.5.3 If such procedures for testing, inspection or approval under Sections 15.5.1 and 15.5.2 reveal failure of the portions of the Work to comply with requirements established by the Design-Build Documents, all costs made necessary by such failure shall be at the Design-Builder's expense.

§ 15.5.4 Required certificates of testing, inspection or approval shall, unless otherwise required by the Design-Build Documents, be secured by the Design-Builder and promptly delivered to the Owner.

§ 15.5.5 If the Owner is to observe tests, inspections or approvals required by the Design-Build Documents, the Owner will do so promptly and, where practicable, at the normal place of testing.

§ 15.5.6 Tests or inspections conducted pursuant to the Design-Build Documents shall be made promptly to avoid unreasonable delay in the Work.

§ 15.6 Confidential Information

If the Owner or Design-Builder transmits Confidential Information, the transmission of such Confidential Information constitutes a warranty to the party receiving such Confidential Information that the transmitting party is authorized to transmit the Confidential Information. If a party receives Confidential Information, the receiving party shall keep the Confidential Information strictly confidential and shall not disclose it to any other person or entity except as set forth in Section 15.6.1.

§ 15.6.1 A party receiving Confidential Information may disclose the Confidential Information as required by law or court order, including a subpoena or other form of compulsory legal process issued by a court or governmental entity. A party receiving Confidential Information may also disclose the Confidential Information to its employees, consultants or contractors in order to perform services or work solely and exclusively for the Project, provided those employees, consultants and contractors are subject to the restrictions on the disclosure and use of Confidential Information as set forth in this Contract.

§ 15.8.2 Unless otherwise stated in the Design-Build Documents, words which have well-known technical or construction industry meanings are used in the Design-Build Documents in accordance with such recognized meanings.

(Paragraph deleted)

§ 15. 9 Conflicts

The Design-Builder nor its employees shall have or hold frequently recurring employment that conflict with the scope of this agreement. The Design-Builder shall not serve as an expert witness against the Owner for any legal or administrative proceeding in which they are not a party to. The Design Builder's architects, contractors, and consultants shall be held to these same requirements.

§ 15. 10 Evaluations

The Design Builder acknowledges that the Owner may perform Evaluations on the performance of the Design Builder, their architects, contractors, and consultants, and said evaluations may be used in future review of their Qualifications.

ARTICLE 16 SCOPE OF THE AGREEMENT

§ 16.1 This Agreement is comprised of the following documents listed below:

.1 Standard Form of Agreement Between Owner and Design-Builder
.2 Exhibit A, Design-Build Amendment
.3 Exhibit B, Insurance and Bonds
.4 Exhibit C, General Conditions
.5 Exhibit D, Building Outline Specifications
.6 Exhibit E, Cost Proposal Summary and Construction Cost Breakdown
.7 Exhibit F, List of Drawings

(Paragraph deleted)

This Agreement entered into as of the day and year first written above.

OWNER *(Signature)*	**DESIGN-BUILDER** *(Signature)*
TRC-MRC 3, LLC **a Delaware limited liability company**	COMMERCE CONSTRUCTION CO., L.P.
BY: Majestic Tejon III, LLC a Delaware limited liability company its administrative member	BY: COMMERCE C & R, INC., Its General Partner
BY: Majestic Realty Co., a California corporation Manager's Agent	BY: _____ John R. Burroughs, President
BY: _____	BY: _____ Matthew Vawter, Vice President
BY: _____	
BY: Tejon Industrial Corp., a California corporation	
BY: _____	
BY: _____	_____

(Row deleted)

This Agreement entered into as of the day and year first written above.

OWNER *(Signature)*

TRC-MRC 3, LLC
a Delaware limited liability company

BY: Majestic Tejon III, LLC
a Delaware limited liability company
its administrative member

BY: Majestic Realty Co.,
a California corporation
Manager's Agent

BY: _____

BY: _____

BY: Tejon Industrial Corp.,
a California corporation

BY: _____

BY: _____

DESIGN-BUILDER *(Signature)*

COMMERCE CONSTRUCTION CO., L.P.

BY: COMMERCE C & R, INC., Its
General Partner

BY: _____
John R. Burroughs, President

BY: _____
Matthew Vawter, Vice President

_____

EXHIBIT "F"

LIST OF PRE-APPROVED CONSULTANTS

- McIntosh & Associates – civil engineering, land division, easements, studies
- Advantec Consulting Engineers – traffic studies, traffic impact, CalTrans liaison
- W&S Consultants – cultural assessments, mitigation, monitoring
- Dudek – wildlife biology assessments, mitigation, monitoring
- PetroTECH Resources – petroleum engineering, DOGGR liaison
- Soils Engineering or Krazan & Associates - Geotech
- Commerce Construction

EXHIBIT "G"

MASTER DEVELOPER WORK

- Widening of the western edge of Wheeler Ridge Road by approximately twelve (12) feet, including paving the shoulder, and installing curb, gutter, sidewalk, and landscaping.
- Construction of a left turn pocket within the existing median on Wheeler Ridge Road at the northern entry into the Property.
- Coordination of any utility connections required for the Project.
- Any additional work specified as Master Developer work in the Development Plan (and any amendments thereto).
- Approval by Kern County of parcel map waiver and/or road abandonment.
- Relocation of gas line to eastern edge of the Property.

EXHIBIT "H"

RIGHT OF FIRST REFUSAL

Except for transfers permitted by Sections 6.02(a), (b), (c), (d), (e) and (f) each time a Member (an "**Offeror**") proposes to voluntarily transfer, assign, convey, sell, or otherwise dispose of its entire Interest (an "**Offered Interest**"), such Offeror shall first offer such Offered Interest to the non-transferring Member in accordance with the following provisions:

(a) The Offeror shall deliver a written notice (the "**Offer Notice**") to the non-transferring Member stating (i) such Offeror's bona fide intention to transfer the Offered Interest, (ii) the name and address of the proposed transferee, and (iii) the purchase price and terms of payment for which the Offeror proposes to transfer the Offered Interest. The Offer Notice shall constitute a revocable offer by the Offeror to sell the Offered Interest to the other Member on the terms and conditions set forth in this Exhibit "H."

(b) Within thirty (30) days after receipt of the Offer Notice, the non-transferring Member shall have the right, but not the obligation, to elect to purchase the entire Offered Interest for the price and upon the terms and conditions set forth in the Offer Notice by delivering written notice of such election (the "**Purchase Election**") to the Offeror. The failure of non-transferring Member to submit a written notice within such thirty (30) day period shall constitute an irrevocable rejection of the offer made by the Offeror to sell the Offered Interest to the non-transferring Member.

(c) If the non-transferring Member timely elects to purchase the entire Offered Interest prior to the Offeror's written revocation of the offer, then the Offered Interest shall be sold to the non-transferring Member upon the terms and conditions set forth in the Offer Notice including, without limitation, price, terms of payment and closing date; provided, however, if the terms of the proposed transfer include the payment by the Offeror of a commission, then the purchase price shall be reduced by the amount of such commission. The Offeror and the non-transferring Member shall execute such documents and instruments and make such deliveries as may be reasonably required to consummate the transfer. Notwithstanding any other provisions of this Exhibit "H," the Offeror shall make the representations and warranties set forth in Section 8.07 of the Agreement at the closing for the purchase and sale of the Offered Interest.

(d) If the non-transferring Member does not timely elect to purchase the entire Offered Interest (or if the non-transferring Member breaches its obligation to purchase the entire Offered Interest), then the Offeror may transfer the entire Offered Interest to the proposed transferee described in the Offer Notice, provided such transfer (i) is completed within ninety (90) days after the expiration of the non-transferring Member's right to purchase the Offered Interest (or within 90 days following the breach by the non-transferring Member of its obligation to purchase the entire Offered Interest, if applicable), (ii) is made at the price and on terms and conditions no less favorable to the Offeror than as described in the Offer Notice, (iii) would not constitute a default or breach by the Company under any loan agreement or document to which the Company is a party (unless the lender consents to such transfer), and (iv) the requirements of Section 6.03 are met. If the Offered Interest is not so transferred within such ninety (90)-day

period, then the Offeror shall be required to comply again with the provisions of this Exhibit "H" prior to voluntarily transferring, assigning, conveying, selling or otherwise disposing of the Offered Interest to any Person (except for any transfer to any Person permitted by Sections 6.02(a), (b), (c), (d), (e) and (f) above). In addition, in the event of a breach by the non-transferring Member of its obligation to purchase, such non-transferring Member shall not have a right to elect to purchase an Offered Interest with respect to a transfer of an Interest which is consummated within one (1) year after such breach.

(e) If any transferee purchases an Interest pursuant to the procedure described in this Exhibit "H," then such transferee shall be admitted to the Company as a substituted member upon the closing of such purchase and sale and the satisfaction of the requirements of Section 6.03.

LIMITED LIABILITY COMPANY AGREEMENT
OF
TRC-MRC 3, LLC

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, 15 U.S.C. § 15b ET SEQ., AS AMENDED (THE "**FEDERAL ACT**"), IN RELIANCE UPON ONE (1) OR MORE EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE FEDERAL ACT. IN ADDITION, THE ISSUANCE OF THIS SECURITY HAS NOT BEEN QUALIFIED UNDER THE DELAWARE SECURITIES ACT, THE CALIFORNIA CORPORATE SECURITIES LAW OF 1968 OR ANY OTHER STATE SECURITIES LAWS (COLLECTIVELY, THE "**STATE ACTS**"), IN RELIANCE UPON ONE (1) OR MORE EXEMPTIONS FROM THE REGISTRATION PROVISIONS OF THE STATE ACTS. IT IS UNLAWFUL TO CONSUMMATE A SALE OR OTHER TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN TO, OR TO RECEIVE ANY CONSIDERATION THEREFOR FROM, ANY PERSON OR ENTITY WITHOUT THE OPINION OF COUNSEL FOR THE COMPANY THAT THE PROPOSED SALE OR OTHER TRANSFER OF THIS SECURITY DOES NOT AFFECT THE AVAILABILITY TO THE COMPANY OF SUCH EXEMPTIONS FROM REGISTRATION AND QUALIFICATION, AND THAT SUCH PROPOSED SALE OR OTHER TRANSFER IS IN COMPLIANCE WITH ALL APPLICABLE STATE AND FEDERAL SECURITIES LAWS. THE TRANSFER OF THIS SECURITY IS FURTHER RESTRICTED UNDER THE TERMS OF THE LIMITED LIABILITY COMPANY AGREEMENT GOVERNING THE COMPANY, A COPY OF WHICH IS ON FILE WITH THE COMPANY.

Page

Page

EXHIBITS

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Gregory S. Bielli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tejon Ranch Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2018

/s/ Gregory S. Bielli

Gregory S. Bielli
President and Chief Executive Officer

EXHIBIT 31.2

Certification of Chief Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Allen E. Lyda, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tejon Ranch Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2018

/s/ Allen E. Lyda

Allen E. Lyda

Executive Vice President, Chief Financial Officer and Corporate Treasurer

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, in his capacity as an officer of Tejon Ranch Co. (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his own knowledge:

- The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2018 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

A signed original of this written statement required by Section 906 has been provided to Tejon Ranch Co. and will be retained by Tejon Ranch Co., and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 6, 2018

/s/ Gregory S. Bielli

Gregory S. Bielli
President and Chief Executive Officer

/s/ Allen E. Lyda

Allen E. Lyda
Executive Vice President, Chief Financial Officer and Corporate Treasurer