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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

Or

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

For the transition period from to

Commission File Number: 1-7183

TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer ☐	Accelerated filer x
Non-accelerated filer ☐	Non-accelerated filer ☐

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

The number of the Company's outstanding shares of Common Stock on July 31, 2016 was 20,733,667.

TEJON RANCH CO. AND SUBSIDIARIES
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEJON RANCH CO. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Real estate - commercial/industrial	$ 2,159	$ 1,810	$ 4,313	$ 4,089
Mineral resources	3,187	2,652	11,927	12,852
Farming	502	1,323	1,723	4,394
Ranch operations	1,001	1,215	1,839	2,298
Total revenues	6,849	7,000	19,802	23,633
Costs and Expenses:				
Real estate - commercial/industrial	1,714	1,676	3,393	3,285
Real estate - resort/residential	387	576	929	1,327
Mineral resources	1,800	723	6,493	6,417
Farming	1,350	1,244	2,856	3,587
Ranch operations	1,542	1,419	2,889	3,012
Corporate expenses	3,163	2,764	6,166	6,287
Total expenses	9,956	8,402	22,726	23,915
Operating loss	(3,107)	(1,402)	(2,924)	(282)
Other Income:				
Investment income	120	142	238	297
Other income	37	17	88	55
Total other income	157	159	326	352
(Loss) income from operations before equity in earnings of unconsolidated joint ventures	(2,950)	(1,243)	(2,598)	70
Equity in earnings of unconsolidated joint ventures, net	1,842	1,656	3,297	2,806
(Loss) income before income tax expense	(1,108)	413	699	2,876
Income tax (benefit) expense	(380)	36	232	898
Net (loss) income	(728)	377	467	1,978
Net loss attributable to non-controlling interest	(40)	(29)	(54)	(45)
Net (loss) income attributable to common stockholders	$ (688)	$ 406	$ 521	$ 2,023
Net (loss) income per share attributable to common stockholders, basic	$ (0.03)	$ 0.02	$ 0.03	$ 0.10
Net (loss) income per share attributable to common stockholders, diluted	$ (0.03)	$ 0.02	$ 0.03	$ 0.10

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	$ (728)	$ 377	$ 467	$ 1,978
Other comprehensive income:				
Unrealized gain (loss) on available for sale securities	54	(119)	242	(57)
Unrealized (loss) gain on interest rate swap	(1,031)	1,794	(3,307)	399
Other comprehensive (loss) income before taxes	(977)	1,675	(3,065)	342
Benefit (provision) from income taxes related to other comprehensive income (loss) items	342	(670)	1,072	(136)
Other comprehensive (loss) income	(635)	1,005	(1,993)	206
Comprehensive (loss) income	(1,363)	1,382	(1,526)	2,184
Comprehensive loss attributable to non-controlling interests	(40)	(29)	(54)	(45)
Comprehensive (loss) income attributable to common stockholders	$ (1,323)	$ 1,411	$ (1,472)	$ 2,229

See accompanying notes.

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 862	$ 1,930
Marketable securities - available-for-sale	32,661	32,815
Accounts receivable	3,066	6,511
Inventories	9,466	3,517
Prepaid expenses and other current assets	6,261	4,120
Total current assets	52,316	48,893
Real estate and improvements - held for lease, net	23,234	21,942
Real estate development (includes $87,217 at June 30, 2016 and $84,194 at December 31, 2015, attributable to Centennial Founders, LLC, Note 15)	239,932	235,466
Property and equipment, net	45,819	44,469
Investments in unconsolidated joint ventures	33,432	30,680
Long-term water assets	43,089	43,806
Deferred tax assets	5,732	4,659
Other assets	2,444	2,004
TOTAL ASSETS	$ 445,998	$ 431,919
LIABILITIES AND EQUITY		
Current Liabilities:		
Trade accounts payable	$ 4,135	$ 3,252
Accrued liabilities and other	2,853	3,492
Income taxes payable	—	1,237
Deferred income	1,698	1,525
Revolving line of credit	11,000	—
Current maturities of long-term debt	2,503	815
Total current liabilities	22,189	10,321
Long-term debt, less current portion	71,417	73,223
Long-term deferred gains	3,811	3,816
Other liabilities	16,843	13,251
Total liabilities	114,260	100,611
Commitments and contingencies		
Equity:		
Tejon Ranch Co. Stockholders' Equity		
Common stock, $.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 20,725,851 at June 30, 2016 and 20,688,154 at December 31, 2015	10,363	10,344
Additional paid-in capital	218,740	216,803
Accumulated other comprehensive loss	(8,895)	(6,902)
Retained earnings	71,910	71,389
Total Tejon Ranch Co. Stockholders' Equity	292,118	291,634
Non-controlling interest	39,620	39,674
Total equity	331,738	331,308
TOTAL LIABILITIES AND EQUITY	$ 445,998	$ 431,919

See accompanying notes.

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net income	$ 467	$ 1,978
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,810	2,431
Amortization of premium/discount of marketable securities	255	328
Equity in earnings of unconsolidated joint ventures	(3,297)	(2,806)
Non-cash retirement plan expense	483	507
Deferred income taxes	—	1
Stock compensation expense	2,131	1,900
Changes in operating assets and liabilities:		
Receivables, inventories and other assets, net	(4,939)	(2,830)
Current liabilities	(1,607)	124
Net cash (used in) provided by operating activities	(3,697)	1,633
Investing Activities		
Maturities and sales of marketable securities	3,291	14,665
Funds invested in marketable securities	(3,151)	(12,200)
Property and equipment expenditures	(13,266)	(12,113)
Communities Facilities District and other reimbursements	4,650	4,971
Investment in unconsolidated joint ventures	(55)	—
Distribution of equity from unconsolidated joint ventures	600	1,100
Other	—	(38)
Net cash used in investing activities	(7,931)	(3,615)
Financing Activities		
Borrowings of short-term debt	11,000	10,560
Repayments of short-term debt	—	(13,450)
Repayments of long-term debt	(126)	(126)
Taxes on vested stock grants	(314)	(529)
Net cash provided by (used in) financing activities	10,560	(3,545)
Decrease in cash and cash equivalents	(1,068)	(5,527)
Cash and cash equivalents at beginning of year	1,930	5,638
Cash and cash equivalents at end of period	$ 862	$ 111
Supplemental cash flow information		
Accrued capital expenditures included in current liabilities	$ 584	$ 1,383
Income taxes paid	$ 1,350	$ 2,117

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, 2015	20,688,154	$ 10,344	$ 216,803	$ (6,902)	$ 71,389	$ 291,634	$ 39,674	$331,308
Net income (loss)	—	—	—	—	521	521	(54)	467
Other comprehensive loss	—	—	—	(1,993)	—	(1,993)	—	(1,993)
Restricted stock issuance	53,892	27	(27)	—	—	—	—	—
Stock compensation	—	—	2,270	—	—	2,270	—	2,270
Shares withheld for taxes and tax benefit of vested shares	(16,195)	(8)	(306)	—	—	(314)	—	(314)
Balance, June 30, 2016	20,725,851	$ 10,363	$ 218,740	$ (8,895)	$ 71,910	$ 292,118	$ 39,620	$331,738

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), furnished pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of the Company's management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

The periods ending June 30, 2016 and 2015 include the consolidation of Centennial Founders, LLC's statement of operations within the resort /residential real estate development segment and statements of cash flows. The Company's June 30, 2016 and December 31, 2015 balance sheets and statements of changes in equity and noncontrolling interests are presented on a consolidated basis including the consolidation of Centennial Founders, LLC.

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

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

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on results of operations.

Ranch Operations

During the fourth quarter of 2015, the Company reclassified revenues and expenses comprised of grazing leases, game management and other ancillary services supporting the ranch, from commercial/industrial into a new segment called ranch operations. As a result, the Company reclassified prior period ranch operation revenues and expenses on the consolidated statements of income. For the six months ended June 30, 2015, revenues and expenses reclassified were $2,298,000 and $3,012,000, respectively. For the quarter ended June 30, 2015, revenues and expenses reclassified were $1,215,000 and $1,419,000, respectively.

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, 2015.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2014-09, "Revenue from Contracts with Customers", which provides guidance for revenue recognition that supersedes existing revenue recognition guidance (but does not apply to nor supersede accounting guidance for lease contracts). The ASU's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for reporting periods beginning after December 15, 2016, and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. In July 2015, the FASB affirmed its proposal to defer the effective date by one year. The new standard will become effective for the Company beginning with the first quarter of fiscal 2018. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity, and (3) the primary beneficiary determination. ASU 2015-02 is effective for periods beginning after December 15, 2015. As a result of adopting this ASU, on January 1, 2016 we were not required to consolidate any legal entities that were previously unconsolidated or deconsolidate any legal entities that were previously consolidated. Therefore, upon adoption, we were not required to retrospectively adjust any prior period information or recognize a cumulative effect of the change in retained earnings as a result of the initial application of this update.

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. The new guidance is effective for periods beginning after December 15, 2017, with early adoption permitted. The Company is currently in the process of evaluating the impact of the adoption of this ASU on the Company’s consolidated financial statements.

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

2. EQUITY

Earnings Per Share (EPS)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of shares outstanding:				
Common stock	20,724,689	20,660,797	20,713,396	20,653,363
Common stock equivalents-stock options, grants	115,693	69,701	103,664	64,554
Diluted shares outstanding	20,840,382	20,730,498	20,817,060	20,717,917

Warrants

On August 7, 2013, the Company announced that its Board of Directors declared a dividend of 3,000,000 warrants, or the Warrants, to purchase shares of Company common stock, par value $0.50 per share, or Common Stock, to holders of record of Common Stock as of August 21, 2013, the Record Date. The Warrants were issued pursuant to a Warrant Agreement between the Company, Computershare, Inc. and Computershare Trust Company, N.A., as warrant agent. The Warrants were distributed to shareholders on August 28, 2013. Each Warrant entitles the holder to purchase one share of Common Stock at an initial exercise price of $40.00 per share. The Warrants are exercisable through August 31, 2016, subject to the Company's right to accelerate the expiration date under certain circumstances when the Warrants are in-the-money. On February 26, 2016, the Company received a notice from NYSE MKT indicating the Warrants are not in compliance with the NYSE MKT's continued listing standard due to the security's abnormally low market value of less than $0.01. Consequently, the NYSE has delisted the Warrants. Based on current stock prices, the Company expects the Warrants will expire without being exercised.

3. MARKETABLE SECURITIES

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

($ in thousands)		June 30, 2016		December 31, 2015	
Marketable Securities:	Fair Value Hierarchy	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Certificates of deposit					
with unrecognized losses for less than 12 months		$ 42	$ 41	$ 4,810	$ 4,797
with unrecognized losses for more than 12 months		—	—	239	238
with unrecognized gains		6,422	6,455	2,800	2,805
Total Certificates of deposit	Level 1	6,464	6,496	7,849	7,840
US Treasury and agency notes					
with unrecognized losses for less than 12 months		—	—	860	857
with unrecognized losses for more than 12 months		—	—	—	—
with unrecognized gains		2,032	2,043	736	738
Total US Treasury and agency notes	Level 2	2,032	2,043	1,596	1,595
Corporate notes					
with unrecognized losses for less than 12 months		2,979	2,960	14,638	14,516
with unrecognized losses for more than 12 months		1,961	1,951	2,080	2,061
with unrecognized gains		15,532	15,591	3,334	3,339
Total Corporate notes	Level 2	20,472	20,502	20,052	19,916
Municipal notes					
with unrecognized losses for less than 12 months		554	550	1,742	1,725
with unrecognized losses for more than 12 months		361	358	301	298
with unrecognized gains		2,696	2,712	1,435	1,441
Total Municipal notes	Level 2	3,611	3,620	3,478	3,464
		$ 32,579	$ 32,661	$ 32,975	$ 32,815

We evaluate our securities for other-than-temporary impairment based on the specific facts and circumstances surrounding each security valued below its cost. Factors considered include the length of time the securities have been valued below cost, the financial condition of the issuer, industry reports related to the issuer, the severity of any decline, our intention not to sell the security, and our assessment as to whether it is not more likely than not that we will be required to sell the security before a recovery of its amortized cost basis. We then segregate the loss between the amounts representing a decrease in cash flows expected to be collected, or the credit loss, which is recognized through earnings, and the balance of the loss which is recognized through other comprehensive income. At June 30, 2016, the fair market value of investment securities was $82,000 higher than their cost basis.

As of June 30, 2016, the adjustment to accumulated other comprehensive loss in consolidated equity for the temporary change in the value of securities reflected an increase in the market value of available-for-sale securities of $242,000, which includes estimated taxes of $85,000. As of June 30, 2016, the Company's gross unrealized holding income equaled $119,000 and gross unrealized holding losses equaled $37,000.

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

	June 30, 2016				
($ in thousands)	2016	2017	2018	2019	Total
Certificates of deposit	$ 1,079	$ 671	$ 4,510	$ 169	$ 6,429
U.S. Treasury and agency notes	100	1,234	579	143	2,056
Corporate notes	3,067	6,425	7,573	2,861	19,926
Municipal notes	775	940	1,605	230	3,550
	$ 5,021	$ 9,270	$ 14,267	$ 3,403	$ 31,961

	December 31, 2015				
($ in thousands)	2016	2017	2018	2019	Total
Certificates of deposit	$ 2,492	$ 631	$ 4,510	169	$ 7,802
U.S. Treasury and agency notes	100	759	579	188	1,626
Corporate notes	4,572	6,525	6,462	1,881	19,440
Municipal notes	995	940	1,455	—	3,390
	$ 8,159	$ 8,855	$ 13,006	$ 2,238	$ 32,258

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

4. REAL ESTATE

($ in thousands)	June 30, 2016	December 31, 2015
Real estate development		
Mountain Village	$ 123,538	$ 120,954
Centennial	87,217	84,194
Grapevine	20,669	18,285
Tejon Ranch Commerce Center	8,508	12,033
Real estate development	239,932	235,466
Real estate and improvements - held for lease, net		
Tejon Ranch Commerce Center	21,263	19,783
Rancho Santa Fe and Other	4,242	4,242
Real estate and improvements - held for lease	25,505	24,025
Less accumulated depreciation	(2,271)	(2,083)
Real estate and improvements - held for lease, net	$ 23,234	$ 21,942

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 incurred to pump and deliver the water. A portion of our water is currently held in a water bank on Company land in southern Kern County. Banked water costs also include costs related to the right to receive additional acre-feet of water in the future from the Antelope Valley East Kern Water Agency, or AVEK. The Company has also banked water within an AVEK owned water bank.

We also purchase 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 is currently held on our behalf by AVEK. We also have secured State Water Project, or SWP, entitlement under long-term SWP water contracts within the Tulare Lake Basin Water Storage District, or TLBWSD, and the Dudley-Ridge Water District, or DRWD, totaling 3,444 acre-feet of SWP entitlement annually, subject to SWP allocations. These contracts extend through 2035 and now have been transferred to AVEK for our use in the Antelope Valley. In 2013, the Company acquired from DMB Pacific, or DMB, a contract to purchase water that obligates the Company to purchase 6,693 acre feet of water each year from the Nickel Family, LLC, or Nickel, a California limited liability company that is located in Kern County. The initial term of the water purchase agreement with Nickel runs to 2044 and includes a Company option to extend the contract for an additional 35 years. Purchase costs in 2016 were $695 per acre-foot. For future years, the purchase cost is subject to annual increases based on the greater of the consumer price index and 3%.

The water purchased under the contract with Nickel is expected to be used in the development of the Company's land for commercial/industrial development, residential development, and farming. Interim uses may include the sale of portions of this water to third party users on an annual basis until this water is fully allocated to Company uses.

On August 6, 2015, 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. PEF is the current lessee under the power plant lease. Pursuant to the Water Supply Agreement, beginning on January 1, 2016, PEF may purchase from Ranchcorp up to 2,000 acre feet of water and, from January 1, 2017 through July 31, 2030, with an option to extend the term, PEF may purchase from Ranchcorp up to 3,500 acre feet of water per year. 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 is $1,025 per acre foot of annual water, subject to 3% annual increases commencing January 1, 2017. The Water Supply Agreement contains other customary terms and conditions, including representations and warranties, which are typical for agreements of this type. The Company's commitments to sell water can be met through current water assets.

During the first six months ended June 30, 2016, we sold 7,285 acre feet of water totaling $9,601,000 with a cost of $5,925,000, which was recorded in the mineral resources segment on the unaudited consolidated statements of operations.

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

(in acre-feet, unaudited)	June 30, 2016	December 31, 2015
Banked water and water for future delivery		
AVEK water bank	13,033	13,033
Company water bank	17,287	8,700
AVEK water for future delivery	2,362	2,362
Total Company and AVEK banked water	32,682	24,095
Transferable water*	9,061	14,786
Water Contracts	10,137	10,137
Total purchased water - third parties	51,880	49,018
WRMWSD - Contracts with Company	15,547	15,547
TCWD - Contracts with Company	5,749	5,749
TCWD - Banked water contracted to Company	33,390	34,496
Total purchased and contracted water sources in acre feet	106,566	104,810

*Any transferable water with AVEK that is used by the Company or returned by AVEK to the Company will be returned at a 1.5 to 1 factor giving the Company use of a total of 13,592 (9,061 x 1.5) acre feet.

($ in thousands)	June 30, 2016	December 31, 2015
Banked water and water for future delivery	$ 4,778	$ 4,779
Transferable water	9,076	9,117
Water contracts	30,586	31,261
Total long-term water assets	44,440	45,157
less: Current portion	(1,351)	(1,351)
	$ 43,089	$ 43,806

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following:

($ in thousands)	June 30, 2016	December 31, 2015
Accrued vacation	$ 821	$ 801
Accrued paid personal leave	556	585
Accrued bonus	1,041	1,549
Other	435	557
	$ 2,853	$ 3,492

7. LINE OF CREDIT AND LONG-TERM DEBT

Debt consists of the following:

($ in thousands)	June 30, 2016	December 31, 2015
Revolving line of credit	$ 11,000	$ —
Term Note	70,000	70,000
Promissory note	4,089	4,215
Total short-term and long-term debt	85,089	74,215
Less: line-of-credit and current maturities of long-term debt	(13,503)	(815)
Less: deferred loan costs	(169)	(177)
Long-term debt, less current portion	$ 71,417	$ 73,223

On October 13, 2014, the Company, through its wholly-owned subsidiary Ranchcorp, as borrower, entered into an Amended and Restated Credit Agreement, a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. The Credit Facility amended and restated the Company's existing credit facility dated as of November 5, 2010 and extended on December 4, 2013. The Credit Facility added a $70,000,000 Term Note, to the existing $30,000,000 revolving line of credit, or RLC. Funds from the Term Note were used to finance the Company's purchase of DMB TMV LLC’s interest in Tejon Mountain Village LLC. Any future borrowings under the RLC will be used for ongoing working capital requirements and other general corporate purposes. To maintain availability of funds under the RLC, undrawn amounts under the RLC will accrue a commitment fee of 10 basis points per annum. The Company's ability to borrow additional funds in the future under the RLC is subject to compliance with certain financial covenants and making certain representations and warranties. As of June 30, 2016 and December 31, 2015, the RLC had an outstanding balance of $11,000,000 and $0, respectively. At the Company’s option, the interest rate on this line of credit can float at 1.50% over a selected LIBOR or can be fixed at 1.50% above LIBOR for a fixed rate term. During the term of the Credit Facility (which matures in September 2019), we can borrow at any time and partially or wholly repay any outstanding borrowings and then re-borrow, as necessary.

The interest rate per annum applicable to the Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Note requires interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Note at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables 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 June 30, 2016 and December 31, 2015, we were in compliance with all financial covenants.

During the third quarter of 2013, we entered into a promissory note agreement with CMFG Life Insurance Company, to pay a principal amount of $4,750,000 with principal and interest due monthly starting on October 1, 2013. The interest rate on this promissory note is 4.25% per annum, with monthly principal and interest payments of $102,700 ending on September 1, 2028. The proceeds from this promissory note were used to eliminate debt that had been previously used to provide long-term financing for a building being leased to Starbucks and provide additional working capital for future investment. The current balance on the note is $4,089,000. The balance of this long-term debt instrument listed above approximates the fair value of the instrument.

8. OTHER LIABILITIES

Other liabilities consist of the following:

($ in thousands)	June 30, 2016	December 31, 2015
Pension liability (See Note 13)	$ 2,413	$ 2,263
Interest rate swap liability (See Note 10)	6,212	2,905
Supplemental executive retirement plan liability (See Note 13)	8,049	7,999
Other	169	84
Total	$ 16,843	$ 13,251

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

9. STOCK COMPENSATION - RESTRICTED STOCK AND PERFORMANCE SHARE GRANTS

The Company’s stock incentive plans provide for the making of awards to employees based upon a service condition or through the achievement of performance-related objectives. The Company has issued three types of stock grant awards under these plans: restricted stock with service condition vesting; performance share grants that only vest upon the achievement of specified performance conditions, such as corporate cash flow goals, or Performance Condition Grants; and performance share grants that include threshold, target, and maximum achievement levels based on the achievement of specific performance milestones, or Performance Milestone Grants. The Company has also granted performance share grants that contain both performance-based and market-based conditions. Compensation cost for these awards is recognized based on either the achievement of the performance-based conditions, if they are considered probable, or if they are not considered probable, on the achievement of the market-based condition. Failure to satisfy the threshold performance conditions will result in the forfeiture of shares. Forfeiture of share awards with service conditions or performance-based restrictions results in a reversal of previously recognized share-based compensation expense. Forfeiture of share awards with market-based restrictions does not result in a reversal of previously recognized share-based compensation expense.

The following is a summary of the Company's performance share grants with performance conditions for the six months ended June 30, 2016:

	Performance Share Grants with Performance Conditions
Below threshold performance	—
Threshold performance	205,712
Target performance	377,385
Maximum performance	569,972

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

	June 30, 2016	December 31, 2015
Stock grants outstanding beginning of the year at target achievement	272,353	237,045
New stock grants/additional shares due to maximum achievement	245,781	114,221
Vested grants	(36,028)	(52,436)
Expired/forfeited grants	(524)	(26,477)
Stock grants outstanding June 30, 2016 at target achievement	481,582	272,353

The unamortized costs associated with nonvested stock grants and the weighted-average period over which it is expected to be recognized as of June 30, 2016 were $4,791,546 and 17 months, respectively. The fair value of restricted stock with time-based vesting features is based upon the Company’s share price on the date of grant and is expensed over the service period. Fair value of performance share grants that cliff vest based on the achievement of performance conditions is based on the share price of the Company’s stock on the day of grant once the Company determines that it is probable that the award will vest. This fair value is expensed over the service period applicable to these grants. For performance share grants that contain a range of shares from zero to maximum we determine, based on historic and projected results, the probability of (1) achieving the performance objective, and (2) the level of achievement. Based on this information, we determine the fair value of the award and measure the expense over the service period related to these grants. Because the ultimate vesting of all performance share grants is tied to the achievement of a performance condition, we estimate whether the performance condition will be met and over what period of time. Ultimately, we adjust compensation cost according to the actual outcome of the performance condition.

During the second quarter of 2015, the 2014 performance milestone grants were modified to fix the number of shares to be received rather than have the number of shares to be issued at vesting float with the price of the stock, which converted the awards from liability awards to equity awards. As such, we reclassified $1,065,000 from other liabilities to equity. In accordance with ASC 718, "Compensation - Stock Compensation," this resulted in a probable-to-improbable modification resulting in no impact to earnings.

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

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

($ in thousands)	Six Months Ended June 30,	
Employee Plan:	2016	2015
Expensed	$ 1,768	$ 1,488
Capitalized	139	68
	1,907	1,556
NDSI Plan - Expensed	363	412
Total Stock Compensation Costs	$ 2,270	$ 1,968

10. INTEREST RATE SWAP LIABILITY

During October 2014, the Company entered into an interest rate swap agreement to hedge cash flows tied to changes in the underlying floating interest rate tied to LIBOR for the Term Loan as discussed in Note 7 (Line of Credit and Long-Term Debt) The ineffective portion of the change in fair value of our interest rate swap agreement is required to be recognized directly in earnings. During the quarter ended June 30, 2016, our interest rate swap agreement was 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. Changes in fair value, including accrued interest and adjustments for non-performance risk, on the effective portion of our interest rate swap agreements that are designated and that qualify as cash flow hedges are classified in accumulated other comprehensive income. Amounts classified in accumulated other comprehensive income are subsequently reclassified into earnings in the period during which the hedged transactions affect earnings. As of June 30, 2016, the fair value of our interest rate swap agreement aggregating a liability balance was classified in other liabilities.

We had the following outstanding interest rate swap agreement designated as a cash flow hedge of interest rate risk as of June 30, 2016 ($ 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%	$(6,212)	$70,000

11. INCOME TAXES

For the six months ended June 30, 2016, the Company's income tax expense was $232,000 compared to an income tax expense of $898,000 for the six months ended June 30, 2015. These represent effective income tax rates of approximately 33% and 31% for the six months ended June 30, 2016 and, 2015, respectively. As of June 30, 2016, we did not have income taxes payable.

The Company classifies interest and penalties incurred on tax payments as income tax expense. During the six months ended June 30, 2016, the Company made $1,350,000 of income tax payments for the 2015 tax year.

12. COMMITMENTS AND CONTINGENCIES

The Company's land is subject to water contracts with minimum annual payments in 2016 of approximately $8,240,000, of which $8,219,000 was paid through the second quarter with the remainder to be paid throughout the remainder of the year. These estimated water contract payments consist of SWP, contracts with WRMWDS, TCWD, TLBWSD, DRWD and the Nickel water contract. The SWP contracts run through 2035 and the Nickel water contract runs to 2044, with an option to extend an additional 35 years. The TLBWSD and DRWD SWP contracts have now been transferred to AVEK, for our use in the Antelope Valley. 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 Family, LLC, and obligates us to purchase 6,693 acre-feet of water annually through the term of the contract.

The Company is obligated to make payments of approximately $800,000 per year 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 and Mountain Village at Tejon Ranch, or MV projects. Our obligation under this commitment terminates at the end of 2021.

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

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

In connection with the sale of bonds there is a standby letter of credit for $5,426,000 related to the issuance of East CFD bonds. The standby letter of credit is in place to provide additional credit enhancement and cover approximately two years' worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless the Company, as the largest landowner in the CFD, fails to make its property tax payments. The Company believes that the letter of credit will never be drawn upon. The letter of credit is for two years and will be renewed in two-year intervals as necessary. The annual cost related to the letter of credit is approximately $83,000.

The Company is obligated, as a landowner in each CFD, to pay its share of the special taxes assessed each year. The secured lands include both the TRCC-West and TRCC-East developments. Proceeds from the sale of West CFD bonds went to reimburse the Company for public infrastructure related to the TRCC-West development. As of June 30, 2016, there were no additional improvement funds remaining from the West CFD bonds. During the first quarter of 2016, the East CFD reimbursed the Company approximately $4,162,000 for public infrastructure. After this payment, there is $13,923,000 in funds remaining in the East CFD improvement fund. There were no reimbursement payments made to the Company during the second quarter of 2016. During 2015, the Company paid approximately $963,000 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 new owners of land and new lease tenants. 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 currently required to recognize an obligation.

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

National Cement

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

One order directs the Company's former tenant Lafarge Corporation (or Lafarge), the current tenant National, and the Company to clean up groundwater contamination on the leased property. Lafarge and National installed a groundwater cleanup system in 2003 and that system continues to operate. National and Lafarge have consolidated, closed, and capped cement kiln dust piles located on land leased from the Company. A second order directs National, Lafarge, and the Company to maintain and monitor the effectiveness of the cap.

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 Company believes that the matters described above are included within the scope of the National or Lafarge indemnity obligations. If the Company is required to perform the work at its own cost, it is unlikely that the amount of any such expenditure by the Company would be material 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. In February 2015, more than 140 parties representing more than 99% of the current water use within the adjudication boundary agreed to a settlement. On March 4, 2015, the settling parties, including Tejon, submitted a Stipulation for Entry of Judgment and Physical Solution to the court for approval. On December 23, 2015, the court entered Judgment approving the Stipulation for Entry of Judgment and Physical Solution. The Company’s water supply plan for the Centennial project anticipated reliance on, among other sources, a certain quantity of groundwater underlying the Company’s lands in the Antelope Valley. The Company’s allocation in the Judgment is consistent with that amount. Prior to the Judgment becoming final, on February 19 and 22, 2016, several parties, including the Willis Class and Phelan Pinon Hills CSD, filed notices of appeal from the Judgment. Notwithstanding the appeals, the parties with assistance from the Court have begun establishment of the Watermaster and administration of the Physical Solution, consistent with the Judgment.

Summary and Status of Kern Water Bank Lawsuits

On June 3, 2010, the Central Delta and South Delta Water Agencies and several environmental groups, including the Center for Biological Diversity (collectively, “Central Delta”), filed a complaint in the Sacramento County Superior Court against the California Department of Water Resources, or DWR, Kern County Water Agency and a number of “real parties in interest,” including the Company and TCWD. The lawsuit challenges certain amendments to the SWP contracts that were originally approved in 1995, known as the “Monterey Amendments.”

The original Environmental Impact Report, or EIR, for the Monterey Amendments was determined to be insufficient in an earlier lawsuit. The current lawsuit principally (i) challenges the adequacy of the remedial EIR that DWR prepared as a result of the original lawsuit and (ii) challenges the validity of the Monterey Amendments on various grounds, including the transfer of the Kern Water Bank, or KWB, from DWR to the Kern County Water Agency and in turn to the Kern Water Bank Authority, or KWBA, whose members are various Kern and Kings County interests, including TCWD, which TCWD has a 2% interest in the KWBA. A parallel lawsuit was also filed by Central Delta in Kern County Superior Court on July 2, 2010, against Kern County Water Agency, also naming the Company and TCWD as real parties in interest, which has been stayed pending the outcome of the other action against DWR. The Company is named on the ground that it "controls" TCWD. This lawsuit has since been moved to the Sacramento County Superior Court. Another lawsuit was filed in Kern County Superior Court on June 3, 2010, by two districts adjacent to the KWB, namely Rosedale Rio Bravo and Buena Vista Water Storage Districts, or Rosedale, asserting that the remedial EIR did not adequately evaluate potential impacts arising from operations of the KWB, but this lawsuit did not name the Company, only TCWD. TCWD has a contract right for water stored in the KWB and rights to recharge and withdraw water. This lawsuit has since been moved to the Sacramento County Superior Court. In an initial favorable ruling on January 25, 2013, the court determined that the challenges to the validity of the Monterey Amendments, including the transfer of the KWB, were not timely and were barred by the statutes of limitation, the doctrine of laches, and by the annual validating statute. The substantive hearing on the challenges to the EIR was held on January 31, 2014. On March 5, 2014 the court issued a decision, rejecting all of Central Delta's California Environmental Quality Act, or CEQA, claims, except the Rosedale claim, joined by Central Delta, that the EIR did not adequately evaluate future impacts from operation of the KWB, in particular potential impacts on groundwater and water quality.

On November 24, 2014, the court issued a writ of mandate that requires DWR to prepare a revised EIR regarding the Monterey Amendments evaluating the potential operational impacts of the KWB. The writ authorizes the continued operation of the KWB pending completion of the revised EIR subject to certain conditions, including those described in an interim operating plan negotiated between the KWBA and Rosedale. The writ of mandate, as revised by the court, requires DWR to certify the revised EIR and file the return to the writ of mandate by September 28, 2016. DWR is proceeding to prepare the revised EIR. We are uncertain as to whether in the future the writ of mandate or the revised EIR could result in some curtailment in KWBA operations. To the extent there may be an adverse outcome on the claims, the monetary value cannot be estimated at this time.

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 in their entirety and (2) granting in part, and denying, in part, the CEQA petition for writ of mandate. Central Delta has appealed the judgment and the KWBA and certain other parties have filed a cross-appeal with regard to certain defenses to the CEQA cause of action. The appeals are pending in the California Court of Appeal.

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

Proceedings Incidental to Business

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

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

13. RETIREMENT PLANS

The Company has a defined benefit plan that covers many of its employees, or the Benefit Plan. The benefits are based on years of service and the employee's five-year final average salary. Contributions are intended to provide for benefits attributable to service both to-date and expected-to-be provided in the future. The Company funds the plan in accordance with the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Protection Act. The Company anticipates contributing approximately $450,000 to the plan during 2016.

Plan assets consist of equity, debt and short-term money market investment funds. The plan's current investment policy targets 65% equities, 25% debt and 10% money market funds. Equity and debt investment percentages are allowed to fluctuate plus or minus 20% to take advantage of market conditions. As an example, equities could fluctuate from 78% to 52% of plan assets. At June 30, 2016, the investment mix was approximately 60% equity, 36% debt, and 4% money market funds. At December 31, 2015, the investment mix was approximately 61% equity, 33% 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 rate used in determining the periodic pension cost is 4.6% in 2016 and 2015. The expected long-term rate of return on plan assets is 7.5% in 2016 and 2015. The long-term rate of return on plan assets is based on the historical returns within the plan and expectations for future returns.

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

	Six Months Ended June 30,	
($ in thousands)	2016	2015
Cost components:		
Service cost-benefits earned during the period	$ (111)	$ (133)
Interest cost on projected benefit obligation	(203)	(233)
Expected return on plan assets	258	308
Net amortization and deferral	(92)	(141)
Total net periodic pension cost	$ (148)	$ (199)

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 pension and retirement expense for the SERP was as follows:

	Six Months Ended June 30,	
($ in thousands)	2016	2015
Cost components:		
Interest cost on projected benefit obligation	(161)	(139)
Net amortization and deferral	(172)	(168)
Total net periodic pension cost	$ (333)	$ (307)

14. BUSINESS SEGMENTS

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2016	2015	2016	2015
Pastoria Energy Facility Lease	$ 860	$ 894	$ 1,731	$ 1,792
Commercial leases	912	717	1,806	1,401
Communication leases	198	187	394	392
Landscaping and other	189	12	382	504
Commercial/industrial revenues	2,159	1,810	4,313	4,089
Equity in earnings from unconsolidated joint ventures	1,842	1,656	3,297	2,806
Total commercial/industrial revenues and equity in earnings from unconsolidated joint ventures	4,001	3,466	7,610	6,895
Net income from commercial/industrial and unconsolidated joint ventures	$ 2,287	$ 1,790	$ 4,217	$ 3,610

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 $929,000 and $1,327,000 for the six months ended June 30, 2016 and 2015, respectively. The segment produced losses of $387,000 and $576,000 for the quarters ended June 30, 2016 and 2015, respectively.

The mineral resources segment receives oil and mineral royalties in addition to periodic reimbursable costs from lessors. The segment also generates revenues through water sales. The revenue components of the mineral resources segment were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2016	2015	2016	2015
Oil and gas	$ 383	$ 917	$ 769	$ 1,693
Water sales	1,810	1,172	9,601	10,165
Rock aggregate	305	245	507	347
Cement	369	301	629	543
Land lease for oil exploration	25	17	126	104
Reimbursable costs	295	—	295	—
Total mineral resources revenues	3,187	2,652	11,927	12,852
Income from mineral resources	$ 1,387	$ 1,929	$ 5,434	$ 6,435

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2016	2015	2016	2015
Almonds	$ 359	$ 663	$ 1,344	$ 3,379
Pistachios	59	514	258	763
Hay and other	84	146	121	252
Total farming revenues	502	1,323	1,723	4,394
(Loss) income from farming	$ (848)	$ 79	$ (1,133)	$ 807

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2016	2015	2016	2015
Game management	$ 373	$ 593	$ 852	$ 1,117
Grazing	523	524	773	911
Filming and other	105	98	214	270
Total ranch operations revenues	1,001	1,215	1,839	2,298
(Loss) income from ranch operations	$ (541)	$ (204)	$ (1,050)	$ (714)

15. INVESTMENT IN UNCONSOLIDATED AND CONSOLIDATED 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 or is a voting interest entity and is controlled by the Company. The Company’s investment in its unconsolidated joint ventures at June 30, 2016 was $33,432,000. The equity in earnings of unconsolidated joint ventures was $1,842,000 and $3,297,000 for the three and six months ended June 30, 2016, respectively. 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 June 30, 2016, the Company had an equity investment balance of $18,703,000 in this joint venture.

- Rockefeller Joint Ventures - The Company has three joint ventures with Rockefeller Group Development Corporation or Rockefeller. At June 30, 2016, the Company's combined equity investment balance in these three joint ventures was $14,729,000.

    - 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 including pursuing Foreign Trade Zone, or FTZ, designation and development of the property within the FTZ for warehouse distribution and light manufacturing. 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 now been extended to April 2022, and includes an option to extend for an additional three years. For operating revenue, please see the following table. The Five West Parcel joint venture currently has an outstanding term loan with a balance of $10,520,000 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 that was formed during the second quarter of 2013 to develop, own, and manage a 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 and the remaining 40% was through equity contributions from the two members. The Company controls 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, 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. During the fourth quarter of 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 June 30, 2016, had an outstanding balance of $51,339,000. The Company and Rockefeller guarantee the performance of the debt.

- Centennial Founders, LLC – Centennial Founders, LLC is a joint venture with TRI Pointe Homes (formerly Pardee Homes), Lewis Investment Company, and CalAtlantic Group Inc. (formerly Standard Pacific Corp.) 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 Liability Company Agreement of Centennial Founders, LLC and the change in control and funding that resulted from the amended agreement, Centennial Founders, LLC qualified as a VIE, beginning in the third quarter of 2009 and the Company was determined to be the primary beneficiary. As a result, Centennial Founders, LLC has been consolidated into our financial statements beginning in that quarter. Our partners retained a noncontrolling interest in the joint venture. At June 30, 2016 the Company had a 76.32% ownership position in Centennial Founders, LLC.

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 balance sheet information of the Company's unconsolidated and consolidated joint ventures as of June 30, 2016 and December 31, 2015 and unaudited condensed statements of operations for the six months ended June 30, 2016 and 2015 are as follows:

Statement of Operations for the six months ended June 30, 2016

	Unconsolidated					Consolidated
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center[1]	Total	Centennial-VIE
Revenues	48,052	1,484	4	4,755	54,295	72
Net income (loss)	$ 5,129	$ 549	$ (72)	$ (37)	$ 5,569	$ (225)
Partner's share of net income (loss)	$ 2,052	$ 274	$ (36)	$ (18)	$ 2,272	$ (54)
Equity in earnings (loss)	$ 3,077	$ 275	$ (36)	$ (19)	$ 3,297	$ —

[1] Revenue for TRCC/Rock Outlet Center is comprised of $5.8 million in rental income less non-cash tenant allowance amortization of $1.0 million ($5.8 - $1.0 = $4.8).

Statement of Operations for the six months ended June 30, 2015

	Unconsolidated					Consolidated
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center[1]	Total	Centennial-VIE
Revenues	$ 55,180	$ 1,856	$ 13	$ 4,305	$ 61,354	$ 205
Net income (loss)	$ 4,583	$ 472	$ (59)	$ (301)	$ 4,695	$ (175)
Partner's share of net income (loss)	$ 1,833	$ 236	$ (30)	$ (150)	$ 1,889	$ (45)
Equity in earnings (loss)	$ 2,751	$ 236	$ (30)	$ (151)	$ 2,806	$ —

[1] Revenue for TRCC/Rock Outlet Center is comprised of $5.4 million in rental income less non-cash tenant allowance amortization of $1.1 million ($5.4 - $1.1 = $4.3).

Balance Sheet Information as of June 30, 2016

	Unconsolidated					Consolidated
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center	Total	Centennial-VIE
Current assets	$ 14,433	$ 2,533	$ 61	$ 6,913	$ 23,940	$ 46
Real Estate	54,763	13,358	4,617	63,826	136,564	84,284
Other assets	170	313	—	18,387	18,870	5
Long-term debt	(14,500)	(10,520)	—	(51,339)	(76,359)	—
Other liabilities	(3,027)	(122)	—	(934)	(4,083)	(1,483)
Net assets	$ 51,839	$ 5,562	$ 4,678	$ 36,853	$ 98,932	$ 82,852

Balance Sheet Information as of December 31, 2015

	Unconsolidated					Consolidated
($ in thousands)	Petro Travel Plaza Holdings	Five West Parcel LLC	18-19 West LLC	TRCC/Rock Outlet Center	Total	Centennial-VIE
Current assets	$ 12,013	$ 3,277	$ 23	$ 4,733	$ 20,046	$ 230
Real Estate	52,296	13,704	4,617	64,842	135,459	81,742
Other assets	264	297	—	19,714	20,275	9
Long-term debt	(14,973)	(10,725)	—	(51,557)	(77,255)	—
Other liabilities	(2,890)	(340)	—	(841)	(4,071)	(754)
Net assets	$ 46,710	$ 6,213	$ 4,640	$ 36,891	$ 94,454	$ 81,227

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.

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", 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 in the section entitled, "Risk Factors" in this report and our Annual Report on Form 10-K.

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 residential land developments and in infrastructure improvements within our active industrial development. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land that, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield.

Our 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 residential and mixed use real estate communities to serve the growing populations of Southern and Central California. We are currently engaged in commercial sales and leasing at our fully operational commercial/industrial center. 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.

We currently operate in five business segments: commercial/industrial real estate, resort/residential real estate, 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 also includes activities related to power plant leases, communications leases, and landscape maintenance services. The primary commercial/industrial development is the Tejon Ranch Commerce Center, or 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. We are involved in three joint ventures with Rockefeller Development Group which includes the following: 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, and TRCC/Rock Outlet Center LLC that operates the Outlets at Tejon. The 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 joint ventures. Our active developments within resort/residential are Mountain Village at Tejon, or MV, Centennial at Tejon, or Centennial, and Grapevine at Tejon, or Grapevine. The resort/residential real estate segment has generated no revenues since the Company purchased its joint venture partner's interest in the MV joint venture in 2014. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2015 for a more detailed description of our active developments within resort/residential

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 consist 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. Within game management we operate High Desert Hunt Club, a premier upland bird hunting club, along with various game hunting memberships.

For the first six months of 2016 we had net income attributable to common stockholders of $521,000 compared to net income attributable to common stockholders of $2,023,000 for the first six months of 2015. This decrease was primarily attributable to declines in almond revenues, a result of reduced inventory carryover from the 2015 harvest, and declining oil royalties, a result of depressed oil prices and lower production volumes. These declines were partially offset by an increase in income from our unconsolidated joint ventures.

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

Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended December 31, 2015. Please refer to that filing for a description of our critical accounting policies.

Non-GAAP 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. 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, and they should not be considered as alternatives to those indicators in evaluating performance or liquidity. Further, our computation of EBITDA and Adjusted EBITDA may not be comparable to similar measures reported by other companies.

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	2016	2015	2016	2015
Net (loss) income	$ (728)	$ 377	$ 467	$ 1,978
Interest, net	(134)	(157)	(266)	(312)
Income tax (benefit) expense	(380)	36	232	898
Depreciation and amortization	1,444	1,333	2,810	2,431
EBITDA	$ 202	$ 1,589	$ 3,243	$ 4,995
Stock compensation expense	1,158	947	2,131	1,900
Adjusted EBITDA	$ 1,360	$ 2,536	$ 5,374	$ 6,895

Results of Operations

Comparison of six months ended June 30, 2016 to six months ended June 30, 2015

Total revenues for the first six months of 2016 were $19,802,000 compared to $23,633,000 for the first six months of 2015. This decrease of $3,831,000, or 16%, is primarily attributable to a decline in farming revenues of $2,671,000. Additionally, there were declines in mineral resources revenues of $925,000 resulting from reduced water sales and oil royalties.

Commercial/industrial real estate segment revenues were $4,313,000 for the first six months of 2016, an increase of $224,000, or 5%, compared to the first six months of 2015. Leasing activity is driving our commercial revenue growth. Most notably, we generated $129,000 in additional leasing revenues after delivering a multi-tenant building to Habit Burger and Baja Fresh in the first quarter of 2016. Additionally, we recognized $56,000 in additional leasing revenue from Pieology which was placed into service during the second quarter of 2015. Following the growth of TRCC East, landscaping revenues increased $93,000. We recognized $280,000 in additional revenues from tenant common area maintenance charges resulting from the timing of the charges. Lastly, we experienced a $75,000 increase in reimbursable costs from the Outlets at Tejon. Offsetting the increases in revenues is a $214,000 decrease in developer fees earned due to the completion of construction in 2015 of the Outlets at Tejon.

Commercial/industrial real estate segment expenses were $3,393,000 during the first six months of 2016, an increase of $108,000, or 3%, compared to the same period in 2015. This variance is in-line with our expectations given the current business environment.

Resort/residential real estate segment expenses were $929,000 during the first six months of 2016, a decrease of $398,000, or 30%. The decrease is attributed to additional capitalization of payroll and overhead costs of $404,000 that were identified to be directly related to our master plan development projects.

Mineral resources segment revenues were $11,927,000 for the first six months of 2016, a decrease of $925,000, or 7%, compared to the same period in 2015. The $925,000 decrease resulted from a decrease in oil royalty revenues of $924,000 driven by declines in both the price per barrel and production volume. Production for the six months ended June 30, 2016 and 2015 was 151,163 and 246,277 barrels, respectively. The average price per barrel of oil for the six months ended June 30, 2016 and 2015 was $35 and $51, respectively. We expect no new oil drilling activity and continued slowing in production through 2016 based on current oil prices. We expect the lower oil prices will also negatively impact our full year 2016 royalty revenues as compared to 2015 royalty revenues. Water sales volumes decreased from 7,922 acre feet in 2015 to 7,285 in 2016 resulting in a revenue decrease of $564,000. Offsetting the decreases were increases in recoverable costs, rock aggregate royalties and cement royalties of $295,000, $160,000 and $86,000, respectively.

Mineral resources segment expenses were $6,493,000 for the first six months of 2016, an increase of $76,000, or 1%, compared to the same period in 2015. This variance is largely due to a higher cost of sales per acre-foot of water being offset by the reduced volume of water sold in 2016.

Farming segment revenues were $1,723,000 for the first six months of 2016, a decrease of $2,671,000, or 61%, compared to the same period in 2015. The $2,671,000 decrease is primarily attributed to a $2,035,000 decrease in almond revenues. During the first six months of 2016, we sold 452,000 fewer pounds. The decline in sales is attributed to a decline in the amount of crop we carried over from the prior year. Our 2015 and 2014 carryover crops were 430,000 and 916,000 pounds, respectively. The reduced carryover crop resulted from us taking advantage of higher crop prices by selling more of the crop during 2015. The remainder of the decline resulted from a $505,000 decrease in pistachio revenues primarily as a result of the mild winter of 2015, which had an adverse effect whereby 90% of our pistachio crop yielded blanks. Comparatively, our 2015 and 2014 pistachio carryover crops were 9,500 and 287,000 pounds, respectively.

Farming segment expenses were $2,856,000 for the first six months of 2016, a decrease of $731,000, or 20%, compared to the same period in 2015. With the decline in farming revenues during the first quarter of 2016, cost of sales followed a similar trend showing declines of $611,000 and $141,000 for almonds and pistachios, respectively.

Ranch operations revenues were $1,839,000 for the first six months of 2016, a decrease of $459,000, or 20%, compared to the same period in 2015. The decrease is attributed to a $248,000 decrease in game management revenues. Also contributing to the decrease is a drought clause taking effect within our grazing leases, amidst the California drought, of $138,000.

Ranch operations expenses were $2,889,000 for the first six months of 2016, a decrease of $123,000, or 4%, compared to the same period in 2015. This variance is in-line with our expectations given the activity volume within Ranch Operations. The decrease resulted from declines in staffing costs, professional services, and supply costs of $40,000, $23,000, and $65,000, respectively.

Corporate general and administrative costs decreased $121,000, or 2%, to $6,166,000 during the first six months of 2016 compared to the same period in 2015. During the first six months of 2016, payroll expense decreased $254,000 resulting from a reduction in full-time employees. We may in the future, depending on our needs, fill these positions. The decrease in payroll was offset by an increase in stock compensation resulting from meeting performance milestones associated with our Centennial and MV master plan development projects.

Our share of earnings from our joint ventures was $3,297,000, an increase of $491,000, or 17%, during the first six months of 2016 when compared to the same period in 2015, primarily due to a $326,000 increase in our share of earnings from our TA/Petro joint venture. The improvement in operations within the TA/Petro joint venture is driven by increased diesel and gas sales volume of 1,040,000 gallons and 337,000 gallons, respectively. The improvement in the volume of fuel sales is continuing to be driven by increased traffic within TRCC as a result of expanded offerings at TRCC East such as Pieology and Starbucks, and the new Shell gas station. Fuel margins for the TA/Petro joint venture were 20% and 14% as of June 30, 2016 and 2015, respectively, improving net income. The remainder of the increase is attributed to improved operating results from the Outlets at Tejon.

Comparison of three months ended June 30, 2016 to three months ended June 30, 2015

Total revenues for the quarter ended June 30, 2016 were $6,849,000 compared to $7,000,000 for the quarter ended June 30, 2015. This decrease of $151,000, or 2%, is primarily attributable to declines in farming and ranch operations revenues offset by increases in mineral resource and commercial revenues.

Commercial/industrial real estate segment revenues were $2,159,000 for the quarter ended June 30, 2016, an increase of $349,000, or 19%, compared to the same period in 2015. Leasing activity is driving our commercial revenue growth. Most notably, we generated $71,000 in additional leasing revenues during the second quarter after delivering a multi-tenant building to Habit Burger and Baja Fresh during the first quarter of 2016. Landscaping revenues increased $35,000 following the growth of TRCC East. We recognized $136,000 in additional revenues from tenant common area maintenance charges resulting from the timing of the charges.

Commercial/industrial real estate segment expenses were $1,714,000 during the quarter ended June 30, 2016, an increase of $38,000, or 2%, compared to the same period in 2015. This variance is in-line with our expectations given the current business environment.

Resort/residential real estate segment expenses were $387,000 during the quarter ended June 30, 2016, a decrease of $189,000, or 33%. The decrease is attributed to additional capitalization of payroll and overhead costs of $136,000 that were identified to be directly related to our development projects.

Mineral resources segment revenues were $3,187,000 for the quarter ended June 30, 2016, an increase of $535,000, or 20%, compared to the same period in 2015. Approximately $638,000 of the increase resulted from the timing of when we completed our 2016 water sales. During the quarters ended June 30, 2016 and 2015, we delivered 1,331 acre feet and 868 acre feet of water, respectively. The sales price was $1,355 per acre-foot and $1,350 per acre-foot during the quarters ended June 30, 2016 and 2015, respectively. In addition, recoverable costs, rock aggregate royalties and cement royalties increased by $295,000, $60,000 and $68,000, respectively. The increases were offset by declines in oil royalties of $534,000.

Mineral resources segment expenses were $1,800,000 for the quarter ended June 30, 2016, an increase of $1,077,000, or 149%, compared to the same period in 2015. The increase is attributed to an $834,000 increase in the cost of water sales. In comparison, we sold Nickel Water during the second quarter of 2016 while for the same period in 2015 we sold water from Dudley Ridge and Tulare Lake Basin. Given the nature of those water contracts, the cost basis, inclusive of water transmission charges, of Nickel Water and water from Dudley Ridge and Tulare Lake Basin, is $778 per acre-foot and $302 per acre-foot, respectively. The price of Nickel Water contractually increases 3% each year. All other increases within the segment are attributed to increases in professional services, property taxes, and payroll costs.

Farming segment revenues were $502,000 for the quarter ended June 30, 2016, a decrease of $821,000, or 62%, compared to the same period in 2015. The $821,000 decrease is primarily attributed to a $304,000 decrease in almond revenues for reasons discussed above. Pistachio revenues decreased $455,000 primarily a result of reduced 2015 production which reduced carry forward inventory levels in 2016 and the timing of the sale of inventory in 2015. During 2015, the majority of the prior year carry forward inventory was sold during the second quarter of 2015. Our carryover pistachio crop was 9,500 and 305,000 pounds at the beginning of 2016 and 2015, respectively.

Farming segment expenses were $1,350,000 for the quarter ended June 30, 2016, an increase of $106,000, or 9%, compared to the same period in 2015. Farming expenses increased as a result of the following: depreciation expense increased $14,000 as a result of capital expenditures made in 2016 and 2015, stock compensation increased $34,000, and workers compensation costs increased $23,000.

Ranch operations revenues were $1,001,000 for the quarter ended June 30, 2016, a decrease of $214,000, or 18%, compared to the same period in 2015. The decrease is attributed to a $228,000 decline in game management revenues. Specifically, we experienced a decrease in hunting activities in both hunts and memberships during the first six months of 2016, when compared to 2015. This is driven by two factors: First, the recent drought has had an adverse impact on our pig population, limiting the number of hunts; second, our hunting memberships are partially driven by members of Kern County operating in the oil and gas industry, slumping oil prices have had an adverse impact on discretionary income which translated to fewer memberships.

Ranch operations expenses were $1,542,000 for the quarter ended June 30, 2016, an increase of $123,000, or 9%, compared to the same period in 2015. This variance resulted from a $62,000 increase in payroll overhead charges and a $62,000 increase in repairs and maintenance on our equestrian center.

Corporate general and administrative costs were $3,163,000 for the quarter ended June 30, 2016, an increase of $399,000, or 14%, compared to the same period in 2015. During the quarter ended June 30, 2016, stock compensation increased $186,000 as a result of meeting development milestones discussed above. Also during the quarter, professional services increased by $256,000 resulting from increased legal costs along with increases in information security costs.

Our share of earnings from our joint ventures was $1,842,000, an increase of $186,000, or 11%, during the quarter ended June 30, 2016 when compared to the same period in 2015, primarily due to an $111,000 increase in our share of earnings from our TA/Petro joint venture. The improvement in operations within the TA/Petro joint venture is driven by increased diesel and gas volumes of 208,000 gallons and 94,000, respectively. Fuel margins for the TA/Petro joint venture were 16% and 14% for the quarter ended June 30, 2016 and 2015, respectively. The remainder of the increase is attributed to improved operating results from the Outlets at Tejon.

General Outlook

Thus far in 2016 our commercial retail activity has continued to grow as new leases have come on line with Habit Burger and Baja Fresh. For the six-months ended June 30, 2016 we had no leases that expired, nor did we have any material lease renewals. In addition, our TA/Petro joint venture completed construction of a new Shell gas station and convenience store that commenced operations during the first quarter of 2016.

We also have entered into a non-binding Letter of Intent with Majestic Realty Co., a Los Angeles based commercial/industrial developer to negotiate a joint venture operating agreement to pursue the development, construction, leasing, and management of an approximately 480,000 square foot industrial building on the Company's property at Tejon Ranch Commerce Center-East. Concurrent with finalizing the joint venture agreement, we are also moving forward with planning and designing the 480,000 square foot industrial building with Majestic. In addition, on August 6, 2016, we entered into a limited liability company agreement with Majestic Realty Co. for the purchase of, ownership of, and management of a fully-leased, 651,909 square foot industrial building located at Tejon Ranch Commerce Center. For a further discussion, please refer Item 5. Other Information. We will have a 50% interest in each of the aforementioned joint ventures with Majestic Realty Co.

The logistics operators currently located within our development 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 efforts 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 success that the current tenants and owners within our development have experienced to capture more of the warehouse distribution market. 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. They are also demonstrating success with e-commerce fulfillment. We believe that our ability to provide fully entitled shovel-ready land parcels to support buildings of 1.0 million feet or larger can provide us with a potential marketing advantage in the future. We are also expanding our marketing efforts to include industrial 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.

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. Strong demand for large distribution facilities is driving development farther east in a search for large entitled parcels. Through the first six months of 2016, vacancy rates in the Inland Empire were comparable to 2015, primarily due to demand keeping pace with the development of new buildings for lease. Without the increase in new development the vacancy rate would have declined. As lease rates increase in the Inland Empire and northern Los Angeles County, we may begin to have a greater pricing advantage due to our low land basis.

We expect that the commercial/industrial 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.

Most of the expenditures and capital investment incurred within our resort/residential segment will be focused on the achievement of entitlement for Grapevine, Centennial, and tentative tract maps for MV. The tentative tract maps process is expected to be completed in late 2017.

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. It is still too early to have an accurate estimate as to the 2016 crops, but production in almonds and grapes appear to be comparable to 2015 and production in pistachios appear to be comparable to an off production year, which will be an improvement over 2015.

Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Thus far in 2016, prices for almonds and pistachios have declined in comparison to recent years. Factors contributing to falling prices include rising nut supplies and reduced demand from foreign customers, namely China and India.

Due to the commodity nature of segments of our business, 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. As a result of the current activity within the oil markets, we expect to continue to see lower prices as compared to 2015, which will continue to negatively impact us throughout 2016.

The operations of the Company are seasonal and future results of operations cannot be predicted based on quarterly results. Future real estate sales and leasing activity are dependent on market circumstances and specific opportunities and therefore are difficult to predict from period to period. Historically, the Company's largest percentages of farming revenues are recognized during the third and fourth quarters of the fiscal 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, 2015, 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 six months ended June 30, 2016, the Company incurred a net income tax expense of $232,000 compared to a net income tax expense of $898,000 for the six months ended 2015. These represent effective income tax rates of approximately 33% and 31% for the six months ended 2016 and, 2015, respectively. As of June 30, 2016, we did not have income taxes payable. The Company classifies interest and penalties incurred on tax payments as income tax expenses.

Cash Flow and Liquidity

We manage our cash and marketable securities along with cash flow to allow us to pursue our strategies of land entitlement, development, farming, and conservation. Accordingly, we have established well-defined priorities for our available cash, including investing in core business segments to achieve profitable future growth. We have historically funded our operations with cash flows from operating activities, investment proceeds, short-term borrowings from our bank credit facilities, and long-term debt tied to revenue producing assets. In the past, we have also issued common stock and used the proceeds for capital investments. 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, and acquire water rights to ensure adequate future water supply. 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.

Our cash, cash equivalents and marketable securities totaled $33,523,000 at June 30, 2016, a decrease of $1,222,000, or 4%, from December 31, 2015. Cash, cash equivalents and marketable securities decreased during the first six months of June 30, 2016 due to property and equipment expenditures and real estate investments, which included infrastructure development costs, and increases in farming inventory. These decreases were partially offset by water sale proceeds, reimbursement proceeds for public infrastructure costs from the East CFD, and use of our revolving line of credit.

The following table shows our cash flow activities for the six months ended June 30,

(in thousands)	2016	2015
Operating activities	$ (3,697)	$ 1,633
Investing activities	$ (7,931)	$ (3,615)
Financing activities	$ 10,560	$ (3,545)

Operating Activities

During the first six months of 2016, our operations used $3,697,000 of cash primarily attributable to farm inventory crop costs, and payments on current liabilities.

During the first six months of 2015, our operations provided $1,633,000 of cash primarily attributable to net income partially offset by increases in farming receivables.

Investing Activities

During the first six months of 2016, investing activities used $7,931,000 as a result of $13,266,000 in capital expenditures. Capital expenditures include predevelopment activities for our master plan communities which amounted to $2,462,000 for MV, $2,476,000 for Grapevine, and $2,312,000 for Centennial. At TRCC East, we spent $2,618,000 for infrastructure projects along with completing the multi-tenant building housing Baja Fresh and Habit Burger. Within our farming segment, we spent $1,344,000 replacing old machinery and equipment along with developing a new almond crop. We spent $1,569,000 within our mineral resources group for new wells and water turnouts. Within ranch operations we acquired $393,000 in new machinery and equipment. Our capital outlays were offset by reimbursements for public infrastructure costs through the East CFD and other reimbursements of $4,650,000.

During the first six months of 2015, investing activities used $3,615,000 of cash primarily as a result of $12,113,000 in capital expenditures consisting of $3,893,000 of investments in TRCC infrastructure, primarily associated with expansion of road infrastructure, utilities, and buildings on land at TRCC-East, $2,397,000 related to Grapevine for entitlement activities, $2,877,000 related to MV pre-development activities, $1,455,000 related to farming primarily related to a water pipeline project, and $1,389,000 related to Centennial for entitlement activities. The remaining capital expenditures related to ordinary capital expenditures such as IT equipment replacements and computer software. These expenditures were partially offset by net proceeds of $2,465,000 from the sale and maturity of marketable securities, reimbursements of $4,971,000 for public

infrastructure costs through the East CFD, and distributions of $1,100,000 from our Rockefeller unconsolidated joint venture partner.

Our estimated capital investment for the remainder of 2016 will be primarily related to real estate projects. Estimated capital investment includes approximately $2,900,000 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 demand. We expect to possibly invest $2,700,000 for land planning and entitlement activities for the Grapevine, $720,000 for developing tentative tract maps for MV, and $3,900,000 for entitlement work for Centennial. We will continue to add to our current water assets and water infrastructure as opportunities arise to help secure our ability to supply water to our real estate and farming activities and as an investment, since we believe that the cost of water in California will continue to increase and expect to invest up to $1,400,000 in water assets and infrastructure. We are also planning to invest approximately $650,000 for farming equipment, almond orchards, and grape vines.

Financing Activities

During the first six months of 2016, financing activities provided $10,560,000 in cash mainly due to the timing of drawdowns on the Company's line of credit. As of June 30, 2016, there was an outstanding balance of $11,000,000 on our revolving line of credit. The use of our line of credit primarily reflects the cyclical nature of our farming segment as inventory costs build as we move into the second half of the year and the harvest season begins.

During the first six months of 2015, financing activities used $3,545,000 in cash mainly due to the timing of net repayments on the Company's line of credit. At June 30, 2015, there was an outstanding balance of $3,960,000 on our revolving line of credit.

It is difficult to accurately predict cash flows due to the nature of our businesses and fluctuating economic conditions. Our earnings and cash flows will be affected from period to period by the commodity nature of our farming operations, 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 operating cash flows and availability on our line of credit over the next twelve months to fund internal operations.

Capital Structure and Financial Condition

At June 30, 2016, total capitalization at book value was $405,658,000 consisting of $73,920,000 of long-term debt and $331,738,000 of equity, resulting in a long-term debt-to-total-capitalization ratio of approximately 18.2%, which is similar to the long-term debt-to-total-capitalization ratio at December 31, 2015.

The Company has a Term Note and a Revolving Line of Credit Note, with Wells Fargo, or collectively the Credit Facility. The Credit Facility consists of a $70,000,000 term note, or Term Note, and a $30,000,000 revolving line of credit, or RLC. Funds from the Term Note were used to finance the Company's purchase of DMB TMV LLC’s interest in Tejon Mountain Village LLC as disclosed in the Current Report on Form 8-K filed on July 16, 2014. 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 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 June 30, 2016 the RLC had an outstanding balance of $11,000,000. As of December 31, 2015, the RLC had no outstanding balance.

The interest rate per annum applicable to the Term Note is LIBOR (as defined in the Term Note) plus a margin of 170 basis points. The interest rate for the term of the note has been fixed through the use of an interest rate swap at a rate of 4.11%. The Term Note requires interest only payments for the first two years of the term and thereafter requires monthly amortization payments pursuant to a schedule set forth in the Term Note, with the final outstanding principal amount due October 5, 2024. The Company may make voluntary prepayments on the Term Note at any time without penalty (excluding any applicable LIBOR or interest rate swap breakage costs). Each optional prepayment will be applied to reduce the most remote principal payment then unpaid. The Credit Facility is secured by the Company's farmland and farm assets, which include equipment, crops and crop receivables 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 June 30, 2016 and December 31, 2015, 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 $4,089,000. 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 primarily from current cash and marketable securities, cash flow from on-going operations, proceeds from the sale of developed and undeveloped parcels, potential sales of assets, additional use of debt, proceeds from the reimbursement of public infrastructure costs through Community Facilities District 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. At this time, we do not expect a change in the mix of our capital funding sources.

As noted above, at June 30, 2016, we had $33,523,000 in cash and securities and had $19,000,000 available on our RLC to meet any short-term liquidity needs.

We continue to expect that substantial future investments will be required in order to develop our land assets. In order to meet these long-term capital requirements, we may need to secure additional debt financing and continue to renew our existing credit facilities. In addition to debt financing, we will use other capital alternatives such as entering into joint ventures and issuing 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 in the future that we can obtain financing or that we can obtain financing at favorable terms. We believe we have adequate capital resources to fund our cash needs and our capital investment requirements as described earlier in the cash flow and liquidity discussions.

Contractual Cash Obligations

The following table summarizes our contractual cash obligations and commercial commitments as of June 30, 2016, 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	$ 271,881	$ 8,240	$ 16,917	$ 17,527	$ 229,197
Long-term debt	74,089	2,503	7,672	8,367	55,547
Interest on long-term debt	19,942	3,003	5,548	4,885	6,506
Revolving line of credit borrowings	11,000	11,000	—	—	—
Cash contract commitments	4,718	2,509	1,138	—	1,071
Defined Benefit Plan	2,834	94	417	508	1,815
SERP	4,601	437	1,000	980	2,184
Tejon Ranch Conservancy	4,400	800	1,600	1,600	400
Financing fees and interest	163	163	—	—	—
Total contractual obligations	$ 393,628	$ 28,749	$ 34,292	$ 33,867	$ 296,720

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 estimate that we will contribute approximately $450,000 to the defined benefit plan during 2016.

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 SWP contracts with WRMWDS, TCWD, TLBWSD, and DRWD. These contracts for the supply of future water run through 2035. In addition, in late 2013 we purchased the assignment of a contract to purchase water. The assigned water contract is with Nickel Family, LLC and obligates us to purchase 6,693 acre-feet of water annually starting in 2014 and running to 2044. Please refer to Note 5 (Long-Term Water Assets) of the Notes to Unaudited 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 CFD:

	Amount of Commitment Expiration Per Period				
($ in thousands)	Total	< 1 year	1 -3 Years	4 -5 Years	After 5 Years
OTHER COMMERCIAL COMMITMENTS:					
Standby letter of credit	$ 5,426	$ —	$ 5,426	$ —	$ —
Total other commercial commitments	$ 5,426	$ —	$ 5,426	$ —	$ —

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 $5,426,000 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 $83,000. 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 June 30, 2016.

At June 30, 2016, aggregate outstanding debt of unconsolidated joint ventures was $76,359,000. We provided a guarantee on $61,859,000 of this debt, relating to our joint ventures with Rockefeller. We do not provide a guarantee on the $14,500,000 of debt related to our joint venture with TA/Petro.

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.

Our current RLC has an outstanding balance of $11,000,000. The interest rate on the RLC can either float at 1.50% over a selected LIBOR, 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 $70,000,000 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 $4,089,000 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. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with our current customers and 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 June 30, 2016
(In thousands except percentage data)

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$5,050	$9,407	$14,575	$3,547	—	—	32,579	$32,661
Weighted average interest rate	1.21%	1.30%	1.60%	1.77%	—	—	1.47%	
Liabilities:								
Revolving line of credit	$11,000	—	—	—	—	—	$11,000	$11,000
Weighted average interest rate	1.95%	—	—	—	—	—	1.95%	
Long-term debt ($4.75M note)	$129	$266	$277	$289	$302	$2,826	$4,089	$4,089
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt ($70.0M note)	$561	$3,393	$3,563	$3,715	$3,881	$54,887	$70,000	$70,000
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2015
(In thousands except percentage data)

	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Assets:								
Marketable securities	$8,257	$9,068	$13,315	$2,335	—	—	$32,975	$32,815
Weighted average interest rate	1.14%	1.54%	1.89%	2.16%	—	—	1.40%	
Liabilities:								
Long-term debt ($4.75M note)	$255	$266	$277	$289	$302	$2,826	$4,215	$4,215
Weighted average interest rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	
Long-term debt ($70.0M note)	$561	$3,393	$3,563	$3,715	$3,881	$54,887	$70,000	$70,000
Weighted average interest rate	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	4.11%	

Commodity Price Exposure

As of June 30, 2016, 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 2014 and 2015 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 $3,066,000 of accounts receivable outstanding at June 30, 2016, $322,000 or 11%, is at risk to changing prices. Of the amount at risk to changing prices, $22,000 is attributable to pistachios and $300,000 is attributable to almonds. The comparable amount of accounts receivable at risk to price changes at December 31, 2015 was $3,529,000, or 54% of the total accounts receivable of $6,511,000.

The price estimated for recording accounts receivable for pistachios recorded at June 30, 2016 was $2.88 per pound, consistent with the price per pound at December 31, 2015. For each $0.01 change in the price of pistachios, our receivable for pistachios increases or decreases by $76. 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 $3.82 to $4.92. With respect to almonds, the price estimated for recording the receivable was $3.37 per pound, consistent with the price per pound at December 31, 2015. For each $0.01 change in the price of almonds, our receivable for almonds increases or decreases by $889. The range of final prices over the last three years for almonds has ranged from $1.71 to $4.24 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, we carried out an evaluation, under the supervision and with the participation of our management, including 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 urities 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

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 August 6, 2016, the Company, through its subsidiary Tejon Energy LLC., entered into a limited liability agreement (the Agreement) with Majestic Reality Co. for the purchase of, ownership of, and management of a fully-leased 651,909 square foot industrial building located at TRCC. The Agreement creates the TRC-MRC 2, LLC. The following description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the filed Agreement.

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

- Tejon and Majestic will each contribute $125,000 as initial equity toward the purchase of 651,909 square foot building. The purchase price of the building is $38.00 per square foot. Additional capital needed toward the purchase of the building will be determined once acquisition financing is in place.
- Future capital needs will be shared 50/50.
- The LLC is a 50/50 venture with Majestic being designated as the managing member.
- Cash distributions are in proportion to each member’s respective capital accounts.

Item 6. Exhibits:

3.1	Restated Certificate of Incorporation	FN 1
3.2	By-Laws	FN 1
4.1	Form of First Additional Investment Right	FN 2
4.2	Form of Second Additional Investment Right	FN 3
4.3	Registration and Reimbursement Agreement	FN 10
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 4
10.7	*Severance Agreement	FN 5
10.8	*Director Compensation Plan	FN 5
10.9	*Amended and Restated Non-Employee Director Stock Incentive Plan	FN 13
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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.

FN 2 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 3 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number I-7183) as Exhibit 4.4 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) under Item 14 to our Annual Report on Form 10-K for year ended December 31, 1994, is incorporated herein by reference.

FN 5 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 period ending December 31, 1997, 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, 2001, is incorporated herein by reference.

FN 7 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 8 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 9 This document, filed with the Securities and Exchange Commission in Washington D.C. (file number 1-7183) under Item 15 to our Annual Report on Form 10-K for the year ended December 31, 2004, 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 4.1 to our Current Report on Form 8-K filed on December 20, 2005, 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 10.24 to our Current Report on Form 8-K filed on May 24, 2006, 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 10.28 to our Current Report on Form 8-K filed on June 23, 2008, 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 Exhibit 10.9 to our Annual Report on form 10-K for the year ended December 31, 2008, 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 10.10 to our Annual Report on form 10-K for the year ended December 31, 2008, is incorporated herein by reference

FN 15 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) under Item 6 to our Quarterly Report on Form 10-Q for the period ending June 30, 2009, is incorporated herein by reference.

FN 16 This document, filed with the Securities and Exchange Commission in Washington, D.C. (file number 1-7183) under Item 6 to our Quarterly Report on Form 10-Q for the period ending March 31, 2013, 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 10.27 to our Current Report on Form 8-K filed on June 4, 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 10.1 to our Current Report on Form 8-K filed on August 8, 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 10.29 to our Amended Annual Report on Form 10-K/A for the year ended December 31, 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 10.30 to our Current Report on Form 8-K filed on July 16, 2014, 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 Exhibits 10.31-10.33 to our Current Report on Form 8-K filed on October 17, 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 Exhibit 10.34 to our Annual Report on Form 10-K for the year ended December 31, 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 10.35 to our Quarterly Report on Form 10-Q for the period ending June 30, 2015, 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 10.36 to our Quarterly Report on Form 10-Q for the period ending September 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 for the period ending June 30, 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 August 9, 2016.

TEJON RANCH CO.
(The Company)

/s/ Allen E. Lyda

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

/s/ Robert D. Velasquez

Robert D. Velasquez
Vice President of Finance, Chief Accounting Officer

LIMITED LIABILITY COMPANY AGREEMENT

OF

TRC-MRC 2, 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.

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EXHIBITS

Exhibit "A"	Names, Addresses, Percentage Interests and Initial Cash Contributions of the Members
Exhibit "B"	Legal Description of the Property
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Exhibit "D"	Right of First Refusal

LIMITED LIABILITY COMPANY AGREEMENT
OF
TRC-MRC 2, LLC

THIS LIMITED LIABILITY COMPANY AGREEMENT OF TRC-MRC 2, LLC, is entered into effective as of August 6, 2016 (the "**Effective Date**"), by and between TEJON ENERGY LLC, a California limited liability company ("**Tejon**"), and MAJESTIC TEJON II, 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) a Limited Liability Company Application for Registration (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 2, 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 that certain real property consisting of approximately thirty-three and 29/100ths (33.29) gross acres of land located within the Tejon Ranch Commerce Center at 4049 Industrial Parkway Drive, in the City of Lebec, County of Kern, State of California, and described more particularly on Exhibit "B" attached hereto (the "**Property**"), which is

improved with an industrial building containing approximately six hundred fifty-one thousand nine hundred nine (651,909) square feet of space and other improvements appurtenant thereto (collectively, the "**Improvements**"), (ii) 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 (iii) 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.

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 Article XII or unless extended by the Executive Committee. 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 Hugh McMahon ("**McMahon**") 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 executive 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 executive 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 another person or persons 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 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 its Representatives to devote such time as is reasonably necessary to carry out its 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 deadlock on any Major Decision.

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 2.11(b), is removed pursuant to Section 2.11(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, 2.08 and 2.09), the Administrative Member shall be responsible for (i) preparing and implementing each Approved Business Plan (including, without limitation, each 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 marketing and leasing management services delegated to the Administrative Member under Section 2.08 and (B) 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 Operating Budget 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 or any amendment, modification, extension or termination of any lease for all or any portion of the Project;

(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 any plans and specifications for any tenant or other improvements to be constructed by the Company (and any material amendment or material modification thereof);

(g) Selection of Architect and Engineer. The selection of any architect or engineer retained by the Company in connection with the construction of any tenant or other improvements to be constructed by the Company and the terms of any contract entered into by and between the Company and any such architect or engineer (and any amendment, modification or termination of any contract entered into by the Company with any architect or engineer);

(h) Construction Contract. The selection of any general contractor for the construction of any tenant or other improvements to be constructed by the Company and the execution or delivery by the Company of any construction contract and any amendment, modification or termination of any construction contract;

(i) Change Orders. The approval by the Company of any change order relating to the construction of any tenant or other improvements to be constructed by the Company 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 of Replacement Property Manager. Except as provided in Section 2.11(f), the selection of any property manager that will replace Tejon as a Property Manager Member (as defined in Section 2.09) 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;

(k) 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 2.07;

(l) Contracts with Affiliates. Except as provided in Sections 2.08 and 2.09, 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;

(m) 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;

(n) 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;

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

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

(q) 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;

(r) 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);

(s) 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;

(t) 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;

(u) 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;

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

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

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

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

(z) 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, VII or VIII);

(aa) 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;

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

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

(dd) 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 Property Manager 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 shall 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 Approved Business Plan

Attached hereto as Exhibit "C" is an annual business plan for the remainder of the 2016 Fiscal Year through the end of the 2017 Fiscal Year that has been approved by the Members. On or before September 30 of each Fiscal Year of the Company (commencing with the 2017 Fiscal Year), the Administrative Member shall submit a new annual business plan for the ensuing Fiscal Year 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 Fiscal Year (or other period); (ii) an Operating Budget, as more particularly described in Section 2.07 below; (iii) a Marketing Plan as described in Section 2.08 for the Improvements; and (iv) such other items as are agreed to by the Members. The annual business plan for the applicable Fiscal Year (or other period) that is approved by the Executive Committee is referred to as the "**Approved Business Plan**."

2.07 Operating Budget

Each Approved Business Plan shall include an operating budget ("**Operating Budget**"), which sets forth, 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 Fiscal Year, 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 2.07, 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.

2.08 Marketing and Leasing Management

The Administrative Member shall be responsible for preparing a marketing plan for the Project with the assistance and cooperation of 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 Effective Date, 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, as appropriate, (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).

2.09 Property Management

Tejon shall act as property manager for the Project (the "**Property Manager Member**"). In its capacity as Property Manager Member for the Project, Tejon shall be responsible for the repair and maintenance of the Project and customer service, and such other property management functions as may be delegated to it by the Executive Committee. The Property Management Member may not assign or delegate its duties or obligations under this Agreement without the prior written consent of the Executive Committee.

2.10 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, (i) to cause the Company to enforce its rights under any contract or other agreement entered into by the Company with the other Member and/or any Affiliate thereof (collectively, the "**Affiliate Agreements**") following any breach by the other 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 other 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 other Member and/or any Affiliate thereof, (v) to cause the Company to waive any rights of the Company against the other 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 other 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.

2.11 Election, Resignation, Removal of the Administrative or Property Manager Member

(a) Number, Term and Qualifications. The Company shall have one (1) Administrative Member which must be a member of the Company. 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 2.11(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 2.11(d), any resignation of the Administrative Member in accordance with the terms of this Section 2.11(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 2.11(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 this Section 2.11(d), (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 marketing services described in Section 2.08, (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 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 2.11(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).

(f) Property Manager Member. The provisions of this Section 2.11 relating to the resignation or removal of the Administrative Member and rights following such resignation or removal, shall apply to the same extent to the Property Manager Member substituting "Property Manager Member" for "Administrative Member" where appropriate.

2.12 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 2.12(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.

2.13 Management Fees.

As compensation for rendering the services described in Section 2.03, and elsewhere in this Agreement, in the case of the Administrative Member, and in Section 2.09 in the case of the Property Manager Member, (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 "**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 Management Fee shall be earned and payable on the first day of each calendar month based upon the gross operating receipts received by the Company in the preceding calendar month. If, but only if, a Member agrees to provide the management services that the other Member is required to render pursuant to Section 2.03 or Section 2.09 following the removal or resignation of such Member pursuant to Sections 2.11(b), 2.11(c) or 2.11(f), and further provided that such Member does not hire a new marketing director or property manager pursuant to Section 2.11(d)(iii), then the Management Fee that is otherwise payable to the other Member shall thereafter be paid to the Member that provides such services.

2.14 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.

2.15 Reimbursement and Fees

Except as expressly provided in this Agreement, or otherwise agreed to in writing by the Members, 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. Any request for reimbursement by any Member pursuant to this Section 2.15 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.

2.16 Insurance

The Administrative Member shall cause the Company to purchase and maintain (at the expense of the Company) a commercial general liability 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 2.16 shall be an expense of the Company and shall be included in the Operating Budget.

ARTICLE III

MEMBERS' CONTRIBUTIONS TO COMPANY

3.01 Initial Capital Contributions of the Members

Concurrently with the execution and delivery of this Agreement, each Member shall contribute, in cash, the amount set forth opposite such Member's name under the column entitled "Initial Cash Contribution" on Exhibit "A" attached hereto (the "**Initial Contribution**"), provided that Majestic shall be credited with amounts expended as third-party out-of-pocket pursuit costs for the Property upon the written approval of such costs by Tejon. Each Member's Capital Account shall be credited by the amount of such Member's Initial Contribution as and when such contribution is made.

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 ("**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 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.

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 (if any) 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, in lieu of any other right or remedy available at law, in equity or otherwise to the

Contributing Member and/or the Company (or any other party), to select one (1) or more of the following options 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 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 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, (i) Section 8-102(a)(15) of the Uniform Commercial Code as in effect from time to time in the State of Delaware, and (ii) 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: (i) to renew such Default Loan (or portion thereof) pursuant to the terms and provisions of this Section 3.03(a) for such additional terms as is determined in the sole and absolute discretion of the Contributing Member; (ii) 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; (iii) 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 (iv) 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 Contribution Date an amount equal to the Delinquent Contribution, and such Contributing Member's respective 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 (or portion thereof) 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), (i) the Percentage Interest of the Non-Contributing Member shall be decreased by the Dilution Percentage, and (ii) 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:

$$\text{Dilution Percentage} = 150 \times \left(\frac{\text{Delinquent Contribution}}{\text{Total amount of the Non-Contributing Member's capital contributions to the Company (including any Delinquent Contribution contributed by the Contributing Member), not reduced by any distributions under Section 501(a)}} \right)$$

The application of the provisions of this Section 3.03(b) are illustrated by the following example: Assume that (i) the aggregate amount of the prior capital contributions made by the Non-Contributing Member is Two Million Three Hundred Thousand Dollars ($2,300,000), (ii) 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, (iii) 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 (iv) 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 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 obtain an acquisition loan (the "**Acquisition Loan**") to finance the acquisition of the Property 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. Upon the request of the Executive Committee, 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 Acquisition Loan upon prevailing market terms and conditions (and any other financing thereafter required to refinance the Permanent Loan). It is anticipated that the Members shall be required to guarantee, on a joint and several basis, fifty percent (50%) of the Acquisition Loan. It is further anticipated that the Permanent Loan shall be nonrecourse to the Members (subject to any Loan Documents described in Section 3.05 required to be provided to the Lender providing any such Permanent Loan). The Acquisition 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 the Acquisition Loan or any Permanent Loan any and all guaranties, environmental indemnities and "bad-boy" carve-out guaranties required by such Lender (collectively, the "**Loan Documents**") provided such Loan Documents are approved by the Executive Committee in its reasonable discretion.

Except with respect to the Acquisition Loan, the Administrative Member shall use its commercially reasonable efforts to obtain each Lender's agreement that the obligation of each Guarantor under each Loan 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. The Members acknowledge and agree that each Loan 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 Loan 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 Loan 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 Loan 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 (i) with respect to Tejon and its Guarantors, an amount equal to fifty percent (50%) of the total liability incurred by all of the Guarantors under all of the Loan Documents (for which the Guarantors are entitled to be indemnified by the Company pursuant to Section 10.02(b) below), and (ii) with respect to Majestic and its Guarantors, an amount equal to fifty percent (50%) of the total liability incurred by all of the Guarantors under all of the Loan 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 (A) 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 (B) 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 on such Member's contributions to the capital of the Company, (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 any 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 any 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 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) Unreturned Contribution Accounts. First, to the Members in proportion to, and to the extent of, the positive balances standing in their respective Unreturned Contribution Accounts, if any; and

(b) 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 Articles VI, VII and 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 more than fifty percent (50%) 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, 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 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 in excess of 50%) 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 (individually and/or in his capacity as trustee of a trust) to control, directly or indirectly, Majestic prior to the death or incapacity of Roski;

(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 in excess of fifty percent (50%) 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 in excess of fifty percent (50%) 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 for the transferring Member's entire Interest in the Company, and (ii) the transferring Member fully complies with the provisions of Exhibit "D."

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) a technical termination of the Company under Section 708 of the Code, unless the transferring Member agrees to pay any and all Losses incurred by the Company as a result of any such termination, (ii) a change of ownership causing reassessment of all or any portion of the Project for property tax purposes under Section 60, et seq., of the California Revenue and Taxation Code, unless the transferring Member agrees to pay any and all Losses incurred by the Company as a result of any such reassessment, or (iii) 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.

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 terms 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 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 all other cases, one hundred percent (100%), of the amount which would be distributed to the Defaulting Member pursuant to Section 5.01 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 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 5.01, 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 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 Loan Documents and all other liabilities of the Company for which Affiliates may have personal liability, except to the extent caused by the fraud, bad faith, willful misconduct, gross negligence or breach of this Agreement by the 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 for any liabilities arising out of the fraud, bad faith, willful misconduct, gross negligence or breach of this Agreement by the Defaulting Member (or any Affiliate thereof).

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

The amount established by the Non-Defaulting Member for reserves pursuant to Section 7.03(iii) above shall be invested by the Company into a separate interest bearing account and shall be drawn upon solely to satisfy any contingent, unmatured or conditional liabilities or obligations of the Company in existence as of the effective date of the Default Notice for which such reserve was established. 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(iv) 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. Any interest earned on the proceeds invested in the interest bearing account shall be paid to the Defaulting Member in the same ratio as the principal balance of such proceeds is distributed in accordance with this Section 7.12.

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 two (2) 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 liabilities of 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 5.01. 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 12.03(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, 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 ANY 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).

/s/ HM, /s/ GB	/s/ BT, /s/ TS, /s/ ER
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 5.01 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 Defaulting 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 Defaulting 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 Loan 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 caused by the fraud, bad faith, willful misconduct, gross negligence or breach of this Agreement by 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 for any liabilities caused by the fraud, bad faith, willful misconduct, gross negligence or breach of this Agreement by such selling Member (or any Affiliate thereof).

8.10 Interim Event of Default

If any Member elects (or is deemed to elect) to be a buying Member in accordance with the provisions of this Article VIII and defaults in its obligations to timely and validly close any such purchase, 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 defaulting Member by delivering a Purchase Notice to such defaulting 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 defaulting 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 limited liability company 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 limited liability company 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, McMahon and Dean Brown ("**Brown**") 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, McMahon and Brown without regard to any imputed or constructive knowledge and without any duty of inquiry or investigation. In no event shall Lyda, McMahon or Brown 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

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 party. 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 resulting from or arising 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) Liability. No authorized Person, Member or Officer of the Company, or, if designated by the Executive Committee, any Affiliate or any direct and indirect members, partners, shareholders, directors, officers, managers, trustees and 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 such Covered Person's fraud, bad faith, willful misconduct, gross negligence or breach of 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 Loan 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 such Covered Person's fraud,

bad faith, willful misconduct, gross negligence or breach of this Agreement (other than a failure to pay any amounts due under any such Loan Document as a result of the breach or default of the Company).

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 Affiliates, direct and indirect 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. 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 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, 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.

10.06 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.

10.07 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.

10.08 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 Fiscal Year and 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. 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 Adiministrative Member may have with respect to such breach under Section 2.11(c) or 7.01(a) above).

During normal business hours at the 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 all 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 Adiministrative Member may have with respect to such breach under Section 2.11(c) or 7.01(a) above).

The Administrative Member is hereby designated as the "tax matters partner" of the Company as determined in accordance with the provisions of Section 6231(a)(7) of the Code and the Treasury Regulations promulgated thereunder. Following any resignation or removal of Majestic as the Administrative Member of the Company, Tejon shall be the "tax matters partner" of the Company. The Administrative Member (or Tejon if it has replaced Majestic as the "tax matters partner" of the Company) is specifically directed and authorized to (x) take whatever steps may be necessary or desirable to perfect its designation as "tax matters partner," including filing any forms or documents with the IRS, and (y) take such other action as may from time to time be required under the Code and the Regulations. The "tax matters partner" of the Company shall cause each other Member to be a "Notice Partner" within the meaning of Code Section 6231(a)(8). The "tax matters partner" 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 "tax matters partner" 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. For taxable years beginning after 2017, the Administrative Member is hereby designated as the "partnership representative" of the Company (provided the Administrative Member shall not be authorized to take any action as the "partnership representative" of the Company that would require the consent of the Executive Committee if such action was taken by the "tax matters partner" of the Company). 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) 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);

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

(c) 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 caused by other than the termination of the Company under Section 708(b)(1)(b) of the Code (in which latter case the Company shall remain in existence in accordance with the provisions of such Section of the Code), 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. 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 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, 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) GREENBERG GLUSKER FIELDS CLAMAN & MACHTINGER 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 California 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 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 one (1) or more of the provisions 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 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 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.

13.12 Entire Agreement

This 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), 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 this Section 13.18.

(a) Binding Arbitration. Any Member desiring to bring any action under this 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 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. In resolving the dispute, the arbitrator shall apply Delaware law to the matter being considered under this Agreement. 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. The arbitration award shall be final and binding on the parties and judgment on the award may be entered in any court having jurisdiction. 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 above, 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. Each 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, 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 ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS, OR MODIFICATIONS TO THIS AGREEMENT.

/s/ HM, /s/ GB	/s/ BT, /s/ TS, /s/ ER
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, 9.01, 9.02, 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 VII AND VIII) 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 term 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 Acquisition Loan

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

14.04 Actual Knowledge of Majestic

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

14.05 Actual Knowledge of Tejon

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

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 2.10.

14.12 Affiliated Parties

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

14.13 Agreement

The term "**Agreement**" means this Limited Liability Company Agreement of TRC-MRC 2, LLC.

14.14 Appraised Value

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

14.15 Approved Business Plan

The term "**Approved Business Plan**" is defined in Section 2.06.

14.16 Arbitration Notice

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

14.17 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.

14.18 Brown

The term "**Brown**" is defined in Section 9.01(k).

14.19 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.

14.20 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.

14.21 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.

14.22 Capital Call Notice

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

14.23 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.

14.24 Certificates

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

14.25 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).

14.26 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.

14.27 Contributing Member

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

14.28 Contributing Party

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

14.29 Contribution Date

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

14.30 Covered Persons

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

14.31 Default Events

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

14.32 Default Loan

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

14.33 Default Notice

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

14.34 Defaulting Member

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

14.35 Defaulting Member's Purchase Price

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

14.36 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.

14.37 Delinquent Contribution

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

14.38 Deposit

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

14.39 Dilution Percentage

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

14.40 Effective Date

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

14.41 Electing Member

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

14.42 Election Notice

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

14.43 Enforceability Exceptions

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

14.44 Executive Committee

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

14.45 FAA

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

14.46 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, 2016, 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.

14.47 Force Majeure Delay

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

14.48 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; (ii) the Gross Asset Values of all Company assets may be adjusted to equal their respective gross fair market values (without taking into account Section 7701(g) of the Code), as determined by the Executive Committee, upon the termination of the Company for federal income tax purposes pursuant to Section 708(b)(1)(B) of the Code; and (iii) 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.

14.49 Guarantor(s)

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

14.50 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.

14.51 Impasse Event

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

14.52 Improvements

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

14.53 Initial Contribution

The term "**Initial Contribution**" is defined in Section 3.01.

14.54 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.

14.55 JAMS

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

14.56 Just Cause Event

The term "**Just Cause Event**" is defined in Section 2.11(c).

14.57 Lender(s)

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

14.58 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).

14.59 Loan Documents

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

14.60 Loans

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

14.61 Lockout Date

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

14.62 Losses

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

14.63 Lyda

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

14.64 Majestic

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

14.65 Majestic Group

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

14.66 Major Decisions

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

14.67 Management Fee

The term "**Management Fee**" is defined in Section 2.13.

14.68 Marketing Plan

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

14.69 McMahon

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

14.70 Member(s)

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

14.71 MRC

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

14.72 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.

14.73 Non-Contributing Member

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

14.74 Non-Contributing Party

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

14.75 Non-Defaulting Member

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

14.76 Non-Electing Member

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

14.77 Nonrecourse Parties

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

14.78 Obligated Member

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

14.79 OFAC

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

14.80 Officers

The term "**Officers**" is defined in Section 2.12.

14.81 Operating Budget

The term "**Operating Budget**" is defined in Section 2.07.

14.82 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.

14.83 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).

14.84 Permanent Loan

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

14.85 Permitted Transferees

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

14.86 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.

14.87 Price Determination Notice

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

14.88 Pro Rata Share

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

14.89 Project

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

14.90 Property

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

14.91 Property Manager Member

The term "**Property Manager Member**" is defined in Section 2.09.

14.92 Purchase Notice

The term "**Purchase Notice**" is defined in Section 8.03.

14.93 Purchase Price

The term "**Purchase Price**" is defined in Section 8.02.

14.94 Quorum

The term "**Quorum**" is defined in Section 2.02(a).

14.95 Real Estate Assets

The term "**Real Estate Assets**" is defined in the Section 6.02(d).

14.96 Regulatory Allocations

The term "**Regulatory Allocations**" is defined in Section 4.04.

14.97 Removal Notice

The term "**Removal Notice**" is defined in Section 2.11(c).

14.98 Representative(s)

The terms "**Representative**" and "**Representatives**" are defined in Section 2.01(b).

14.99 Response Period

The term "**Response Period**" is defined in Section 2.05.

14.100 Roski

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

14.101 Roski Family

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

14.102 Rules

The term "**Rules**" is defined in Section 13.18(c).

14.103 Securities Acts

The term "**Securities Acts**" is defined in Section 9.04(a)(i).

14.104 Shortfall

The term "**Shortfall**" is defined in Section 3.02.

14.105 Stated Value

The term "**Stated Value**" is defined in Section 8.01.

14.106 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."

14.107 Tejon

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

14.108 Tejon Group

The term "**Tejon Group**" is defined in the Section 6.02(d).

14.109 Transfer

The term "**Transfer**" is defined in Section 6.01.

14.110 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).

14.111 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 any 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, 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(a), 3.03(b) or 5.01(a), 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 Section 5.01(a).

[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 ENERGY LLC,
a California limited liability company
By:/s/ Gregory S. Bielli
Name: Gregory S. Bielli
Its: President/Chief Executive Officer

By:/s/ Hugh F. McMahon IV
Name: Hugh F. McMahon IV
Its: Executive Vice President - Commercial and Industrial Real Estate

"**Majestic**"

MAJESTIC TEJON II, LLC,
a Delaware limited liability company

By: Majestic Realty Company,
a California corporation
Its Manager

By:/s/ EDWARD P. ROSKI, JR.
Name: EDWARD P. ROSKI, JR.
Its: President and Chairman of the Board

EXHIBIT "A"

NAMES, ADDRESSES, PERCENTAGE INTERESTS AND INITIAL CASH CONTRIBUTIONS OF THE MEMBERS

Member	Percentage Interest	Initial Cash Contribution
Tejon Energy LLC P.O. Box 1000 Lebec, CA 93243 Attn.: Allen Lyda and Hugh McMahon	50.0%	$125,000
Majestic Tejon II, LLC 13191 Crossroads Parkway North, 6th Floor City of Industry, CA 91746-3497 Attn.: Edward P. Roski, Jr. and Brett A. Tremaine	50.0%	$125,000
Totals	100.0%	

EXHIBIT "B"

LEGAL DESCRIPTION OF THE PROPERTY

THE LAND REFERRED TO IN THIS COMMITMENT IS SITUATED IN THE UNINCORPORATED AREA OF THE COUNTY OF KERN, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL A:

LOT 1 OF LOT LINE ADJUSTMENT NO. 29-01, AS EVIDENCED BY THAT CERTAIN CERTIFICATE OF COMPLIANCE RECORDED MARCH 26, 2001, AS INSTRUMENT NO. 01-38309, KERN COUNTY RECORDS, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

A PORTION OF PARCEL B AND THE DESIGNATED REMAINDER OF PARCEL MAP NO. 10663, PHASE A, FILED IN PARCEL MAP BOOK 51 AT PAGES 60 AND 61, IN THE OFFICE OF THE KERN COUNTY RECORDER ALSO BEING ALL THAT PORTION OF FRACTIONAL SECTION 6, TOWNSHIP 10 NORTH, RANGE 19 WEST, S.B.M., COUNTY OF KERN, STATE OF CALIFORNIA, DESCRIBED AS FOLLOWS:

COMMENCING AT THE CENTERLINE INTERSECTION OF TEJON INDUSTRIAL DRIVE AND INDUSTRIAL PARKWAY DRIVE AS SHOWN ON SAID PARCEL MAP NO. 10663-A, SAID POINT ALSO BEING ON THE NORTHERLY LINE OF PARCEL 1 OF SAID PARCEL MAP, THENCE SOUTH 89°41’30" EAST, ALONG THE NORTHERLY LINE OF SAID PARCEL, 137.55 FEET TO THE BEGINNING OF A CURVE, CONCAVE SOUTHERLY, HAVING A RADIUS OF 300.00 FEET, THENCE EASTERLY, ALONG SAID CURVE AND CONTINUING ALONG SAID NORTHERLY LINE, THROUGH A CENTRAL ANGLE OF 17°04'54", AN ARC LENGTH OF 89.44 FEET, THENCE SOUTH 72°36'36" EAST, CONTINUING ALONG SAID NORTHERLY LINE, 1024.50 FEET TO THE POINT OF BEGINNING, THENCE ALONG THE FOLLOWING SEVEN (7) COURSES

I) CONTINUING SOUTH 72°36'36" EAST, ALONG SAID NORTHERLY LINE, 1298.90 FEET TO THE BEGINNING OF A CURVE, CONCAVE NORTHWESTERLY, HAVING A RADIUS OF 300.00 FEET, THENCE 2) NORTHEASTERLY, ALONG SAID CURVE AND CONTINUING ALONG SAID NORTHEASTERLY LINE, THROUGH A CENTRAL ANGLE OF 98°48'57", AN ARC LENGTH OF 517.40 FEET, THENCE 3) NORTH 75°29'20" EAST, 84.02 FEET TO THE SOUTHEAST CORNER OF PARCEL B OF SAID PARCEL MAP, THENCE 4) NORTH 14°30'40" WEST, ALONG THE EASTERLY LINE OF SAID PARCEL, 685.51 FEET, THENCE 5) DEPARTING FROM SAID EASTERLY LINE, SOUTH 75°29'20" WEST, 30.00 FEET, THENCE

6) NORTH 72°36'36" WEST. 1278.95 FEET, THENCE 7) SOUTH 17°23'24" WEST, 956.50 FEET TO THE POINT OF BEGINNING.

EXCEPTING THEREFROM ALL RIGHTS, TITLE AND INTEREST IN AND TO ALL WATER AND GROUNDWATER RIGHTS, COAL, OIL, GAS AND OTHER HYDROCARBONS, GEOTHERMAL RESOURCES, PRECIOUS METALS ORES, BASE METALS ORES, INDUSTRIAL-GRADE SILICATES AND CARBONATES, FISSIONABLE MINERALS OF EVERY KIND AND CHARACTER, METALLIC OR OTHERWISE, WHETHER OR NOT PRESENTLY KNOWN TO SCIENCE OR INDUSTRY, NOW KNOWN TO EXIST OR HEREAFTER DISCOVERED UPON, WITHIN OR UNDERLYING THE SURFACE OF SAID LAND REGARDLESS OF THE DEPTH BELOW THE SURFACE AT WHICH ANY SUCH SUBSTANCES MAY BE FOUND, HOWEVER, GRANTOR OR ITS SUCCESSORS AND ASSIGNS, SHALL NOT HAVE THE RIGHT FOR ANY PURPOSE WHATSOEVER TO ENTER UPON, INTO OR THROUGH THE SURFACE OR THE FIRST 500 FEET OF THE SUBSURFACE OF THE PROPERTY IN CONNECTION THEREWITH.

PARCEL B:

AN EASEMENT FOR ACCESS, INGRESS AND EGRESS AS DISCLOSED IN DECLARATION OF COVENANTS, CONDITIONS, RESTRICTIONS AND RESERVATIONS OF EASEMENTS FOR TEJON INDUSTRIAL COMPLEX RECORDED SEPTEMBER 19, 2000 AS INSTRUMENT NO. 00-116816 OF OFFICIAL RECORDS AND AS AMENDED BY "AMENDMENT NO. 1 TO GRANT OF EASEMENT" RECORDED APRIL 29, 2008 AS INSTRUMENT NO. 0208066617 OF OFFICIAL RECORDS AND AS AMENDED BY "AMENDMENT NO. 2 TO GRANT OF EASEMENT" RECORDED AUGUST 13, 2008 AS INSTRUMENT NO. 0208129235 OF OFFICIAL RECORDS AND AS AMENDED BY "AMENDMENT NO. 3 TO GRANT OF EASEMENT" RECORDED MARCH 24, 2010 AS INSTRUMENT NO. 0210039033 OF OFFICIAL RECORDS.

PARCEL C:

AN IRREVOCABLE, PERPETUAL EASEMENT FOR USE AND MAINTENANCE OF THE FIRE LINES AND FOR DRIVEWAY, INGRESS AND EGRESS AS DISCLOSED IN THE "FIRE FACILITY AND ACCESS EASEMENT AND MAINTENANCE AGREEMENT" RECORDED AUGUST 20, 2008 AS INSTRUMENT NO. 0208132546 OF OFFICIAL RECORDS.

EXHIBIT "C"

APPROVED BUSINESS PLAN

TRC-MRC 2, LLC

TO BE PROVIDED LATER

2016 Annual Business Plan

EXHIBIT "D"

RIGHT OF FIRST REFUSAL

Except for transfers permitted by Sections 6.02(a), (b), (c), (d) and (e), 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 "D."

(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 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 closing for the Offered Interest shall be made 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 "D," 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 "D" 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) and (e) 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 "D," 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.

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: August 9, 2016

/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: August 9, 2016

/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 2016 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: August 9, 2016

/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