FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

OR

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

For the transition period from ___________ to ___________

Commission File Number: 1-7183

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

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

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

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

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

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

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

None

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

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

The aggregate market value of Registrant's Common Stock, $.50 par value per share, held by persons other than those who may be deemed to be affiliates of Registrant on March 25, 2002 was $433,966,241 based on the closing price on that date on the New York Stock Exchange.

The number of the Company's outstanding shares of Common Stock on March 25, 2002 was 14,360,233 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 7, 2002 relating to the directors and executive officers of the Company are incorporated by reference into Part III.

Total Pages - 155
Exhibit Index - 36

PART I

ITEM 1. BUSINESS

Throughout Item 1 - "Business," Item 2 - "Properties," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," we have made forward-looking statements, including statements regarding strategic alliances, the almond industry, 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, almond plant and industrial building, 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. These forward-looking statements are subject to factors beyond our control (such as weather, market and economic forces) and, with respect to the future development of our land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that the actual future results will not differ materially from the forward-looking statements.

Tejon Ranch Co. is a diversified, growth oriented land development and agribusiness company whose purpose is to increase the value of our real estate and resource holdings and maximize our market value for our stockholders. Our prime asset is approximately 270,000 acres of contiguous, largely undeveloped land which, at its most southerly border, is 60 miles north of Los Angeles and, at its most northerly border, is 15 miles east of Bakersfield. We believe that our land holdings offer attractive development opportunities. We also have significant, existing commercial real estate developments along Interstate 5 (a major, north-south federal highway in California that runs through our land), and we have significant farming and mineral extraction operations.

Over the last five years we have been implementing a strategic plan that set out a broad strategy for enhancing stockholder value. Specifically, the plan has focused on planning and development of portions of our largest and most valuable asset, our 270,000-acre land holding, as well as growing our other core business.

In implementing our strategic plan, we have:

- Nearly completed a program to sell our cattle and feedlot operations to provide a source of capital for the reduction of outstanding debt, and for future real estate development activities.
- Sold $6 million of non-strategic real estate assets, using the proceeds to purchase commercial and industrial buildings for current and future revenue sources.
- Begun development of the 351-acre Tejon Industrial Complex, with the first occupant being the 51-acre Petro Travel Plaza that opened for business in 1999 and the first purchaser being IKEA, an international home furnishings retailer. IKEA constructed a regional warehouse having 900,000 square feet at the Complex and IKEA will ultimately have 1.8 million square feet of building at the Complex when completed.

- Completed construction of a 650,000 square foot building on 31 acres within the Tejon Industrial Complex in a joint venture with DP Properties.
- Leased land to a subsidiary of Calpine Corp. for the development of a power plant on our land, which is currently under construction.
- Signed a joint venture agreement with three well-known home builders for the creation of a new master-planned community on our land in Los Angeles County, which we call Centennial.
- Purchased an almond hulling and processing plant to enhance and expand our farming operations.
- Successfully completed a rights offering on January 16, 2001, raising $30 million in new capital.

Two years ago we decided to focus our primary efforts and resources on real estate development instead of trying to grow all of our businesses at the same time. In addition to our Tejon Industrial Complex and the Centennial residential project, we are engaged in the constraints and feasibility analyses and phase I planning of a master-planned mountain community. We envision that the major components of any proposed project would include mountain homes, a high quality golf and spa resort, a commercial component and substantial open space. We call this concept "Tejon Mountain Village." Although the size of this development concept has not been finalized, it could involve several thousand acres. While we have not defined the products to be offered, they could include sites for homes in a rural, mountain environment. In September 2000 we decided to commit the resources necessary to refine our concept, develop detailed plans, prove up the project's feasibility and, if all goes well, perform preliminary work necessary to apply for governmental approvals for this proposal.

We are also in the process of seeking entitlements to expand the Tejon Industrial Complex by 1,103 acres. These entitled acres will add room to build some 15 million square feet of industrial space in the future. We expect to receive these entitlements by late summer of 2002. Our undertaking construction of these residential and industrial projects is subject to a number of contingencies and uncertainties, and we cannot assure you that the developments will occur or that they will be successful.

In order to provide additional working capital for our real estate development activities, we decided in 2001 to sell the assets of our livestock and feedlot division. Since then, we have been disposing of the cattle and feedlot assets. While the sale of these assets has provided working capital and allowed us to reduce outstanding debt, it will also result in a loss of significant revenues, even after taking into account the revenue stream from grazing leases that we entered into in connection with the sales of the breeding herd. The process of selling our breeding herd was completed during June 2001, and the sale of the feedlot was completed during July 2001. We began the year with approximately 40,000 head of cattle, and ended the year with 4,300 head of cattle. These remaining head of stocker cattle are expected to be sold by the end of April 2002. During June 2001, we sold our remaining breeding herd for $2.6 million to Centennial Livestock, an unrelated California agriculture company. In July 2001, we completed the sale of our feedlot in Texas for $3.2 million. The combined gain on the sales, net of applicable income taxes, was $700,000.

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

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

(Amounts in thousands of dollars)

	2001	2000 (1)	1999 (1)
Revenues From Continuing Operations			
Real estate	$10,990	$10,947	$ 8,906
Farming	6,425	7,225	7,433
Segment revenues	17,415	18,172	16,339
Interest income	1,897	632	639
Total revenues from continuing operations	$19,312	$18,804	$16,978
Segment Profits and Net Income			
Real estate	$ 3,762	$ 2,366	$ 3,304
Farming	(1,343)	71	1,148
Segment profits (2)	2,419	2,437	4,452
Interest income	1,897	632	639
Corporate expense	(3,347)	(3,029)	(3,198)
Interest expense	(695)	(1,426)	(214)
Operating income (loss) from continuing operations before income taxes and minority interest in consolidated joint venture	274	(1,386)	1,679
Minority interest in consolidated joint venture	(189)	(185)	--
Operating income (loss) from continuing operations before income taxes	85	(1,571)	1,679
Operating income (loss) from continuing operations after income taxes	52	(970)	1,041
Income from discontinued operations, Net of applicable income taxes	242	425	140
Net income (loss)	$ 294	$ (545)	$ 1,181
Identifiable Assets by Segment (3)			
Real estate	$44,523	$31,197	$31,975
Farming	18,912	17,698	13,574
Corporate	35,713	49,392	45,970
Total Assets	$99,148	$98,287	$91,519

(1) Certain industry segment information presented for the years ended prior to December 31, 2001 have been reclassified to conform to their presentation for the year ended December 31, 2001.

(2) Segment Profits are revenues from continuing operations less operating expenses, excluding interest income and expense, corporate expense and income taxes.

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

Real Estate Operations

Our real estate operations consist of four principal activities: land planning and entitlement, real estate development, commercial sales and leasing, and income portfolio management. Our 270,000-acre land holding offers significant real estate development opportunities. Our land is characterized by diverse topography and scenic vistas and is conveniently served by three inter-regional highways. Interstate 5, one of the nation's most heavily traveled freeways, brings approximately 60,000 vehicles a day through our land, which includes 16 miles of Interstate 5 frontage and the commercial land surrounding four interchanges. The strategic plan for real estate focuses on development opportunities along the Interstate 5 corridor as well as laying the necessary groundwork for moving forward with potential destination uses, including residential and resort projects.

During 2001 and 2000, development activity was principally focused on the 351-acre Tejon Industrial Complex at the Interstate 5/Laval Road interchange. The activity at the industrial complex was primarily related to infrastructure construction and marketing of commercial sites. Interest in developing industrial, warehouse, and distribution facilities on the remaining acreage at the Tejon Industrial Complex is being expressed by developers and end users. We have begun marketing building sites at the industrial complex to these groups. In September 2000, we closed the first sale of a building site, 80 acres purchased by IKEA, an international home furnishings retailer, and in March 2001 we entered into a joint venture agreement with DP Properties for the development of a 650,000 square foot building on 31 acres within the Tejon Industrial Complex. This building was completed during January 2002. During March 2002 the joint venture entered into a 15-year lease with Daisytek International, a distributor of name-brand computer and office supply products and accessories, for 325,000 square feet. We are in direct competition for customers with other industrial sites in Northern, Central, and Southern California, including the inland empire region of Southern California.

In March 2000, we formed a limited liability company with three well-known homebuilders and community developers (Lewis Investment Company, LLC, Pardee Construction Company and Standard Pacific Corp.), to develop a master-planned community initially on 4,000 acres of our land in Los Angeles County that we call Centennial (formerly Rolling Meadows). Under the terms of the agreement we are to contribute the land and $500,000 for feasibility studies and the developers are to invest a matching amount of funds up to an aggregate of $15.0 million to perform planning and feasibility work and to prepare and process applications for entitlements for the project, which they hope to file with Los Angeles County in mid 2002. The parties have agreed in principle to increase the size of the project to approximately 12,000 acres, consisting of 6,000 acres of developable land and 6,000 acres of open space and recreational areas. This means we would contribute additional land and the developers would contribute additional cash to the project. Negotiations are continuing and binding agreements have not been entered into for this expansion of the project. If and when the entitlements have been obtained, we expect the limited liability company to make the required infrastructure improvements and to sell the lots to developers for the construction of homes. The three development companies participating in the project have the right to purchase up to 60% of the lots. We are entitled to receive 50% of the profits and cash flow, if any, from the development, which is not expected to be completed for several years.

In April 1999, we entered into an agreement with Enron North America Corp. and one of its affiliates which we call collectively "Enron". Under this agreement, Enron had the right to receive 1) the use of approximately 31 acres of undeveloped land owned by us at the southern end of the San Joaquin Valley for construction and operation of a power plan having an anticipated capacity of 750 megawatts of electricity and 2) services from us related to the entitlement of such land. One of the major contingencies to the project was removed due to Enron receiving approvals from the California Energy Commission for the construction and operation of the power plant on our site in early 2001. Under the Enron arrangement, we received $1,551,000 in 1999, $2,100,000 in 2000 and an additional $1,400,000 for the period from January 2001 through April 2001 as compensation for the use of the land and for services related to the entitlement of the land.

During April 2001, Enron completed a transaction to sell the power plant development project to Calpine Corp. Under the documents they assumed in the transaction with Enron, Calpine Corp. continued to pay us $100,000 per month for their use of the land prior to the execution of a lease agreement. In addition, we received approximately $1,600,000 in milestone payments attributable to the use of the land, additional land easements, and services we provided related to the entitlement of such land.

During July 2001, a subsidiary of Calpine Corp. executed a lease agreement with us for the development of the power plant, for which construction is now underway. Under this executed lease agreement, we are to receive lease payments in the amount of $100,000 per month. In addition, payments under this lease agreement, which include payments for both rent and compensation for significant easement rights over other parts of our land, will increase to $2,600,000 per year (subject to certain adjustments which could be material), commencing when the plant becomes operational or earlier under certain circumstances, and are subject to escalation based upon changes in a designated consumer price index. We are also entitled to receive additional rent after commercial operation of the plant begins, based upon production capacity at the plant and energy prices. This additional rent could vary significantly from year to year. The term of the lease is 25 years from the date the plant becomes operational (or earlier under certain circumstances), and Calpine has three five-year options to extend the term. During the construction of the plant, we are to continue to receive $100,000 per month for a 24-month period that began in July 2001. For the period from July 2001 to December 31, 2001, we received $600,000 under this agreement.

In addition to the Petro Travel Plaza facility, we lease to various tenants land which is used for a full-service truck stop facility, a truck wash, four auto service stations with convenience stores, four full-service restaurants, five fast-food operations, a motel, two antique shops, and a United States Postal Service facility. In addition, several microwave repeater locations, radio and cellular transmitter sites, and fiber optic cable routes are also leased. In the commercial sales and leasing area, we are in direct competition with other landowners which have highway interchange locations along Interstate 5 and State Route 99 in the southern San Joaquin Valley and the Tehachapi Mountains.

We lease certain portions of our land to oil companies for the exploration for, and production of, oil and gas but do not ourselves engage in any such exploratory or extractive activities.

As of December 31, 2001, approximately 12,212 acres were committed to producing oil and gas leases from which the operators produced and sold approximately 245,789 barrels of oil, 57,164 MCF of dry gas, and 3,047 gallons of wet gas during 2001. Our share of production based upon the average royalty rate during the last three years has been 84, 57 and 49 barrels of oil per day for 2001, 2000, and 1999, respectively. Approximately 405 producing oil wells were located on the leased land as of December 31, 2001. Three new wells were drilled on Tejon's land, or land unitized with Tejon's land, in 2001.

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

We have approximately 2,440 acres under lease to National Cement Company of California, Inc., which we call "National," for the purpose of manufacturing portland cement from limestone deposits found on the leased acreage. National owns and operates on the property a cement manufacturing plant having an original design capacity of approximately 600,000 tons of cement per year. The manufacturing plant has recently increased its production capacity to 1,000,000 tons per year. The amount of payment that we receive under the lease is based upon shipments from the cement plant. The term of this lease expires in 2006, but National has remaining options to extend the term for two additional successive increments of 20 years each and one final increment of 19 years. Significant proceedings under environmental laws relating to the cement plant are in process, see Item 3--"Legal Proceedings."

Farming Operations

In the San Joaquin Valley, we farm permanent crops including the following acreage: wine grapes--1,308, almonds--1,387, pistachios--985 and walnuts--295. Included in these acreage figures are 300 acres of almonds planted in 1998 and 300 acres of almonds planted early in 1999. The 1998 almond development had a small crop during 2001 and the 1999 almond development is expected to have a harvestable crop in 2002. We are also anticipating the development of an additional 300 acres of almonds in early 2003. Our objective in planting new trees is to offset the normal yield decline as our older plantings reach productive maturity and to improve revenues from farming operations in future years. As certain of our permanent plantings age to the point of declining yields, we will evaluate the advisability of replanting those crops or replacing them with different plantings, depending upon market conditions. During 2001, we removed 247 acres of wine grapes due to market conditions. This 247 acres was then replanted with pistachio trees. During 2001 we also removed 598 acres of almond trees due to damage sustained in storms. These trees were also of an age that yields were beginning to decline and the trees were becoming less profitable. The lost production from these trees will be replaced in the future from the new plantings described previously. We also lease approximately 1,600 acres to third parties for the farming of row crops.

We sell our farm commodities to several commercial buyers. As a producer of these commodities, we are in direct competition with other producers within the United States and throughout the world. Prices received by us for our commodities are determined by total industry production and demand levels. We attempt to improve price margins by producing high quality crops through cultural practices and by obtaining better prices through marketing arrangements with handlers. In order to control the quality of our almonds through the processing phase and to reduce future processing costs, we formed a joint venture with D.

Billings Family Trust, a significant San Joaquin Valley farming company, in May 2000 to own and operate an almond hulling, shelling and processing plant purchased by us in January 2000. The purchase price was $2,700,000. We are entitled to two-thirds of the profits and cash flow after debt service. In addition to using the almond processing plant to process our crop and that of our co-venturer, we also hull, shell and process almonds for outside growers.

In 2001 our almonds were primarily sold to various commercial buyers, with one of the buyers receiving approximately 38% of the crop. Since we now process our own almonds, we have considerably more flexibility over the timing and nature of our sales. We do not believe that we would be adversely affected by the loss of our largest buyers because of the size of the almond market, the large number of other buyers that would be available to us and the fact that the prices for these commodities do not vary based on the identity of the buyer.

The California almond industry is subject to a federal marketing order which empowers the California Secretary of Agriculture to set the percentage of almonds which can be sold during any crop year and the percentage of almonds to be held in reserve in order to assist in the orderly marketing of the crop. During 1999, the State of California had a record almond crop that led the Almond Board of California, an industry group, to request an almond marketing reserve that was approved by the Secretary of Agriculture. The marketing order had allowed us to sell only 77% of the 1999 crop until the summer of 2000, when the marketing order was lifted and we were able to sell the remaining 23% during the third quarter of 2000. Historically, marketing orders have been lifted in the following year after the size of the crop for that year is determined. During 2001 and 2000 the saleable percentage was set at 100%.

In 2001, the majority of our pistachios were sold to one customer, and our walnuts were sold to two customers, each receiving approximately 50% of the crop. We believe that the loss of any of these customers would not adversely impact us because, like almonds, there are a number of potential purchasers of pistachios and walnuts, and prices do not change based on the identity of the buyer. During 2001, wine grapes were sold to a number of wineries, with one winery receiving approximately 61% of the crop. During 2000, our contract with Golden State Vintners expired with the purchase of that year's crop. We believe that there is an imbalance between the supply of wine grapes and the demand as the result of so many new plantings coming into production. We cannot assure you that we will find buyers for all of our wine grape production in 2002. We have, however, contracted our French Colombard grape production for a two-year period beginning with the 2002 crop and signed a multi-year contract beginning in 2002 for our ruby cabernet grape production. The lack of purchasers for our remaining wine grapes would materially affect our business.

Overall crop revenues from our farming operation was less than 2000 levels primarily due to reduced almond production and to lower grape prices and grape production. Grape prices declined approximately 27% when compared to 2000 prices. Grape production declined due primarily to the removal of 247 acres of unprofitable cabernet sauvignon grapes. The overall decline in grape prices is directly related to the growth in grape production throughout California. See "Management's Discussion and Analysis of Financial Statements and Results of Operations".

Almond revenues during 2001 declined due to a large drop in production. The decline in production is due to storms that impacted the pollination period and to storm damage to trees. The damaged trees were ultimately removed due to the damage sustained in the storms and to the age of the damaged trees. During 2003 it is currently planned to plant 300 acres of new almonds to help offset the loss of future production from the trees that were removed. Pistachio revenues increased in 2001 due to production doubling when compared to 2000 production. A large part of the increase in production was due to 300 acres of young pistachio trees producing their first full crop. The improvement in walnut revenues is due primarily to increased production.

We expect further price pressure on both nuts and grapes as new production within California comes online. Nut and grape crop markets are particularly sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices.

Our water entitlement for 2001 available from the State Water Project was adequate for our farming needs. In addition, there was sufficient runoff from local mountain streams allowing us to capture this water in reservoirs and utilize it to offset some of the higher priced State Water Project water. The State Department of Water Resources has announced its 2002 water supply at 45% of full entitlement Other water supplies that the local water district will be able to make available to its farmers, combined with this level of state entitlement, are expected to provide a level of water supply that will cover all of our farming needs. If in any year the local water district cannot meet all of our agricultural demands, we will have to rely on ground water sources, water transfers from the Tejon-Castac Water District and water banking arrangements that we have entered into. Water from these sources may be more expensive because of pumping costs and transfer costs, but can be expected to make up for shortfalls of the kind we have experienced in the past.

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

Discontinued Operations

During the first six months of 2001, we continued to conduct a beef cattle operation upon those portions of our land that were not devoted to farming, commercial real estate operating assets or other purposes. As indicated above, we began a program during 2001 to dispose of our cattle and feedlot operations. The goal in selling these assets is to provide additional working capital for our real estate development activities and to reduce our outstanding debt.

We began the year with approximately 40,000 head of cattle and ended the year with 4,300 head of cattle. These remaining head of stocker cattle are expected to be sold by the end of April 2002.

During December 2000, we sold a portion of our livestock assets to Echeverria Cattle Company, LLC, which is owned by Matthew J. Echeverria, our former Senior Vice President, Livestock and Ranch Operations. The transaction involved the sale of approximately 1,000 cows, 50 bulls, and certain personal property for a purchase price of $893,000, as well as a grazing lease over approximately 55,000 acres of our land. The lease has a term of ten years with two five-year options to extend the term, and provides for rent at the rate of $200,000 per year, subject to adjustments based upon rainfall and the extent to which we exercise our right to use portions of the land for other purposes. The sale involved approximately 22% of our breeding herd and approximately 3% of the total amount of our cattle.

During June 2001, we completed the sale of our remaining breeding herd for $2.6 million to Centennial Livestock, a California agricultural company. The transaction with Centennial Livestock also included a grazing lease for approximately 195,000 acres. This lease also has a term of ten years and provides for rent at a rate of $680,000 per year and is subject to adjustment based upon rainfall and the extent to which we exercise our right to use portions of the land for other purposes. During July 2001, we completed the sale of our feedlot in Texas for $3.2 million. The combined gain on the sale of the breeding herd and feedlot in 2001, net of applicable taxes, was $700,000.

While the sale of these assets has provided significant working capital, it will also result in the loss of significant revenues even after taking into account the revenue stream from the grazing leases we entered into in connection with the sale of the breeding herd. Over the last three years, the livestock division accounted for 71% to 75% of our total revenues. While the operations of the livestock division created significant revenues, they also used large amounts of debt and working capital. We concluded that our working capital and debt facilities would be better allocated to potentially higher returning and value enhancing real estate development activities, which led to our decision to dispose of the livestock division assets.

Customers

During 2001, no single customer accounted for more than 10% of our revenues from continuing operations. During 2000 and 1999 the following customers accounted for more than 10% of our consolidated revenues from continuing operations: Golden State Vintners, a purchaser of grapes, (10% in 2000 and 25% in 1999); and IKEA, an international home furnishing retailer (11% in 2000).

Organization

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

Employees

At December 31, 2001, we had 102 full-time employees. None of our employees is covered by a collective bargaining agreement.

Executive Officers of Registrant

The following table shows, as to each executive officer of ours, the offices held as of March 25, 2002, the period the offices have been held, and the age of the executive officer. All of such officers serve at the pleasure of the board of directors.

Name	Office	Held Since	Age
Robert A. Stine	President and Chief Executive Officer, Director	1996	55
Jeffrey H. Warren	Vice President, Property Management and Ranch Operations	2000	49
Allen E. Lyda	Vice President, Chief Financial Officer, Treasurer and Assistant Secretary	1990	44
Dennis F. Mullins	Vice President, General Counsel and Secretary	1993	49
Dennis J. Atkinson	Vice President, Agriculture	1998	51
Joseph E. Drew	Vice President, Commercial and Industrial Development	2001	59
Dana C. Severy	Senior Vice President, Residential and Resort Properties	2001	48

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

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

Mr. Warren has been employed by us since December 2000, serving as Vice President, Property Management and Ranch Operations. From March 1999 to November 2000, he was a Director and Chief Financial Officer of BB Energy, an independent oil and gas exploration and production company headquartered in Bakersfield, CA. From December 1997 to February 1998, before joining BB Energy, Mr. Warren served as General Manager and Chief Financial Officer of West Coast Quartz Corporation of Fremont, CA (a manufacturer of parts for semiconductor production equipment) and from August 1994 to November 1997, he was Vice President and Director of Petsec Energy of Lafayette, LA (an oil and gas exploration and production company operating in the Gulf of Mexico).

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

Mr. Mullins has been employed by us since 1993, serving as Vice President, General Counsel and Secretary.

Mr. Atkinson has been employed by us since July 1998, serving as Vice President, Agriculture. From 1995 to 1998, he was a farm manager with Wilson Ag, an agricultural company in Kern County. Prior to this he was a farm manager with Tejon Farming Company, a subsidiary of the Company.

Mr. Drew has been employed by us since March 2001, serving as Vice President, Commercial and Industrial Development. From 1997 to 2001, he served as President of the International Trade and Transportation Center, a 700+ acre commercial and industrial development of The Allen Group.

Mr. Severy has been employed by us since September 2001, serving as Senior Vice President, Residential and Resort Properties. From 1995 to 2001, he served as the Vice President of Resort Development for Intrawest Corporation, a leading resort developer in North America.

ITEM 2. PROPERTIES

Our 270,000 acres include portions of the San Joaquin Valley, foothills, portions of the Tehachapi Mountains and portions of the western end of the Antelope Valley. A number of key transportation and utility facilities cross our land, including Interstate 5, California Highways 58, 138 and 223, the California Aqueduct (which brings water from Northern California), and various transmission lines for electricity, oil, natural gas and communication systems.

Approximately 250,000 acres of our land are located in Kern County, California. The Kern County General Plan for this land contemplates continued commercial, resource utilization, farming, grazing and other agricultural uses, as well as certain new developments and uses, including residential and recreational facilities. While the County General Plan is intended to provide general guidelines for land use and development, it is subject to amendment to accommodate changing circumstances and needs. In addition to the General Plan, much of our land will require specific zoning and site plan approvals prior to actual development. We have not yet made specific proposals to the County to implement any part of our proposed land use concepts, except at the Laval Road Interchange on Interstate 5 where the Tejon Industrial Complex is located.

The remainder of our land, approximately 20,000 acres, is in Los Angeles County. This area is accessible from Interstate 5 via Highway 138. Los Angeles County has adopted general plan policies which contemplate future limited residential development of portions of this land, subject to further assessments of environmental and infrastructure constraints. In March 2000 we formed a limited liability company with three major Southern California homebuilders to pursue a master planned community on our Los Angeles County land. See "Business--Real Estate Operations."

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

Due to our location and the undeveloped state of our property, from time to time unsolicited proposals are made for governmental or quasi-public uses of portions of the property or neighboring lands by entities, some of which may have the power of eminent domain. For the most part, we make a determined effort to ensure that any such proposals are implemented in a manner that is environmentally sound and that will maintain our flexibility to develop our adjoining lands. Our lands are also being evaluated as a possible route for a high-speed rail system between Los Angeles and San Francisco.

Water Rights

Existing long-term contracts with the Wheeler Ridge-Maricopa Water Storage District, which we call the "Wheeler Ridge Water District," provide for water deliveries from the California State Water Project to portions of our land in the San Joaquin Valley. The terms of these contracts extend to 2035. Under the contracts we are entitled to annual water for 5,496 acres of land, which is adequate for our present farming operations. The long-term water supply picture in the state is uncertain, however, not only due to recurring droughts, but also because of existing and likely additional restrictions placed on water exported from the Sacramento-San Joaquin River Delta. The impact of these restrictions could adversely affect our business.

The years 1995 through 2000 were excellent water years with 100% of our water entitlement being available from the State Water Project in each of 1995 - 1999, and 90% in 2000. While the year 2001 Project allocation was only 39%, the Wheeler Ridge Water District was able to supply us with 100% of our farming demands. In addition, in each of these years, there was sufficient runoff from local mountain streams to allow us to capture this water in reservoirs and utilize it to offset some of the higher priced State Water Project water. Both the Wheeler Ridge Water District and we are able to bank (percolate into underground aquifers) some of our excess supplies for future use. The Wheeler Ridge Water District expects to be able to deliver our entire contract water entitlement in any year that the State Water Project deliveries exceed 30-50% by drawing on its ground water wells and water banking assets. Based on historical records of water availability, we do not believe we have material problems with our water supply. However, if State Water Project deliveries are less than 30-50% of our entitlement in any year, or if less severe shortages continue for a sustained period of several years, then the Wheeler Ridge Water District may not be able to deliver 100% of our entitlement and we will have to rely on our own ground water sources, mountain stream runoff, water transfers from the Tejon-Castac Water District and water banking assets. Water from these sources may be more expensive because of pumping costs and transfer costs. Also, as we develop our real estate for residential, commercial and industrial uses, there will be less water available for agriculture from the Tejon-Castac Water District. A 45% allocation has been made by the State Water Project for 2002. With this allocation, along with the Wheeler Ridge Water District's additional supplies, we believe that we will have adequate water supplies for farming in 2002.

The water contracts with the Wheeler Ridge Water District require annual payments related to the fixed costs of the California State Water Project and the Wheeler Ridge Water District, whether or not water is used or available. The contracts also establish a lien on benefited land. Payments made under these contracts by us for the three years ended December 31, 2001, 2000, and 1999 were $1,183,000, $793,000, and $1,300,000, respectively.

Land benefiting from the Wheeler Ridge Water District is subject to contingent assessment liens that are senior in priority to any mortgages on the property. The liens secure bonds issued by the Wheeler Ridge Water District to finance construction of water distribution facilities. Lien enforcement of assessments and contracts can involve foreclosure of the liens and the resulting loss of the land subject to the liens. The Wheeler Ridge Water District will impose contingent assessments (over and above our normal costs for water entitlement) only if the District's revenues from water contracts and other regular revenue sources are not sufficient to meet its obligations. Lien assessments are levied by the District based on estimated benefits to each parcel of land from the water project serving the land. The Company is presently subject to such contingent liens totaling approximately $784,000. Since commencement of operations in 1971, the District has had sufficient revenues from water contract payments and other service charges to cover its obligations without calls on assessment liens and has advised that it does not presently anticipate the need to make any calls on assessment liens.

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

In addition to our agricultural contract water entitlements, we have an additional entitlement to obtain from the California State Water Project sufficient water to service a substantial amount of future residential and/or commercial development in Kern County. The Tejon-Castac Water District, a local water district serving only our land and land we have sold in the Tejon Industrial Complex, has 5,278 acre feet of State Water Project entitlement, or enough to supply over 10,000 average families assuming 100% delivery. In addition, Tejon-Castac has over 17,000 acre feet of water stored in Kern County water banks. Both the entitlement and the banked water are the subject of long-term water supply contracts extending to 2035 between Tejon-Castac and our Company. Tejon-Castac would be the principal water supplier for any significant residential and recreational development in Tejon Mountain Village and is regarded as an alternative supply for the Tejon Industrial Complex. Tejon Industrial Complex's primary source of water is a well on ranch lands.

The water agency serving the Los Angeles County portion of our land, the Antelope Valley-East Kern Water Agency, has significant surplus entitlement and, although no assurance has been given, it has indicated that it would be able to provide a significant portion of the water needed for a major development like Centennial.

Portions of our property also have available groundwater. That source would be sufficient to support low-density residential development in Tejon Mountain Village, supply significant commercial development in the Interstate 5 corridor and provide a significant portion of the water needed for development in Los Angeles County, including Centennial.

Historic State Water Project restrictions on the right to use agricultural water entitlement for municipal and industrial purposes were removed in 1995, although a lawsuit challenging such removal is still working its way through the courts. For this purpose "municipal" use includes residential and industrial use. Therefore, although only 2,000 of Tejon-Castac's 5,278 acre feet of entitlement are labeled for municipal use, there is no practical restriction on Tejon-Castac's ability to deliver that water to residential or industrial developments. However, for political and regulatory reasons, it is unlikely that we would be able to direct any of our Wheeler Ridge Water District agricultural entitlement to municipal or industrial uses.

ITEM 3. LEGAL PROCEEDINGS

We lease land to National Cement Company of California, Inc. ("National") for the purpose of manufacturing Portland cement from limestone deposits found on the leased acreage. See "Business - Real Estate Operations." In August 1997 National ceased burning hazardous waste as supplemental fuel in the cement plant located on the land leased from us. The fuel was obtained, transported, stored and processed by National's subtenant, Systech Environmental Corporation ("Systech"). Systech has removed the above ground improvements from its former sublease premises and its formal closure plan under the Resource Conservation and Recovery Act and the California Hazardous Waste Control Act has been approved by the California Department of Toxic Substances Control. Systech has begun the site investigation work specified in the closure plan, and has undertaken to perform any required cleanup work.

In September 1994, the California Regional Water Quality Control Board ("RWQCB") for the Lahontan Region issued a cleanup and abatement order with respect to an underground plume of chlorinated hydrocarbon compounds on certain property we lease to National for cement plant and related purposes. This order, as amended on September 22, 2000, directs Lafarge Corporation ("Lafarge"), the successor to the previous tenant, National and us to, among other things, investigate the source and extent of the contamination and initiate soil and ground water cleanup. We were ordered to complete the required investigation and cleanup only if Lafarge and National fail to do so. We are advised that Lafarge and National have completed their investigation, and have submitted a technical report recommending the installation of a groundwater pump and treatment system and a dual phase extraction system to clean up the soil and groundwater. These systems are scheduled to be installed in 2002. Lafarge and National previously removed certain soils, which were the principal source of the contamination, from the property.

On October 9, 1997, the RWQCB issued waste discharge requirements and a cease and desist order to National and us. The order required National and us to cease the disposal of cement kiln dust at the cement plant by the end of 1999 and control discharges from cement kiln dust piles already in existence. We were ordered to undertake these activities if National failed to do so. In late 2000, the RWQCB rescinded the cease and desist order, as disposal of cement kiln dust had ceased at the cement plant by the end of 1999. Also in late 2000, the RWQCB issued waste discharge requirements requiring National, Lafarge and us to consolidate, close and cap the existing cement kiln dust piles, and maintain and monitor the effectiveness of the cap. We were ordered to undertake these activities only if National and Lafarge fail to do so. We are advised that National and Lafarge have consolidated, closed and capped the cement kiln dust piles. Maintenance of the cap and groundwater monitoring remain as on-going activities.

In October 1990, the RWQCB issued a cleanup and abatement order with respect to an industrial waste landfill on the property. This order, as amended on September 22, 2000, requires Lafarge and us to complete the cleanup of groundwater associated with the landfill. We were ordered to undertake these activities only if Lafarge fails to do so. Lafarge has submitted a technical report to the RWQCB recommending that the low-level groundwater contamination at the landfill be addressed by natural attenuation. Groundwater monitoring will remain as an ongoing activity at the landfill. Lafarge previously removed all waste historically disposed of in the landfill and transported that waste off-site for disposal.

On September 22, 2000, the RWQCB ordered Lafarge, National and us to investigate the extent of contamination resulting from a diesel fuel tank and pipeline and initiate cleanup activities. We were ordered to undertake these activities only if Lafarge and National fail to do so. We were advised that Lafarge and National have completed their investigation and have submitted a technical report, recommending installation of an air sparging system to clean up the soil and ground water. This system is scheduled to be installed in 2002.

To date, we are not aware of any failure by Lafarge or National to comply with the orders of the Regional Water Board or to pursue the cleanup and investigation actions as informally instructed by Regional Water Board staff. We have not been ordered by the Regional Water Board to perform any of the investigative, characterization, remediation or removal activities.

Under the lease between National and us, the tenant is obligated to indemnify us for costs and liabilities arising directly or indirectly out of the use of the leased premises by the tenant. All obligations under this indemnity provision arising after the assignment of the lease to National (which occurred in November 1987) were assumed by National, and Lafarge has liability for all obligations under the indemnity provisions arising before the assignment. National's obligation is guaranteed by its parent, National Cement Company, Inc. We believe that all of the matters described above in this Item 3 are included within the scope of the National or Lafarge indemnity obligations.

The Company believes that Lafarge and National have sufficient resources to perform any reasonably possible or reasonably likely obligations relating to these matters. Publicly available financial information with respect to Lafarge indicates that it had a net worth of approximately $1.9 billion as of September 30, 2001. National and its parent/guarantor are subsidiaries of a large French company, and, so far as we are aware, no separate financial statements are publicly available with respect to either company. However, we have held discussions with National which indicate sufficient resources are available to satisfy any reasonably likely obligations relating to the above matters. Thus, Lafarge and National have not been charged with violating any Regional Water Board orders and appear to have the financial strength to carry out any future orders that may be approved by the Regional Water Board. Therefore, we believe that it is remote that any cleanup orders issued by the Regional Water Board will have a material effect on us. If, however, National and Lafarge do not fulfill their cleanup responsibilities and we are required at our own cost to perform the remedial work likely to be mandated by the regulatory agencies on the sites described above, the amount of any such expenditure by us could be material.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table shows the high and low sale prices for our Common Stock on the New York Stock Exchange for each calendar quarter during the last two years.

	2001		2000	
Quarter	High	Low	High	Low
First	25.85	19.00	28.00	21.00
Second	28.50	22.81	24.31	20.50
Third	28.49	20.05	29.81	21.88
Fourth	24.73	21.00	25.75	19.05

As of March 20, 2002, there were 580 owners of record of our Common Stock.

No dividends were paid in 2001 or 2000. In May 2000 the Board of Directors decided to discontinue payment of dividends in order to conserve cash for the operations of the Company. Any future determination to pay dividends will be made at the discretion of the Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects and other factors as the Board of Directors may deem relevant.

ITEM 6. SELECTED FINANCIAL DATA

Years Ended December 31
(in thousands of dollars, except per share amounts)

	2001	2000	1999	1998	1997
Consolidated operating revenues from continuing operations, including interest income	$19,312	$18,804	$16,978(2)	$18,011(3)	$16,431(4)
Income (loss) from continuing operations	52	(970)	1,041(2)	2,818(3)	2,423(4)
Income from discontinued operations	242	425	140	191	609
Cumulative effect of change in an accounting principle, net	--	--	--	130	--
Net income (loss)	$ 294	$ (545)	$ 1,181(2)	$ 3,139(3)	$ 3,032(4)
Total assets	$99,148	$98,287	$91,519	$73,014	$69,693
Long-term debt, less current portion	$14,563	$19,323	$18,981	$ 0	$ 1,613
Stockholders' equity	$72,129(1)	$42,489	$43,160	$42,705	$40,488
Income (loss) per share, diluted	$ 0.02	$ (0.04)	$ 0.09(2)	$ 0.25(3)	$ 0.24(4)
Cash dividends declared and paid per share	$ 0.00	$ .00	$ 0.05	$ 0.05	$ 0.05

(1) Includes net proceeds from a rights offering made to our stockholders with respect to our common stock completed in January 2001, and resulting in net proceeds to the Company of approximately $29,600,000.
(2) Includes receipt of one time payment of $1,750,000 ($1,085,000 net of tax or $.09 per share) from a fiber optic easement sale.
(3) Includes receipt of one time payment of $4,250,000 ($2,569,000 net of tax, or $0.20 per share) from the sale of land to Northrop Grumman Corp. This land was previously leased to Northrop.
(4) Includes receipt of one time payment of $2,050,000 ($1,353,000 net of tax, or $.11 per share) from a pipeline company for the acquisition of easement rights.

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

Throughout Item I - "Business," Item 2 - "Properties," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," management has made forward-looking statements, including statements regarding the Company's strategic alliances, the almond industry, our plans for future plantings of permanent crops, future yields, prices and water availability for the Company's crops, 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, almond plant, and industrial building, the adequacy of future cash flow to fund our operations, potential losses to the Company as a result of pending environmental proceedings, market value risks associated with investment and risk management activities and with respect to inventory, accounts receivable, our own outstanding indebtedness, and future developments regarding discontinued operations and other future events and conditions. These forward-looking statements are subject to factors beyond the control of the Company (such as weather and market and economic forces) and, with respect to the Company's future development of our land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that the actual future results will not differ materially from those in the forward-looking statements.

Overview

We intend to continue focusing on increasing revenues and improving net income by expanding our real estate development activities. We are currently working to take advantage of existing resources and market conditions as well as to anticipate and create future market trends and demand. Part of this effort includes evaluating our land and water resources and planning our real estate development activities based upon the evaluation. . In the future, we will continue to assess the feasibility of entering into complementary, new, related lines of business and refining or reconfiguring current core businesses to take advantage of opportunities presented and changing market conditions.

Results of Operations

As reflected in the accompanying financial statements, we had net income of $294,000 in 2001, a net loss of $545,000 in 2000, and net income of $1,181,000 in 1999.

Net income for 2001 improved when compared to 2000 due primarily to higher operating profits within the real estate division, increased interest income, and lower interest expenses.

Net income for 2000 declined when compared to 1999 due primarily to reduced operating profits from farming, increased real estate expenses and higher interest expenses.

Net income for 2001 consists of income from continuing operations of $52,000 and income from discontinued operations of $242,000. Net income for 2000 consisted of a loss from continuing operations of $970,000 and income from discontinued operations of $425,000. A significant portion of the income from discontinued operations resulted from the sale of assets.

Real Estate. Real Estate segment operating profits of $3,762,000 in 2001 are $1,396,000, or 59% higher than 2000 segment profits. The improvement in 2001 segment profits is due to a slight increase in revenues and to lower expenses. The slight improvement in revenues is due to an increase in oil and mineral income of $194,000, equity in earnings from our investment in Petro Travel Plaza LLC of $183,000, increased lease income from our portfolio of properties of $1,190,000, and additional milestone payments for use of land, easements, and services provided related to the Calpine power plant project of $1,500,000. These gains in real estate revenue were partially offset by the sale of land for $2,000,000 and the settlement of an easement payment for $801,000 during 2000. Expenses declined $1,353,000 in 2001 due to no cost of sales and commissions associated with the sale of land and to lower indirect real estate project expenses. These improvements were partially offset by higher staffing costs and marketing costs during 2001.

The equity in earnings from our investment in Petro Travel Plaza for 2001 is due to a continued increase in customers, improved margins on diesel and gasoline sales as our cost of sales declined throughout the year, and improved cost controls. Cash flows continued to improve during 2001 and expectations are for continued growth in the future as the Tejon Industrial Complex continues to grow and as more travelers and trucking professionals place Petro on their refueling schedules.

In future years, the Real Estate Division will continue to see increases in costs, net of amounts capitalized, primarily related to professional service fees, planning costs, entitlement costs, and staffing costs as we continue to increase real estate activities and pursue development opportunities. The actual timing and completion of entitlement and development related activities is difficult to predict due to the unpredictability of the approval process and market factors. These types of real estate development activities and costs could continue over several years as we develop our land holdings. We will also continue to evaluate land resources to determine the highest and best uses for our land holdings. Future sales of land are dependent on market circumstances and specific opportunities. Our goal in the future is to increase land value and create future revenue growth through planning and development of commercial, industrial, resort and residential programs.

Real Estate segment profit of $2,366,000 in 2000 is $938,000 less than 1999 segment profit. The decline in segment profit was due to increased revenues being more than offset by higher real estate expenses. Revenues grew $2,041,000 when compared to 1999. This growth was due to higher oil and mineral revenues of $402,000, the sale of land to IKEA for $2,000,000, an increase in revenues from the power plant project of $549,000, settlement of an easement transaction for $801,000, and an improvement in leasing revenues. These revenue improvements were partially offset by revenues in 1999 of $1,750,000 related to the sale of a fiber optic communications easement. Real Estate expenses increased $2,979,000 during 2000 when compared to 1999. The increase in expenses were due to higher professional service fees of $764,000, an increase in fixed water costs of $183,000, and commissions and cost of sales totaling $2,000,000 related to the IKEA land sale. These costs were partially offset by a $360,000 improvement in our share of the net loss at the Petro Travel Plaza joint venture. The increase in professional service fees continued to be related to our increased real estate development and entitlement activities.

The equity in earnings from our investment in the Petro Travel Plaza joint venture improved during 2000 due to higher fuel sales, increased volume at its convenience store, and higher restaurant revenues. These improvements, however, could not offset the higher cost of sales during the year due to the significant increase in oil and gas prices.

See Part I, Item 1 - "Business - Real Estate Operations" for a further discussion of 2001 and future planning activities.

Farming. During 2001, the Farming Division sustained a loss of $1,343,000, a decrease of $1,414,000 when compared to 2000 segment profits. The decline during 2001 is due to a decrease in grape revenues of $815,000, lower almond revenues of $900,000, reduced rental revenues of $381,000 and increased fixed water costs of $390,000. These unfavorable variances were partially offset by increased pistachio revenues of $873,000, and walnut revenues increasing $165,000.

Grape revenues continued to decline during 2001 due to lower prices and to reduced production. Grape prices declined approximately 27% when compared to 2000 prices. Grape production declined due primarily to the removal of 247 acres of unprofitable cabernet sauvignon grapes. The overall decline in grape prices is directly related to the growth in production throughout California. The growth in grape production within California could continue to impact grape prices well into the future. Improved prices will be realized only if there is increased demand for wine and grape products and/or there is a significant reduction in the number of acres used for grape production in California. We have been in discussions with several wineries regarding production contracts for 2002 and future years, but due to the pricing pressure on grapes, the wineries are currently not interested in long-term contracts for all of our grapes. We have, however, contracted our French Colombard grape production for a two-year period beginning with the 2002 crop and signed a multi-year contract beginning in 2002 for our ruby cabernet grape production.

If we have no grape contracts in 2002, for our remaining grape varieties, we will market our grapes to various wineries and the prices received will be driven by the wineries' expectations regarding demand for their products and grape production. During 2001, based on discussions with the wineries, we learned that there was little interest in purchasing the cabernet grapes that we grew at that time. Based on that information, we removed 247 acres of fully depreciated cabernet grape acreage in order to save the cultural costs associated with growing the grapes. In place of the cabernet grapes, we planted 247 acres of pistachio trees to take advantage of the irrigation systems in place, and provide for future revenue sources for our Farming Division.

Almond revenues during 2001 declined due to a large drop in production. The decline in production is due to storms that impacted the pollination period and to storm damage to trees. The damaged trees were ultimately removed due to the damage sustained in the storms and to the age of the damaged trees. We currently plan to plant 300 acres of new almonds during 2003 to help offset the loss of future production from the removed trees. Pistachio revenues increased in 2001 due to production doubling when compared to 2000 production. A large part of the increase in production was due to 300 acres of young pistachio trees producing their first full crop. The improvement in walnut revenues is due primarily to increased production.

Industry expectations are that statewide nut crop yields should continue to improve, which may negatively impact prices. We continue to expect pricing pressure on our almonds over the next few years due to new statewide plantings beginning to produce higher volumes of almonds. This increase in production may be somewhat negated by old almond orchards being removed due to the current low prices for almonds. This potential increase in overall almond production will positively impact our almond processing operation because of more almonds being available to process. All of our crops are particularly sensitive to the size of each year's world crop. Large crops in California and abroad can rapidly depress prices.

Segment profits within the Farming Division during 2000 were $71,000, a decrease of $1,077,000 when compared to 1999 segment profits. The decrease in 2000 segment profits was due primarily to lower grape revenues of $2,307,000, lower walnut revenues of $549,000, and higher cultural costs of $532,000. These unfavorable variances were partially offset by the net profits from the almond processing plant of $371,000, increased almond revenues of $988,000, higher pistachio revenues of $78,000, and lower fixed water costs of $529,000.

The decrease in grape revenues was due to receiving lower prices for grapes than in 1999. Prices for our grapes declined approximately 55% during 2000 when compared to 1999. This decline in prices was due to increased grape production within California.

Almond revenues in 2000 increased due to a 20% increase in prices resulting from lower crop production within California. Pistachio revenues were higher due to an 18% increase in production as prices remained comparable to the prior year. Walnut revenues declined due to a 55% decrease in production and the reversal of revenue associated with the 1999 crop because estimated prices for 1999 were greater than what we were actually paid.

Farming segment profits included results from our almond processing plant that we purchased in January 2000. This plant processes, hulls, and shells almonds for ourselves and outside customers. Cultural costs grew during 2000 when compared to 1999 due to new acreage coming into production, to costs no longer being capitalized, and fewer costs being inventoried that are related to the 2001 crop year.

For a further discussion of the 2001 farming year refer to part I, Item I - "Business - Farming Operations".

Interest. Interest and investment income for 2001 increased $1,265,000 to $1,897,000 when compared to 2000 interest income. The receipt of funds associated with the rights offering, which was completed during January 2001, primarily drove the increase. The increase in income from additional funds invested was partially offset by lower interest rates during the year.

Interest income for 2000 was $632,000 or $7,000 less than 1999 interest income. Income remained stable due to the average funds being invested remaining fairly flat when compared to 1999.

Interest expense for 2001 was $1,136,000, of which $441,000 is included in discontinued operations, compared to interest expense of $2,701,000 in 2000, of which $1,275,000 is included in discontinued operations. The decrease in interest expense is due to liquidation of debt throughout the year. Debt declined due to the disposal of our livestock operations throughout the year and to using cash from the rights offering to reduce debt. Interest incurred and paid in 2001 was $2,602,000 compared to $3,590,000 in 2000, of which $1,466,000 and $1,174,000 were capitalized, respectively. Interest capitalized increased during 2001 due to the growth in our real estate development activities.

Interest expense during 2000 was $2,701,000 compared to $1,174,000 during 1999. Of this $2,701,000 of expense in 2000, $1,275,000 was included in discontinued operations. This growth in interest expense was due to an increase in borrowings related to livestock operations and real estate entitlement and infrastructure costs. Total interest incurred and paid in 2000 was $3,590,000 compared to $2,367,000 in 1999, of which $1,174,000 and $1,193,000 were capitalized, respectively. Interest incurred and expensed continued to grow during 2000 due to increased borrowing used to fund the growth of livestock operations, infrastructure development costs, the purchase of an almond processing plant, and real estate planning and entitlement activities.

Corporate Expenses. Corporate expenses in 2001 were $3,347,000, an increase of $318,000 when compared to 2000 corporate expenses. The increase during 2001 is due to higher professional service fees related to accounting and legal costs ($76,000), higher staffing costs related to deferred stock compensation costs and employee benefits ($180,000), and to higher depreciation expense ($66,000).

Corporate expenses during 2000 were $3,029,000, a decline of $169,000 when compared to 1999 corporate expenses. When compared to 1999, reductions in insurance, director's fees and shareholder expenses were partially offset by increased staffing costs ($246,000). Staffing costs increased primarily due to deferred stock compensation costs and to Management Information Systems ("MIS") personnel being hired for all of 2000 compared to a partial year in 1999.

Discontinued Operations. During April 2001, we finalized a plan for the sale of our cattle and feedlot division. Since then, we have been disposing of our cattle and feedlot operations to provide capital for real estate development activities and to reduce outstanding debt of the Company. While the sale of livestock assets has provided working capital, it will also result in the loss of significant revenues even after taking into account the revenue stream from the grazing leases we entered into in connection with the sale of the breeding herd. Over the last three years the livestock division accounted for 71% to 75% of our total revenues. While the operations of the livestock division created significant revenues they also used large amounts of debt and working capital. We believe our working capital and debt facilities would be better allocated to potentially higher returning and value enhancing real estate development activities, which led to our decision to dispose of the livestock division assets.

The process of selling a major portion of our breeding herd was completed in June 2001, and the sale of the feedlot was completed during July 2001. During June 2001, we sold our remaining breeding herd for $2.6 million to Centennial Livestock, a California agricultural company. The transaction with Centennial Livestock also included a grazing lease for approximately 195,000 acres. This lease has a term of up to ten years and provides for rent at the rate of $680,000 per year and is subject to adjustment based upon rainfall and the extent to which we exercise our right to use portions of the land for other purposes. In July we completed the sale of our feedlot in Texas for $3.2 million. The combined gain on sale, net of applicable income taxes, was $700,000.

We started 2001 with approximately 40,000 head of cattle and ended the year with 4,300 head of cattle. These remaining head of stocker cattle are expected to be sold by the end of April 2002. We also expect that these cattle will be sold for at least their current book value.

Income from discontinued operations, net of taxes, of $242,000 during 2001 was $183,000 less than the $425,000 of income from discontinued operations, net of taxes, in 2000. The decline in income is largely due to revenues from discontinued operations of $48,426,000 decreasing $1,593,000 when compared to the $50,019,000 of revenues for 2000. This reduction in revenues is primarily due to fewer cattle being sold when compared to 2000 and to lower prices on cattle during the fourth quarter of 2001. During 2001, approximately 8,200 fewer head of cattle were sold. This reduction in cattle sold is due to replacement cattle not being purchased throughout the year that possibly could have been sold because of the decision to dispose of our livestock and feedlot assets. Partially offsetting this decline in revenues was a corresponding decline in expense due to fewer cattle being sold and to cattle inventory numbers declining throughout the year. These changes partially offset the gain described above.

During 2001, we continued to use the futures and options markets to protect the future selling prices of cattle and purchase prices of feed. During 2001, due to an improvement in prices during the first half of the year, we recognized approximately $316,000 in losses on closed hedge positions. Our goal in managing cattle and feed costs is to protect or create a range of selling prices and feed prices that allow us to recognize a profit or minimize a loss on the sale of cattle once all costs are deducted. The risk in managing cattle prices is that in those years that prices increase the hedge may limit or cap potential gains from the increase in price, and the risk in managing feed costs is that it can add additional costs for feed if grain prices fall dramatically. At year-end 2001 we had no futures or options contracts outstanding.

Cattle prices strengthened during the first half of 2001 due to improved demand for beef products. The increase in prices and demand faded during the fourth quarter of the year. Thus far in 2002 prices have improved during February and March due to demand for beef products improving and inventories being lower.

Income from discontinued operations, net of taxes, of $425,000 in 2000 was a $285,000 increase when compared to 1999 income from discontinued operations, net of taxes. The improvement in profits was primarily due to an increase in cattle sales of $9,800,000 and increased feedlot revenue of $1,200,000. Cattle sales grew due to 5,433 additional head of cattle being sold at higher average prices than in 1999. Feedlot revenues increased due to an increase in the average occupancy rate of outside customers during 2000. These improvements in revenues were partially offset by higher cost of sales on cattle sold of approximately $9,700,000 due to more cattle being sold and increases in feed cost of approximately $840,000 at the feedlot and due to year-end drought conditions on the ranch.

On December 27, 2000 we sold a portion of our cattle assets to Echeverria Cattle Company, LLC, which is owned by Matthew J. Echeverria, our former Senior Vice President, Livestock and Ranch Operations. The transaction involved the sale of approximately 1,000 cows, 50 bulls and certain personal property for a purchase price of $893,000, as well as a grazing lease over approximately 55,000 acres of our land. The lease has a term of ten years with two five-year options to extend the term and provides for rent at the rate of $200,000 per year, subject to adjustment based upon rainfall and the extent to which we exercise our right to use portions of the land for other purposes. The rent would also be subject to adjustment for the two five-year extension periods based upon changes in the price of calves between the date the lease commences and the date any such extension term commences. The sale involved approximately 22% of our breeding herd and approximately 3% of the total amount of our cattle. In a separate transaction we also sold an additional 1,000 head of stocker cattle to Echeverria Cattle Company in the normal course of our sales of stocker cattle.

For a further discussion of discontinued operations, see Part I, Item 1 - "Business - Discontinued Operations".

Inflation, Risks, and Related Factors Affecting Forward-Looking Information. The risks and uncertainties described below are not the only ones facing our company. If any of the following risks actually occurs, our business, financial condition, results of operations or future prospects could be materially adversely affected. Our strategy, focused on more aggressive development of our land, involves risk and could, at times, result in operating losses.

Cyclical Industry. The real estate development industry is cyclical and is significantly affected by changes in general and local economic conditions, including:

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

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

Interest Rates. Higher interest rates generally impact the real estate industry by making it harder for buyers to qualify for financing, and that can lead to a decrease in the demand for residential, commercial or industrial sites. Any decrease in demand will negatively impact our proposed developments. Any downturn in the economy or consumer confidence can also be expected to result in reduced housing demand and slower industrial development, which would negatively impact the demand for land in our development process.

Government Regulation. In planning and developing our land, we are subject to various local, state, and federal statutes, ordinances, rules and regulations concerning zoning, infrastructure design, and construction guidelines. These requirements can possibly include restrictive zoning and density provisions that limit the number of homes that can be built within the boundaries of a particular area, which may impact the financial returns from a given project. In addition, we are subject to statutes and regulations concerning the protection of the environment. Environmental laws that apply to a given site can vary greatly according to the site's location, condition, present and former uses of the site, and the presence or absence of sensitive elements like wetlands and endangered species. Environmental laws and conditions may result in delays and/or cause us to incur additional costs for compliance, mitigation and processing land use applications. In addition, many states, cities and counties have in the past approved various "slow growth" measures. If that were to occur in our region, our future real estate development activities could be significantly adversely affected.

Litigation. The land use approval processes we must follow to ultimately develop our projects have become increasingly complex. Moreover, the statutes, regulations and ordinances governing the approval processes provide third parties the opportunity to challenge the proposed plans and approvals. As a result, the prospect of third-party challenges to planned real estate developments provides additional uncertainties in real estate development planning and entitlements. Third-party challenges in the form of litigation would, by their nature, adversely affect the length of time required to obtain the necessary approvals. In addition, adverse decisions arising from any litigation would increase the costs and could adversely affect the design, scope, plans and profitability of a project.

Real Estate Inventory Risk. Our three principal real estate projects, the Tejon Industrial Complex, Centennial and the Tejon Mountain Village concept, all involve obtaining governmental entitlements and improving lots for sale to developers or, in the case of Tejon Industrial Complex, end users. The value of these lots can fluctuate significantly as a result of changing economic and market conditions.

Competition. Within our real estate activities, we are in direct competition for customers with other industrial sites in Northern, Central, and Southern California. We are also in competition with other highway interchange locations using Interstate 5 and State Route 99 for commercial leasing opportunities.

Geographic Concentration. All of our developable land is in California. Any adverse change in the economic climate of California, or our region of that state, could adversely affect our real estate development activities. Ultimately our ability to sell or lease lots may decline as a result of weak economic conditions.

Financing. Our proposed new real estate development will require additional financing. It is uncertain whether the required financing will be available, and if so, whether it will be available on favorable terms.

Inflation. Inflation can have a major impact on our farming operations. The farming operations are most affected by escalating costs and unpredictable revenues (due to an oversupply of certain crops) and very high irrigation water costs. High fixed water costs related to our farm lands will continue to adversely affect earnings. Prices received for many of our products are dependent upon prevailing market conditions and commodity prices. Therefore, it is difficult for us to accurately predict revenue, just as we cannot pass on cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices.

Within our real estate operations, our lease portfolio is protected to some extent from inflation since percentage rent clauses and Consumer Price Index increases in our leases tend to adjust rental receipts for inflation.

Other Risks. We may also encounter other difficulties in developing our land, including:

- Natural risks, such as geological and soils problems, earthquakes, heavy rains and flooding and heavy winds;

- Shortages of qualified tradespeople;

- Reliance on local contractors, who may be inadequately capitalized;

- Shortages of materials; and

- Increases in the cost of certain materials.

New Accounting Pronouncements. Financial Accounting Standards Board Statement ("FASB") No. 142, Goodwill and Other Intangible Assets, was approved and issued in June 2001 and addresses amortization on Intangible Assets. Statement 142 supercedes APB Opinion No. 17, which required amortization of goodwill and intangible assets. The presumption that goodwill and intangible assets were wasting assets and should be amortized over a period of not more than 40 years has been altered, and now such assets are deemed to have an indefinite life and are no longer amortized. The value of the intangible assets must be assessed annually for impairment. This statement will have a minimal impact on our financial position or results of operations as the amount of goodwill and other intangible assets are insignificant. The Statement will be adopted for the 2002 financial year.

In June 2001 FASB Statement No. 143 was issued addressing Accounting for Asset Retirement Obligations (AROs). This statement covers obligations that a company incurs for the retirement of tangible long-lived assets such as drilling rigs or manufacturing plants. We do not anticipate this pronouncement having a significant impact on our financial position or results of operations when it becomes effective for the 2003 financial year.

FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001. The pronouncement issues guidance on distinguishing between assets held and used, held for sale, and held for disposal other than sale. It also addresses the classification and valuation of such assets. The pronouncement is effective for the 2002 fiscal year. We do not anticipate this pronouncement having a significant impact on our financial position or results of operations.

FASB Statement No. 141, Business Combinations, eliminates the pooling-of-interests method of accounting for business combinations. This Statement is not anticipated to have an effect on our financial position or results of operations.

Financial Condition. Our cash, cash equivalents and short-term marketable securities totaled approximately $23,463,000 at December 31, 2001, an increase of $10,122,000 from the corresponding amount at the end of 2000. Working capital at the end of 2001 was $31,447,000, which is $11,458,000 greater than working capital at the end of 2000. We have a revolving line of credit of $15,000,000 that, as of December 31, 2001, had no outstanding balance. This line of credit bears interest at a rate which floats with changes in the lending bank's prime interest rate. At our option the interest rate on this line of credit can be fixed for a period of time at 1.50% over a selected LIBOR rate or float at .50% less than the bank's prime lending rate. During 2001 short-term debt was reduced due to the disposition of livestock assets and to the use of proceeds from the rights offering that was completed earlier in 2001. In past years, the use of short-term credit grew due to increases in inventories as a result of the growth of our business lines and to the funding of infrastructure construction costs on a short-term basis.

Our outstanding long-term debt, less current portion of $1,726,000, declined $4,760,000 to $14,563,000 at the end of 2001 when compared to 2000. Long-term debt is being used to fund real estate development infrastructure and farming assets on our land, commercial buildings in Phoenix, Arizona that were purchased in 1999, and the almond processing plant purchased in January 2000. Long-term debt currently consists of three separate debt obligations. One long-term note for real estate and farming purposes provides for loan amounts up to $15,000,000, has a current balance of $10,000,000, and is secured by farmland. This note comes due in 2004. The second note obligation was used to purchase the buildings in Phoenix, is secured by mortgages on the buildings, and has a balance of $4,669,000. The last note is for a loan used to purchase the almond processing plant in 2000 and has a balance of $1,620,000.

The following table shows our long-term obligations and commitments over the next five years:

	PAYMENTS DUE BY PERIOD				
	Total	One Year or Less	Years 2-3	Years 4-5	After 5 Years
CONTRACTUAL OBLIGATIONS:					
Long-term debt	$16,289,000	$1,726,000	$9,000,000	$482,000	$5,081,000
Total contractual cash obligations	$16,289,000	$1,726,000	$9,000,000	$482,000	$5,081,000

	AMOUNT OF COMMITMENT EXPIRATION PER PERIOD				
	Total	One Year or Less	Years 2-3	Years 4-5	After 5 Years
OTHER COMMERCIAL COMMITMENTS:					
Standby letter of credit	$ 1,324,000	$--	$ 1,324,000	$--	$--
Guarantees	9,050,000	--	9,050,000	--	--
Total commercial commitments	$10,374,000	$--	$10,374,000	$--	$--

The standby letter of credit is related to the issuance of Community Facility District bonds by the Tejon Ranch Public Facilities Financing Authority, a joint-powers authority created by Kern County and the Tejon-Castac Water District. The standby letter of credit is in place to provide additional credit enhancement and covers approximately two years worth of interest on the outstanding bonds. This letter of credit will not be drawn upon unless we, as the largest landowner in the district, fail to make our property tax payments. This letter of credit will terminate in the future as land in the district becomes developed.

The guarantees consist of a $3,800,000 guarantee related to the debt of Petro Travel Plaza LLC, an unconsolidated limited liability company in which we are equity owners with Petro Stopping Centers, L.P. Total debt in the venture is approximately $12,500,000 and is related to the construction of the facility. During 2003 this note is scheduled to be refinanced with a permanent mortgage loan, and our guarantee will no longer be needed. The remaining

$5,250,000 of guarantees relate to debt within the Tejon Dermody Industrial LLC, an unconsolidated joint venture to construct and market a 650,000 square foot building at the Tejon Industrial Complex. Total debt in the venture is approximately $10,500,000 and was used in the construction of the building. In the joint venture agreement each partner agreed to guarantee one half of the outstanding construction loan debt through the two-year term of the loan. During March 2002, a lease was signed for one half of the building and the lease payments from this lease will cover future debt service requirements under the current loan agreement. At this time we believe that neither of the guarantees nor the standby letter of credit will ever be called upon.

During 2001 the principal uses of cash and cash equivalents consisted of capital expenditures related to real estate development activities, financing of receivables and inventories, and the reduction in both short-term and long-term debt.

The principal uses of cash and cash equivalents during 2000 and 1999 consisted of capital expenditures, expansion of the cattle herd, purchase of land, purchases of commercial buildings, purchase of an almond processing plant, payments of long-term debt, the payment of dividends and the financing of higher receivables and inventories.

The accurate forecasting of cash flows is made difficult due to the fact that commodity markets set the prices for the majority of our farming products and the fact that the cost of water changes significantly from year to year as a result of changes in its availability. Based on our past experience, we believe we will have adequate cash flows over the next twelve months to fund internal operations.

During 2002, $14,910,000 has been budgeted for capital expenditures, which includes nearly $8,100,000 for infrastructure at the Tejon Industrial Complex and $5,100,000 for real estate projects in the mountain/lake area of our lands and Los Angeles County. Other items included in the capital expenditure budget are equipment and improvements to existing facilities.

One of the sources of funding capital expenditures and debt repayment during 2001 was proceeds from the $30 million rights offering that was completed on January 16, 2001. In addition to these funds, proceeds were received throughout the year related to the disposition of our livestock operations. Proceeds from the rights offering are going to be used to further develop the Tejon Industrial Complex and for costs related to constraints and feasibility analyses, early phase and detailed planning, and preparing applications for entitlements in the mountain/lake area of our land.

During 2002, additional funds for capital expenditures and operations are expected to come from lines of credit with banks, further use of the proceeds from the rights offering, reimbursement of infrastructure costs related to the Tejon Industrial Complex through bond proceeds from a local government agency, proceeds from discontinued operations, and from operating cash flows. We continue to expect that substantial investments will need to be made in future years in our land assets to secure entitlements and develop the land. In order to fund this growth, we expect to use various financing alternatives such as joint ventures with financial partners, increases in lines of credit with banks, sales of assets, and the issuance of common stock. We cannot provide any assurances that these sources of financing will be available.

ITEM 7A. 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

The Company is exposed to financial market risks, including changes to interest rates and credit risks related to marketable securities, interest rates related to its own outstanding indebtedness and trade receivables.

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

The Company is exposed to interest rate risk on its short-term working capital line of credit and the long-term debt currently outstanding. The short-term line of credit interest rate can be tied to the lending bank's prime rate and would change when that rate changes, or the debt can be tied to a LIBOR rate on a fixed basis and change only at maturity of the fixed rate feature. A portion of the long-term debt ($4,669,000) has a fixed interest rate, and the fair value of this long-term debt will change based on interest rate movements in the market. The remaining long-term debt ($11,620,000) can either be fixed for periods of time to a LIBOR rate or float with the lending bank's prime rate. The floating rate obligations expose us to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases.

We believe it is prudent to limit the variability of a portion of our interest payments. It is our objective to hedge between 25% and 50% of the variable-rate interest payments.

To meet this objective we entered into an interest rate swap to manage the potential fluctuations in cash flows resulting from interest rate risk. See Note 9, Interest Rate Risk Management, of Notes to Consolidated Financial Statements.

Market risks related to our inventories ultimately depend on the value of the cattle, almonds, grapes, pistachios, and walnuts at the time of payment or sale. Credit risk related to our receivables depends upon the financial condition of our customers. Based on historical experience with current customers and periodic credit evaluations of our customers' financial condition, we believe our credit risk is minimal. Market risk is discussed below in commodity price exposure.

The following tables provide information about our financial instruments that are sensitive to changes in interest rates. The tables present our debt obligations, principal cash flows and related weighted-average interest rates by expected maturity dates.

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2001
(Dollars in Thousands)

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value 12/31/01
Assets:								
Marketable securities	$2,787	$ 3,911	$2,817	$2,615	$ 273	$ --	$12,403	$12,574
Weighted Average interest rate	5.37%	6.43%	6.40%	5.42%	5.11%	--%	5.87%	--%
Liabilities:								
Short-term debt	$ 127	$ --	$ --	$ --	$ --	$ --	$ 127	$ 127
Weighted average interest rate	5.00%	--%	--%	--%	--%	--%	5.00%	--%
Long-term debt	$1,726	$ 1,770	$7,230	$ 239	$ 243	$5,081	$16,289	$16,289
Weighted average interest rate	8.18%	8.18%	8.18%	7.82%	7.82%	7.82%	8.00%	--%
Variable-to-fixed swap amount 3-yr swap	$ --	$11,620	$ --	$ --	$ --	$ --	$11,620	$10,986
Weighted average pay fixed-rate contract rate	--%	6.91%	--%	--%	--%	--%	6.91%	--%
Weighted average receivable variable rate, current rate, adjusts monthly, based on LIBOR	1.95%	--%	--%	--%	--%	--%	1.95%	--%

Debt figures above include debt related to discontinued operations.

Interest Rate Sensitivity Financial Market Risks
Principal Amount by Expected Maturity
At December 31, 2000
(Dollars in Thousands)

	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value 12/31/00
Assets:								
Marketable securities	$ 2,750	$1,819	$ 4,786	$1,884	$ --	$ --	$11,239	$11,055
Weighted average interest rate	5.84%	5.97%	6.34%	6.85%	--%	--%	6.24%	--%
Liabilities:								
Short-term debt	$20,870	$ --	$ --	$ --	$ --	$ --	$20,870	$20,870
Weighted average interest rate	8.71%	--%	--%	--%	--%	--%	8.71%	--%
Long-term debt	$ 1,973	$1,977	$ 2,855	$9,983	$ 455	$5,913	$23,156	$23,156
Weighted average interest rate	8.26%	8.26%	8.26%	8.26%	8.21%	7.91%	8.24%	--%
Variable-to-fixed Swap notional amount 3-yr swap	$ --	$ --	$11,800	$ --	$ --	$ --	$11,800	$11,596
Weighted average Pay fixed-rate contract rate	--%	--%	6.91%	--%	--%	--%	6.91%	--%
Weighted average receivable variable rate, current rate, adjust monthly based on LIBOR	6.71%	--%	--%	--%	--%	--%	6.71%	--%

Debt figures above include debt related to discontinued operations.

In comparison to the prior year our risk in regard to fluctuations in interest rates has decreased due to the reduction in the use of both short-term and long-term lines of credit that fluctuate with the bank's prime lending rate.

Commodity Price Exposure

We have exposure to adverse price fluctuations associated with certain inventories, gross margins, accounts receivable, and certain anticipated transactions in our discontinued operations and Farming Division. Commodities such as corn and cattle are purchased and sold at market prices that are subject to volatility. In order to manage the risk of market price fluctuations, we enter into various exchange-traded futures and option contracts. We closely monitor and manage our exposure to market price risk on a daily basis in accordance with formal policies established for this activity. These policies limit the duration to maturity of contracts entered into as well as the level of exposure to be hedged.

Our goal in managing our cattle and feed costs has been to protect or create a range of selling prices and feed prices that allow us to recognize a profit or minimize a loss on the sale of cattle once all costs are deducted. See Note 8, Commodity Contracts Used to Manage Risk, of Notes to Consolidated Financial Statements. A futures contract is an obligation to make or take delivery at a specific future time of a specifically defined, standardized unit of a commodity at a price determined when the contract is executed. Options are contracts that give their owners the right, but not the obligation, to buy or sell a specified item at a set price on or before a specified date. Losses on futures contracts and options as of December 31, 2001 were $316,000 as compared to the approximately $966,000 in losses at December 31, 2000. The decrease in hedge losses is primarily due to a decrease in the number of cattle owned and a drop in prices during the fourth quarter of 2001. These losses are recorded in discontinued operations. Since we had only 4,300 head of cattle remaining at December 31, 2001, we do not intend to enter into any futures or option contracts in the future.

Inventories consist of almonds related to the 2001 crop and farming costs related to 2002 crop production. Within our discontinued operations, inventory consists of cattle for sale, and price fluctuations historically were managed with futures and options contracts. The 2001 almond inventory is recorded at $1.00 per pound, which is the current price of almonds. The farming costs inventoried that are related to the 2002 crop are recorded at actual costs incurred. Historically, these costs have been recovered each year when that year's crop harvest has been sold. The table below shows futures and option contracts outstanding at year-end 2000; there were no contracts outstanding at December 31, 2001. We are at risk with respect to changes in market prices with respect to cattle held for sale that are not protected by futures and options contracts. At December 31, 2001 approximately 100% of the cattle held in inventory, or 4,300 head of cattle, were not protected by futures and options for price movement. This compares to 31,317 head of cattle at December 31, 2000. The 2001 number of head of cattle equates to approximately 5.1 million pounds of beef. For each $.01 per pound change in price, we have a potential exposure of $51,000 in future value. Although the price at which the cattle will ultimately be sold is unknown, over the last three years the market price has ranged from $.50 per pound to $.78 per pound and the current market price at March 25, 2002 was $.69 per pound for April 2002 delivery.

At December 31, 2001, we had no futures contracts or option contracts outstanding. The following table identifies the futures contract amounts and options contract costs outstanding at December 31, 2000:

Commodity Future/Option Description	No. Contracts	Original Contract/Cost (Bought) Sold	Estimated Fair Value (Bought) Sold
Cattle futures sold 40,000 lbs. per contract	230	$6,826,000	$(7,215,000)
Cattle options sold 40,000 lbs. per contract	25	$ 4,000	$ (26,000)
Cattle options bought 40,000 lbs. per contract	95	$ (934,000)	$ 930,000
Corn options bought 50,000 lbs. per contract	55	$ (613,000)	$ 654,000

The above futures contracts and options contracts expired between February 2001 and April 2001. Estimated fair value at settlement is based upon quoted market prices at December 31, 2000.

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 until the third or fourth quarter of the following year. Of the accounts receivable outstanding at December 31, 2001, only $2,114,000 is at risk to changing prices. Of the amount at risk to changing prices, $609,000 is attributable to almonds, $1,335,000 to pistachios, $138,000 to walnuts, and $32,000 to grapes. The comparable amounts of accounts receivable at December 31, 2000 were $1,051,000 related to almonds and $213,000 related to pistachios, $53,000 to walnuts, and $35,000 to grapes. The price estimated for recording accounts receivable at December 31, 2001 was $1.00 per pound for almonds. For every $.01 change in the price of almonds our receivable for almonds increases or decreases by $6,000. Although the final price of almonds (and therefore the extent of the risk) is not presently known, over the last three years the final prices have ranged from $.89 to $1.40. With respect to pistachios, the price estimated for recording the receivable was $1.05 per pound, each $.01 change in the price increases or decreases the receivable by $13,000 and the range of final prices over the last three years for pistachios has been $1.07 to $1.35.

The price estimated for recording accounts receivable for walnuts was $.45 per pound. For every $.01 change in the price of walnuts, our receivable increases or decreases by $3,000. The final price for walnuts has averaged from $.45 to $.66 over the last three years. The prices used to estimate accounts receivable related to grapes is based on the variety of wine grape and the market for that grape. At year-end the average price used for recording the accounts receivable was $95.00 per ton. For every $1.00 change in the price, our receivables related to grapes can increase or decrease approximately $400. The average price for grapes has averaged between $95.00 per ton to $307.00 per ton over the last three years.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our directors is incorporated by reference from the definitive proxy statement to be filed with the Securities and Exchange Commission with respect to its 2002 Annual Meeting of Stockholders. Information as to our Executive Officers is set forth in Part I, Item 1 under "Executive Officers of Registrant."

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the Securities and Exchange Commission with respect to its 2002 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the Securities and Exchange Commission with respect to its 2002 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is incorporated by reference from the definitive proxy statement to be filed by us with the Securities and Exchange Commission with respect to its 2002 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

		Page Number
1.	Consolidated Financial Statements:	
1.1	Report of Independent Auditors	42
1.2	Consolidated Balance Sheets - December 31, 2001 and 2000	43
1.3	Consolidated Statements of Operations - Years Ended December 31, 2001, 2000 and 1999	44
1.4	Consolidated Statements of Stockholders' Equity - Three Years Ended December 31, 2001	45
1.5	Consolidated Statements of Cash Flows - Years Ended December 31, 2001, 2000 and 1999	46
1.6	Notes to Consolidated Financial Statements	47
2.	Supplemental Financial Statement Schedules:	
	None.	
3.	Exhibits:	
3.1	Restated Certificate of Incorporation	*
3.2	By-Laws	*
10.1	Water Service Contract with Wheeler Ridge-Maricopa Water Storage District (without exhibits), amendments originally filed under Item 11 to Registrant's Annual Report on Form 10-K	**
10.4	Asset Purchase Agreement dated March 10, 1997 for purchase of feedlot assets	***

10.5	Petro Travel Plaza Operating Agreement	****
10.6	Amended and Restated Stock Option Agreement Pursuant to the 1992 Employee Stock Incentive Plan	****
10.7	Severance Agreement	****
10.8	Director Compensation Plan	****
10.9	Non-Employee Director Stock Incentive Plan	****
10.9(1)	Stock Option Agreement Pursuant to the Non-Employee Director Stock Incentive Plan	****
10.10	1998 Stock Incentive Plan	****
10.10	Stock Option Agreement Pursuant to the 1998 Stock Incentive Plan	****
10.11	Employment Contract - Robert L. Stine	****
10.14	Restricted Stock Grant Agreement	******
10.15	Amendment to 1998 Stock Incentive Plan	******
10.16	Lease Agreement with Calpine Corp.	68
10.17	Tejon/DP Partners Operating Agreement	105
21	List of Subsidiaries of Registrant	154
23	Consent of Ernst & Young	155

(b) Report on Form 8-K filed during the last quarter of the period covered by this report:

None.

(c) Exhibits

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

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

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

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

***** This document, filed with the Securities Exchange Commission in Washington D.C. (file Number 1-7183) under Item 6 to our 10-Q, for the period ending June 30, 1999, is incorporated herein by reference.

****** This document filed with the Securities Exchange Commission in Washington D.C. (file number 1-7183) under Item 14 to our Annual Report on Form 10-K for the year ended December 31, 2000, is incorporated herein by reference.

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

SIGNATURES

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

TEJON RANCH CO.

DATED: March 28, 2002

BY: /s/ Robert A. Stine

Robert A. Stine
President and Chief Executive Officer
(Principal Executive Officer)

DATED: March 28, 2002

BY: /s/ Allen E. Lyda

Allen E. Lyda
Vice President, Chief Financial Officer & Treasurer
(Principal Financial and Accounting Officer)

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

Name	Capacity	Date
/s/ Otis Booth Jr. Otis Booth, Jr.	Director	March 5, 2002
/s/ Craig Cadwalader Craig Cadwalader	Director	March 5, 2002
/s/ Dan T. Daniels Dan T. Daniels	Director	March 5, 2002
/s/ Rayburn S. Dezember Rayburn S. Dezember	Director	March 5, 2002
/s/ John L. Goolsby John L. Goolsby	Director	March 5, 2002
/s/ Norman Metcalfe Norman Metcalfe	Director	March 5, 2002
/s/ George G.C. Parker George G.C. Parker	Director	March 5, 2002
/s/ Robert Ruocco Robert Ruocco	Director	March 5, 2002
/s/ Kent Snyder Kent Snyder	Director	March 5, 2002
/s/ Geoffrey Stack Geoffrey Stack	Director	March 5, 2002
/s/ Robert A. Stine Robert A. Stine	Director	March 5, 2002
/s/ Michael H. Winer Michael H. Winer	Director	March 5, 2002

Annual Report on Form 10-K

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

List of Financial Statements and Financial Statement Schedules

Financial Statements

Certain Exhibits

Year Ended December 31, 2001

Tejon Ranch Co.

Lebec, California

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

Tejon Ranch Co. and Subsidiaries

Index to Financial Statements and Financial Statement Schedules

ITEM 14(a)(1) - FINANCIAL STATEMENTS

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

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

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

Report of Independent Auditors

Stockholders and Board of Directors
Tejon Ranch Co.

We have audited the consolidated balance sheets of Tejon Ranch Co. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tejon Ranch Co. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Los Angeles, California
February 20, 2002

Tejon Ranch Co. and Subsidiaries
Consolidated Balance Sheets

	December 31 2001	December 31 2000
Assets		
Current assets:		
Cash and cash equivalents	$10,889,000	$ 2,286,000
Marketable securities	12,574,000	11,055,000
Accounts receivable	5,850,000	4,542,000
Inventories	1,230,000	1,100,000
Prepaid expenses and other current assets	1,614,000	1,106,000
Assets of discontinued operations	5,847,000	31,489,000
Total current assets	38,004,000	51,578,000
Property and equipment, net	61,016,000	46,526,000
Other assets	128,000	183,000
Total Assets	$99,148,000	$98,287,000
Liabilities and stockholders' equity Current liabilities:		
Trade accounts payable	$ 3,332,000	$ 1,969,000
Other acrued liabilities	294,000	1,150,000
Current deferred income	410,000	321,000
Income taxes payable	522,000	--
Short-term debt	80,000	1,069,000
Current portion of long-term debt	1,726,000	1,741,000
Borrowings of discontinued operations	47,000	21,893,000
Current liabilities of discontinued operations	146,000	3,446,000
Total current liabilities	6,557,000	31,589,000
Long-term debt, less current portion	14,563,000	19,323,000
Deferred income taxes	3,619,000	4,287,000
Minimum pension liability	1,606,000	114,000
Minority interest in equity of consolidated joint venture	674,000	485,000
Commitments and contingencies		
Stockholders' equity		
Common Stock, $.50 par value per share:		
Authorized shares - 30,000,000		
Issued and outstanding shares - 14,323,546 in 2001 and 12,712,236 in 2000	7,163,000	6,356,000
Additional paid-in capital	30,056,000	683,000
Deferred compensation	--	(43,000)
Accumulated other comprehensive income	(1,540,000)	(663,000)
Retained Earnings	36,450,000	36,156,000
Total stockholders' equity	72,129,000	42,489,000
Total liabilities and stockholders' equity	$99,148,000	$98,287,000

See accompanying notes

Tejon Ranch Co. and Subsidiaries
Consolidated Statements of Operations

	Year Ended December 31 2001	2000	1999
Revenues:			
Real estate	$10,990,000	$10,947,000	$ 8,906,000
Farming	6,425,000	7,225,000	7,433,000
Interest income	1,897,000	632,000	639,000
	19,312,000	18,804,000	16,978,000
Costs and expenses:			
Real estate	7,228,000	8,581,000	5,602,000
Farming	7,768,000	7,154,000	6,285,000
Corporate expenses	3,347,000	3,029,000	3,198,000
Interest expense	695,000	1,426,000	214,000
	19,038,000	20,190,000	15,299,000
Income (loss) from continuing operations before minority interest	274,000	(1,386,000)	1,679,000
Minority interest in consolidated joint venture	(189,000)	(185,000)	--
Income from continuing operations before income tax provision	85,000	(1,571,000)	1,679,000
Income tax provision (benefit)	33,000	(601,000)	638,000
Income (loss) from continuing operations	52,000	(970,000)	1,041,000
Income from discontinued operations, net of applicable income taxes	242,000	425,000	140,000
Net income (loss)	$ 294,000	$ (545,000)	$ 1,181,000
Income (loss) from continuing operations per share, basic	$ --	$ (0.08)	$ 0.08
Income from discontinued operations per share, basic	0.02	0.04	0.01
Net income (loss) per share, basic	$ 0.02	$ (0.04)	$ 0.09
Income (loss) from continuing operations per share, diluted	$ --	$ (0.08)	$ 0.08
Income from discontinued operations per share, diluted	0.02	0.04	0.01
Net income (loss) per share, diluted	$ 0.02	$ (0.04)	$ 0.09

Tejon Ranch Co. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Three years ended December 31, 2001

	Common Stock Shares Outstanding	Common Stock	Additional Paid In Capital	Deferred Compensation
Balance, December 31, 1998	12,691,253	$6,346,000	$ 382,000	$ --
Net income	--	--	--	--
Defined benefit plan funding adjustments, net of taxes of $133,000	--	--	--	--
Changes in unrealized losses on available-for-sale securities, net of taxes of $205,000	--	--	--	--
Comprehensive income				
Exercise of stock options	5,926	3,000	(3,000)	--
Cash dividends paid - $.05 per share	--	--	--	--
Balance, December 31, 1999	12,697,179	6,349,000	379,000	--
Net loss	--	--	--	--
Defined benefit plan funding adjustments, net of taxes of $234,000	--	--	--	--
Changes in unrealized gains on available-for-sale securities net of taxes of $106,000	--	--	--	--
Interest rate swap adjustment	--	--	--	--
Comprehensive loss				
Restricted stock issuance	9,057	4,000	211,000	(215,000)
Exercise of stock options	6,000	3,000	93,000	--
Amortization of deferred compensation	--	--	--	172,000
Balance, December 31, 2000	12,712,236	6,356,000	683,000	(43,000)
Net income	--	--	--	--
Changes in unrealized gains on available-for-sale securities, net of taxes of $142,000	--	--	--	--
Defined benefit plan funding adjustments, net of taxes of $599,000	--	--	--	--
Interest rate swap adjustment, net of taxes of $233,000	--	--	--	--
Comprehensive loss				
Net proceeds from rights offering	1,578,947	790,000	28,776,000	--
Restricted stock issuance	5,363	3,000	73,000	(76,000)
Exercise of stock options	27,000	14,000	524,000	--
Amortization of deferred compensation	--	--	--	119,000
Balance, December 31, 2001	14,323,546	7,163,000	$30,056,000	$ --

	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, December 31, 1998	($179,000)	$36,156,000	$ 42,705,000
Net income	--	1,181,000	1,181,000
Defined benefit plan funding adjustments, net of taxes of $133,000	216,000	--	216,000
Changes in unrealized losses on available-for-sale securities, net of taxes of $205,000	(306,000)	--	(306,000)
Comprehensive income			1,091,000
Exercise of stock options	--	--	--
Cash dividends paid - $.05 per share	--	(636,000)	(636,000)
Balance, December 31, 1999	(269,000)	36,701,000	43,160,000
Net loss	--	(545,000)	(545,000)
Defined benefit plan funding adjustments, net of taxes of			

$234,000	(350,000)	--	(350,000)
Changes in unrealized gains on available-for-sale securities net of taxes of $106,000	160,000	--	160,000
Interest rate swap adjustment	(204,000)	--	(204,000)
Comprehensive loss			(939,000)
Restricted stock issuance	--	--	--
Exercise of stock options	--	--	96,000
Amortization of deferred compensation	--	--	172,000
Balance, December 31, 2000	(663,000)	36,156,000	42,489,000
Net income	--	294,000	294,000
Changes in unrealized gains on available-for-sale securities, net of taxes of $142,000	213,000	--	213,000
Defined benefit plan funding adjustments, net of taxes of $599,000	(893,000)	--	(893,000)
Interest rate swap adjustment, net of taxes of $233,000	(197,000)		(197,000)
Comprehensive loss			(583,000)
Net proceeds from rights offering			29,566,000
Restricted stock issuance	--	--	--
Exercise of stock options	--	--	538,000
Amortization of deferred compensation	--	--	119,000
Balance, December 31, 2001	$(1,540,000)	$36,450,000	$ 72,129,000

Tejon Ranch Co. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31 2001	2000	1999
Operating Activities			
Net income (loss)	$ 294,000	$ (545,000)	$ 1,181,000
Items not affecting cash:			
Depreciation and amortization	2,846,000	3,024,000	2,494,000
Deferred income taxes	352,000	(557,000)	539,000
Gain from sale of land	--	--	(1,747,000)
Minority interest in consolidated joint ventures	189,000	185,000	--
Losses on sales of investments	--	--	17,000
Gain on sales of assets	(56,000)	(254,000)	--
Equity in (income) loss of unconsolidated joint ventures	(191,000)	642,000	889,000
Changes in certain current assets and current liabilities:			
Accounts receivable	(1,308,000)	(1,648,000)	173,000
Inventories	(130,000)	897,000	(2,105,000)
Prepaid expenses and other current assets	(823,000)	(43,000)	(28,000)
Trade accounts payable and other accrued liabilities	(90,000)	1,198,000	1,894,000
Current deferred income	89,000	318,000	55,000
Income taxes payable	522,000	--	(192,000)
Net cash provided by operating activities of continuing operations	1,694,000	3,217,000	3,170,000
Investing Activities			
Maturities of marketable securities	35,189,000	2,989,000	9,987,000
Funds invested in marketable securities	(36,353,000)	(3,830,000)	(7,162,000)
Reimbursement proceeds from community facilities district	--	8,065,000	--
Proceeds from sale of land	--	2,000,000	1,747,000
Cash in escrow	--	--	4,200,000
Property and equipment disposals	161,000	442,000	--
Funds to purchase almond processing plant	--	(2,700,000)	--
Property and equipment expenditures	(17,441,000)	(9,917,000)	(25,819,000)
Investment in unconsolidated joint ventures	(51,000)	(1,066,000)	--
Other	673,000	153,000	(649,000)
Net cash used in investing activities of continuing operations	(17,822,000)	(3,864,000)	(17,696,000)
Financing Activities			
Proceeds from issuance of common stock	29,566,000	--	--
Proceeds from short-term debt	15,883,000	51,470,000	32,874,000
Payments on short-term debt	(16,886,000)	(53,427,000)	(35,312,000)
Borrowing of long-term debt	1,845,000	3,642,000	19,800,000
Repayment of long-term debt	(6,605,000)	(2,348,000)	(30,000)
Cash contribution from investor in consolidated joint venture	--	300,000	--
Exercise of stock options	432,000	96,000	--
Cash dividends paid	--	--	(636,000)
Net cash provided by (used in) financing activities of continuing operations	24,235,000	(267,000)	16,696,000
Net change in discontinued operations	496,000	2,777,000	(2,491,000)
Increase (decrease) in cash and cash equivalents	8,603,000	1,863,000	(320,000)
Cash and cash equivalents at beginning of year	2,286,000	423,000	743,000
Cash and cash equivalents at end of year	$ 10,889,000	$ 2,286,000	$ 423,000
Supplemental Cash Flow Information			
Interest paid (net of amounts capitalized)	$ 1,136,000	$ 2,416,000	$ 1,174,000
Income taxes paid	$ --	$ 166,000	$ 123,000

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Tejon Ranch Co., the accounts of all controlled subsidiaries, and Tejon Almond Growers LLC, a joint venture that owns an almond processing plant, in which a controlling interest is held (collectively, the "Company"). All significant intercompany transactions have been eliminated in consolidation. Investments in unconsolidated joint ventures in which we have less than a controlling interest are accounted for under the equity method of accounting and, accordingly, we reflect our investment as adjusted for capital contributions, distributions, and our equity in net income or loss of the respective joint venture.

Reclassification

Certain amounts included in the 2000 and 1999 financial statements have been reclassified to conform to the current year presentation.

Cash Equivalents

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

Marketable Securities

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

Credit Risk

We grant credit to customers in the course of our continuing operations to co-ops, wineries, nut marketing companies, and lessees of our facilities. Our discontinued operations also granted credit to large cattle purchasers and feedlot customers. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral.

During 2001, no single customer accounted for more than 10% of our revenues from continuing operations. During 2000 and 1999 the following customers accounted for more than 10% of our consolidated revenues from continuing operations: Golden State Vintners, a purchaser of grapes (10% in 2000 and 25% in 1999); and IKEA, an international home furnishing retailer (11% in 2000).

The Company maintains its cash and cash equivalents in federally insured financial institutions. The account balances at these institutions periodically exceed FDIC insurance coverage, and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. We believe that the risk is not significant.

Farm Inventories

Costs of bringing crops to harvest are capitalized when incurred. Such costs are expensed when the crops are sold. Costs during the current year related to the next year's crop are capitalized and carried in inventory until the matching crop is harvested and sold. Farm inventories held for sale are valued at the lower of cost (first-in, first-out method) or market.

Property and Equipment

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

Vineyards and Orchards

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

At the time crops are harvested and delivered to buyers and revenues are estimatable, revenues and related costs are recognized, which traditionally occurs during the third and fourth quarters of each year. Orchard revenues are based upon estimated selling prices, whereas vineyard revenues are recognized at the contracted selling price. Estimated prices for orchard crops are based upon the quoted estimate of what the final market price will be by marketers and handlers of the orchard crops. Actual final orchard crop selling prices are not determined for several months following the close of our fiscal year due to supply and demand fluctuations within the orchard crop markets. Adjustments for differences between original estimates and actual revenues received are recorded during the period in which such amounts become known. The net effect of these adjustments decreased farming revenue $100,000 in 2001, $231,000 in 2000, and $541,000 in 1999.

The Almond Board of California has the authority to require producers of almonds to withhold a portion of their annual production from the marketplace through a Secretary of Agriculture approved marketing order. At December 31, 1999, producers were required to withhold 22.36% of their 1999 almond crop production from the marketplace. At December 31, 1999, we recognized $427,000 into inventory related to this withholding. The marketing order was lifted during 2000 and all of the inventory was subsequently sold. At December 31, 2001 and 2000, no such withholding was mandated.

Common Stock Options

The Company has elected to follow Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employees', advisors', and consultants' stock options because, as discussed in Note 7, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of stock options granted by us equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Net Income Per Share

Basic net income (loss) per share is based upon the weighted average number of shares of common stock outstanding during the year (14,237,035 in 2001, 12,707,027 in 2000, and 12,694,216 in 1999). Diluted net income (loss) per share 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 stock options using the treasury stock method (14,346,369 in 2001, 12,792,486 in 2000, and 12,796,485 in 1999). The weighted average additional number of shares relating to dilutive stock options was 109,334 in 2001, 85,459 in 2000, and 102,269 in 1999. For 2000, diluted net loss per share is based on the weighted average number of shares of common stock outstanding because the impact of stock options is antidilutive.

Long-Lived Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", the Company records impairment losses on long-lived assets held and used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than their related carrying amounts. In addition, the Company accounts for long-lived assets to be disposed of at the lower of their carrying amounts or fair value less selling and disposal costs. At December 31, 2001, management of the Company believes that none of its assets are impaired.

Sales of Real Estate

Revenues are recorded and profit is recognized when title has passed to the buyer and a minimum down payment has been received.

Rental Income

Minimum rent revenues are recognized on a straight-line basis over the respective lease term.

Environmental Expenditures

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or our commitment to a formal plan of action. No liabilities for environmental costs have been recorded at December 31, 2001, 2000 or 1999.

Use of Estimates

The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenue and expenses during the reporting period. Due to uncertainties inherent in the estimation process, it is reasonably possible that actual results could differ from these estimates.

New Accounting Pronouncements

Financial Accounting Standards Board Statement ("FASB") No. 142, Goodwill and Other Intangible Assets, was approved and issued in June 2001 and addresses amortization on Intangible Assets. Statement 142 supercedes APB Opinion No. 17, which required amortization of goodwill and intangible assets. The presumption that goodwill and intangible assets were wasting assets and should be amortized over a period of not more than 40 years has been altered, and now such assets are deemed to have an indefinite life and are no longer amortized. The value of the intangible assets must be assessed annually for impairment. This statement will have a minimal impact on our financial position or results of operations as the amount of goodwill and other intangible assets are insignificant. The Statement will be adopted for the 2002 financial year.

In June 2001 FASB Statement No. 143 was issued addressing Accounting for Asset Retirement Obligations (AROs). This statement covers obligations that a company incurs for the retirement of tangible long-lived assets such as drilling rigs or manufacturing plants. We do not anticipate this pronouncement having a significant impact on our financial position or results of operations when it becomes effective for the 2003 financial year.

FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001. The pronouncement issues guidance on distinguishing between assets held and used, held for sale, and held for disposal other than sale. It also addresses the classification and valuation of such assets. The pronouncement is effective for the 2002 fiscal year. We do not anticipate this pronouncement having a significant impact on our financial position or results of operations.

FASB Statement No. 141, Business Combinations, eliminates the pooling-of-interests method of accounting for business combinations. This Statement is not anticipated to have an effect on our financial position or results of operations.

2. DISCONTINUED OPERATIONS

During April 2001, the Company finalized its plan for the sale of its cattle and feedlot division. Management intends to dispose of its cattle and feedlot division to provide capital for real estate development activities and to reduce outstanding debt of the Company. The process of selling the Company's breeding herd, stocker cattle herd, and feedlot is expected to be completed by the end of April 2002.

Revenues from discontinued operations consist of sales of cattle and revenue from feedlot operations. Expenses consist of cost of sales related to the sale of cattle and expenses related to the operations of a cattle feedlot. There is no allowance for loss on disposal of division assets because the Company expects to sell the remaining inventory for at least its current book value.

During June 2001, the Company completed the sale of a portion of its breeding herd for $2.6 million to Centennial Livestock, a California agricultural company. The Company completed the sale of its feedlot in Texas for $3.2 million during July of 2001. These amounts are included in revenues and the cost of sales related to these dispositions is included in expenses in the table below. The combined gain on sale, net of applicable income taxes, for both the sale that occurred in June 2001 and the sale that occurred in July 2001, was approximately $700,000. The results of the cattle and feedlot division had previously been included within the livestock segment. Previously reported financial statements have been reclassified to reflect the discontinuance of this business.

The financial statements reflect the operating results and balance sheet items of the discontinued operations separately from the continuing operations.

Operating results of the discontinued operations were as follows:

	For the Years Ended December 31		
	2001	2000	1999
Revenues	$48,426,000	$50,019,000	$38,938,000
Expenses	47,593,000	48,059,000	37,752,000
Interest Expense	441,000	1,275,000	960,000
Income from discontinued operations before taxes	392,000	685,000	226,000
Income Tax provision	150,000	260,000	86,000
Income from discontinued operations, net of taxes	$ 242,000	$ 425,000	$ 140,000

Net assets of the discontinued operations at December 31, 2001 and 2000 were as follows:

	December 31 2001	December 31 2000
Current assets	$ 5,822,000	$26,522,000
Current liabilities	193,000	25,339,000
Net current assets	5,629,000	1,183,000
Property and equipment	--	4,143,000
Other noncurrent assets	25,000	824,000
Net noncurrent assets	25,000	4,967,000
Net assets	$ 5,654,000	$ 6,150,000

All cattle held for sale are valued at the lower of cost (first-in, first-out method) or market and are included in the results of the discontinued operations.

We enter into futures and option contracts to manage our exposure to price fluctuations on our stocker cattle and our cattle feed costs. Our goal is to protect or create a future price for our cattle and feed that will provide a profit once the cattle are sold and all costs are deducted. Futures and options contracts are carried at market value and included in the results of discontinued operations. At December 31, 2001 there were no contracts outstanding.

3. MARKETABLE SECURITIES

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

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

	2001		2000	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Marketable Securities:				
U.S. Treasury and agency notes	$ 5,681,000	$ 5,698,000	$ 5,987,000	$ 5,258,000
Corporate notes	6,722,000	6,876,000	5,252,000	5,797,000
	$12,403,000	$12,574,000	$11,239,000	$11,055,000

As of December 31, 2001, the adjustment to accumulated other comprehensive income in consolidated stockholders' equity is an unrealized gain on available-for-sale securities of $213,000, which is net of a tax expense of $142,000. This adjustment reflects the improvement in the fair value of investments when compared to the prior year. As of December 31, 2001, the

Company's gross unrealized holding gains equal $379,000 and gross unrealized holding losses equal $208,000. On December 31, 2001, the average maturity of U.S. Treasury and agency securities was 2.5 years and corporate notes was 2.5 years. Currently the Company has no securities with a weighted average life of greater than five years.

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

4. INVENTORIES

Inventories consist of the following at December 31:

	2001	2000
Farming inventories	$1,121,000	$ 739,000
Other	109,000	361,000
	$1,230,000	$1,100,000

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2001	2000
Land and land improvements	$ 6,832,000	$ 5,542,000
Buildings and improvements	22,104,000	22,259,000
Machinery, water pipelines, furniture fixtures and other equipment	8,790,000	6,937,000
Vineyards and orchards	18,625,000	16,281,000
Development in process	27,733,000	16,203,000
	84,084,000	67,222,000
Less allowance for depreciation	(23,068,000)	(20,696,000)
	$ 61,016,000	$ 46,526,000

During the year ended December 31, 2000, the Company received $8,065,000 of reimbursement proceeds related to a community facilities district bond issuance. These proceeds were for public infrastructure improvements the Company had constructed related to the Tejon Industrial Complex and were reflected as a reduction to land improvements.

6. SHORT-TERM AND LONG-TERM DEBT

We may borrow up to $15,000,000 on a secured revolving line of credit at interest rates .50% less than the bank's prime rate (5.0% at December 31, 2001) or at a fixed rate of 1.50% greater than LIBOR. The revolving line expires in September 2003. At December 31, 2001, there was no outstanding debt under the line of credit agreement. On all short-term debt arrangements interest is payable monthly and principal is paid or borrowed on a daily basis as needed. The weighted average interest rate on short-term debt was 6.75% for 2001.

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

	2001	2000
Notes payable to a bank	$16,289,000	$ 21,064000
Less current portion	(1,726,000)	(1,741,000)
	$14,563,000	$19,323,000

At December 31, 2001 the long-term debt balance included a $10,000,000 note used in funding long-term assets that is secured by farm acreage. Principal is payable in quarterly payments of $375,000 with remaining principal due June 2004. Interest is at .50% less than the bank's prime rate, which was 5.0% at December 31, 2001, or a fixed rate of 1.50% greater than the specified LIBOR rate. Long-term debt also consists of debt related to the purchase of commercial/industrial buildings totaling $4,669,000 at December 31, 2001. The interest rate is fixed at 7.61% with monthly principal and interest payments. The annual principal payments total $46,000 and the final due date is April 2009. The remaining long-term note payable of $1,620,000 provides for interest at 1.00% less than the bank's prime rate, which was 5.0% at December 31, 2001, payable quarterly on any amounts outstanding. Principal is payable annually in the amount of $180,000 with the final payment due February 1, 2010.

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

The Company's capitalized interest costs were $1,466,000, $1,174,000, and $1,193,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

Maturities of long-term debt at December 31, 2001 are $1,726,000 in 2002, $1,770,000 in 2003, $7,230,000 in 2004, $239,000 in 2005, $243,000 in 2006, and $5,081,000 thereafter. This maturity schedule reflects the payments related to both the long-term debt and the current portion of long-term debt.

7. COMMON STOCK AND STOCK OPTION INFORMATION

The 1992 Stock Option Plan provides for the granting of options to purchase a maximum of 230,000 shares of our common stock to employees, advisors, and consultants of the Company at 100% of the fair market value as of the date of grant. The compensation committee of the Board of Directors administers the plan. Since adoption of the plan in March 1992, options have been granted under the 1992 Stock Option Plan with respect to 159,000 shares at an exercise price of $16 per share and 20,000 shares at an exercise price of $15 per share.

On January 26, 1998, the Board of Directors adopted the 1998 Stock Incentive Plan. The Incentive Plan provides for the making of awards to employees, consultants, and advisors of the Company with respect to 800,000 shares of common stock. On March 6, 2001, the Board of Directors adopted an amendment to the 1998 Stock Incentive Plan. The purpose of the amendment was to provide additional shares under the Plan to cover new award grants. The amendment provides for an additional 800,000 shares to be available for awards under the Plan. Since the adoption of the Incentive Plan to December 31, 2001, the Company has granted options to purchase 906,091 shares at a price equal to the fair market value at date of grant, all of which were outstanding at December 31, 2001.

Also, on January 26, 1998, the Board of Directors adopted the Non-Employee Director Stock Incentive Plan. This plan is intended to enable us to attract, retain, and motivate its non-employee directors by providing for or increasing the proprietary interests of such persons in the Company. The plan provides for making of awards to non-employee directors with respect to an aggregate of 200,000 shares of common stock. On March 6, 2001, the Board of Directors adopted an amendment to extend the date through which awards can be granted under the Plan from December 31, 2002 to December 31, 2007, and the date through which shares can be issued from December 31, 2012 to December 31, 2017. Since the adoption of the plan to December 31, 2001, the Company has granted options under the plan to purchase 62,761 shares at a price equal to the fair market value at date of grant.

The amendments to the 1998 Stock Incentive Plan and the Non-Employee Director Stock Incentive Plan were approved by stockholders at the Company's Annual Meeting on May 1, 2001.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its stock options under the fair value method of the statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for the options granted in 2001: risk-free interest rate of 5.00%; dividend rate of 0.0%; volatility factor of the expected market price of our common stock of 0.34; and a weighted average expected life of the options of five years from the option grant date. During 2001, 2000, and 1999, no compensation expense was recorded related to the granting of stock options.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information follows for the year ended December 31:

	2001	2000
Pro forma net loss	$(555,000)	$(1,223,000)
Pro forma net loss per share, diluted	$ (0.04)	$ (0.10)

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

	2001		2000	
	Options	Weighted-Average Exercise Prices Per Share	Options	Weighted-Average Exercise Prices Per Share
Outstanding beginning of year	807,078	$20.93	99,390	$20.88
Granted	405,080	22.22	13,688	22.13
Exercised	(27,000)	16.00	(6,000)	16.00
Forfeited/Cancelled	(104,996)	21.50	0	0.00
Outstanding end of year	1,080,162	$21.48	807,078	$20.93
Options exercisable end of year	352,105	$20.17	204,527	$19.14
Weighted-average fair value per share of options granted		$ 8.67		$10.52

Exercise prices for options outstanding as of December 31, 2001 ranged from $15.00 to $26.38. The weighted-average remaining contractual life of those options is approximately six years.

8. COMMODITY CONTRACTS USED TO MANAGE RISK

The Company uses commodity derivatives to manage risk on its purchased stocker cattle and its cattle feed costs. The objective is to protect or create a future price for stocker cattle that will protect a profit or minimize a loss once the cattle are sold and all costs are deducted and to protect us against a significant cattle market decline or feed cost increase. These costs and risks of ownership are now included in discontinued operations, and we expect to complete the sale of livestock operations by the end of April 2002. To help achieve this objective we use both the futures commodity markets and options commodity markets. A futures contract is an obligation to make or take delivery at a specific future time of a specifically defined, standardized unit of a commodity at a price determined when the contract is executed. Options are contracts that give their owners the right, but not the obligation, to buy or sell a specified item at a set price on or before a specified date. We continually monitor any open futures and options contracts on a daily basis in accordance with formal policies to determine the appropriate hedge based on market movement of the underlying asset. The options and futures contracts used typically expire on a quarterly or semi-annual basis and are structured to expire close to or during the month the stocker cattle and feed are scheduled to be sold or purchased. The risk associated with this strategy for us is that it limits or caps the potential profits if cattle prices increase, and it adds additional costs for feed if grain prices fall.

Realized gains, losses, and market value adjustments associated with both closed and open contracts are recognized in discontinued operations. During 2001, we recognized $316,000 in net losses from hedging and derivative activity as an increase in cost of sales. In 2000 and 1999, we recognized approximately $966,000 and $256,000, respectively, in losses from hedging and derivative activity as an increase in cost of sales. At December 31, 2001, the Company had no futures or options contracts outstanding.

The following table identifies the futures contract amounts and options contract costs outstanding at December 31, 2000:

Commodity Future/Option Description	No. Contracts	Original Contract/Cost (Bought) Sold	Estimated Fair Value (Bought) Sold
Cattle futures sold 40,000 lbs. per contract	230	$6,826,000	$(7,215,000)
Cattle options sold 40,000 lbs. per contract	25	$ 4,000	$ (26,000)
Cattle options bought 40,000 lbs. per contract	95	$ (934,000)	$ 930,000
Corn options bought 50,000 lbs. per contract	55	$ (613,000)	$ 654,000

The above futures contracts and options contracts expired between February 2001 and April 2001. Estimated fair value at settlement is based upon quoted market prices at December 31, 2000.

9. INTEREST RATE RISK MANAGEMENT

During 2000, the Company entered into interest rate swap agreements with notional amounts totaling $11.6 million to manage interest rate risk by converting floating interest rate debt to fixed rate debt. These swap agreements, which have maturities ranging from 1 to 3 years, are contracts to exchange variable rate for fixed rate interest payments periodically over the lives of the agreements. The interest rate swap fixed rate is 6.91%. Amounts currently due to or from interest swap counterparties recorded in interest expense in the period in which they are incurred.

As of December 31, 2001 and 2000, the cumulative decrease in the fair value of the interest rate swaps was $634,000 and $204,000, respectively. Changes in the fair value of the interest rate swaps are reported in accumulated other comprehensive income, net of applicable income taxes. These amounts are subsequently reclassified into interest expense as yield adjustment in the same period in which the related interest on the floating rate obligations affects earnings. No such amounts were reclassified to interest expense during 2001. Estimated fair value of the swaps was determined by market price quotes as of December 31, 2001 and 2000, received from our bank.

10. INCOME TAXES

The Company accounts for income taxes using SFAS No. 109, Accounting for Income Taxes. SFAS No. 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized differently in the financial statements and the tax returns. The provision (benefit) for income taxes consists of the following at December 31:

	2001	2000	1999
Total provision (benefit):			
Continuing operations	$ 33,000	$(601,000)	$638,000
Discontinued operations	150,000	260,000	86,000
	183,000	(341,000)	724,000
Federal:			
Current	455,000	(31,000)	--
Deferred	(293,000)	(204,000)	556,000
	162,000	(235,000)	556,000
State:			
Current	67,000	(38,000)	--
Deferred	(46,000)	(68,000)	168,000
	21,000	(106,000)	168,000
	$ 183,000	$(341,000)	$724,000

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

	2001	2000	1999
Income tax (benefit) at the statutory rate	$162,000	$(301,000)	$648,000
State income taxes, net of Federal benefit	14,000	(52,000)	109,000
Other, net	7,000	12,000	(33,000)
	$183,000	$(341,000)	$724,000

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

	2001	2000
Deferred income tax assets:		
Accrued expenses	$ 155,000	$ 147,000
Prepaid revenues	139,000	102,000
Other	30,000	45,000
Total deferred income tax assets	$ 324,000	$ 294,000
Deferred income tax liabilities:		
Depreciation and amortization	400,000	305,000
Involuntary conversion, tax exchange-land	2,367,000	3,115,000
Other	852,000	867,000
Total deferred income tax liabilities	$3,619,000	$4,287,000
Net deferred income tax liabilities	$3,295,000	$3,993,000

The Company made net payments of income taxes of $0, $166,000, and $123,000 during 2001, 2000 and 1999, respectively.

11. OPERATING LEASES

The Company is a lessor of certain property pursuant to various commercial lease agreements having terms ranging up to 65 years. The cost and accumulated depreciation of buildings and improvements subject to such leases were $14,174,000 and $2,586,000, respectively, at December 31, 2001. Income from commercial rents, excluding percentage rents based on sales revenues, included in real estate revenue was $2,035,000 in 2001, $1,857,000 in 2000, and $1,609,000 in 1999. Future minimum rental income on noncancelable operating leases as of December 31, 2001 is: $2,113,000 in 2002, $2,079,000 in 2003, $2,075,000 in 2004, $1,769,000 in 2005, and $1,728,000 in 2006, and $10,430,000 for years thereafter.

12. COMMITMENTS AND CONTINGENCIES

A total of 5,488 acres of our land is subject to water contracts requiring minimum future annual payments for as long as we own such land. The estimated minimum payments for 2002 are $1,084,000, whether or not water is available or is used. Minimum payments made under these contracts were approximately $1,183,000 in 2001, $793,000 in 2000, and $1,300,000 in 1999. Approximately 4,600 acres of this land are subject to contingent assessments of approximately $776,000 to service water district bonded indebtedness, if water district revenues are insufficient to cover bond interest and redemptions when due.

The Tejon Ranch Public Facilities Financing Authority Community Facilities District ("CFD"), a joint powers authority formed by Kern County and the Tejon-Castac Water District, has placed liens on 1,728 acres of the Company's land. These liens are to secure payment of special taxes related to $17.0 million of bond debt sold by the CFD. The Company is obligated, as a landowner in the district, to pay its share of the special taxes assessed each year. The 1,728 acres of land includes the Tejon Industrial Complex development. Proceeds from the sale of CFD bonds went to reimburse the Company for public infrastructure related to the Tejon Industrial

Complex development. The amount reimbursed in 2000 was $8,065,000. In 2001, the Company paid approximately $300,000 in special taxes related to the CFD. As development occurs at Tejon Industrial Complex, new owners of land and new lease tenants, through triple net leases, will begin to pay their portion of the assessed special tax. As this happens, the Company's obligation is reduced. It is expected that the Company will have no additional special tax payments due in 2002, but this could change in the future based on the amount of bonds outstanding within the CFD. As development and values increase around the Tejon Industrial Complex, the Company may be able to remove approximately 1,400 acres from the CFD.

At December 31, 2001, the Company was guaranteeing the repayment of $3.8 million of debt of the Petro Travel Plaza LLC, an unconsolidated joint venture. Total debt outstanding at December 31, 2001 for Petro Travel Plaza LLC is $12.5 million and is related to the construction of the travel plaza. This loan has a maturity date of July 2003. The Company is also guaranteeing 50% of a construction loan to Tejon Dermody Industrial LLC, an unconsolidated joint venture, for the construction of a building to lease. The amount of the loan is approximately $10.5 million. The maturity date of this loan is July 2003. The Company does not expect either of these guarantees to ever be enforced due to the positive cash flow provided by the operations of the Petro Travel Plaza, and to cash flows from a lease on the Tejon/Dermody building.

The Company leases land to National Cement Company of California, Inc. (National) for the purpose of manufacturing portland cement from limestone deposits on the leased acreage. National, Lafarge Corporation (the parent company of the previous operator) and the Company have been ordered to clean up and abate an old industrial waste landfill site, a storage area for drums containing lubricants and solvents, an underground storage tank for waste oil and solvents, an underground plume of hydrocarbons, diesel fuel which leaked from a pipeline, and the cement kiln dust piles on the leased premises. Lafarge has undertaken the investigation and remediation of landfills and has completed the removal of contaminated soils above the groundwater level from the landfills. Lafarge has also completed a substantial amount of the site investigation and has performed preliminary remediation work with respect to chlorinated hydrocarbons. The plume of chlorinated hydrocarbons covers an extensive area and has migrated off of the leased premises in one direction where it has been found to be leaking into a local creek. Lafarge undertook additional investigation work as directed by the Regional Water Board and developed a feasibility study evaluating different long-term remediation options. Lafarge has also removed high concentrations PCE from the drum storage site. The order for the kiln dust piles now requires only site stabilization measures of the sort previously undertaken by National and does not call for transporting the large piles offsite. Under the orders, the Company is secondarily liable and will be called upon to perform work only if National and Lafarge fail to do so. Under the lease agreements with National and Lafarge, each of the companies is required to indemnify the Company for its designated portion of any costs and liabilities incurred in connection with the cleanup orders. Due to the financial strength of National and Lafarge, the Company believes that a material effect on the Company is remote at this time.

13. RETIREMENT PLAN

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

The following accumulated benefit information is as of December 31:

	2001	2000
Change in benefit obligation		
Benefit obligation at beginning of year	$ 3,233,000	$2,840,000
Service cost	192,000	184,000
Interest cost	194,000	182,000
Actuarial gain (loss)	1,148,000	148,000
Benefits/expenses paid	(489,000)	(121,000)
Benefit obligation at end of year	$ 4,278,000	$3,233,000
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 3,119,000	$3,126,000
Actual return on plan assets	(186,000)	(63,000)
Employer contribution	228,000	177,000
Benefits/expenses paid	(489,000)	(121,000)
Fair value of plan assets at end of year	$ 2,672,000	$3,119,000
Funded status	$(1,606,000)	$ (114,000)
Unrecognized net actuarial gain	2,075,000	529,000
Unrecognized net transition asset	(38,000)	(58,000)
Adjustments related to minimum liability	(2,037,000)	(471,000)
Minimum penion liability	$(1,606,000)	$ (114,000)

In accordance with the provisions of SFAS No. 87, the Company recorded a minimum pension liability in 2001 representing the excess of the benefit obligation, $4,278,000, over the fair value of plan assets, $2,672,000. The liability has been offset by intangible assets to the extent possible. Because the asset recognized may not exceed the amount of unrecognized past service cost, the balance of the liability at the end of 2001 is reported in accumulated other comprehensive income (loss), net of applicable deferred income taxes. The Company also had a minimum pension liability at the end of 2000.

Plan assets consist of equity, debt and short-term money market investment funds. The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of projected benefits obligation was 6.5% in 2001 and 2000. The expected long-term rate of return on plan assets was 7.5% in 2001 and 2000.

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

	2001	2000	1999
Cost components:			
Service cost-benefits earned during the period	$(192,000)	$(184,000)	$(190,000)
Interest cost on projected benefit obligation	(194,000)	(182,000)	(223,000)
Expected return on plan assets	212,000	257,000	207,000
Net amortization and deferral	20,000	20,000	(42,000)
Total net periodic pension cost	$(154,000)	$ (89,000)	$(248,000)

The Company has a Supplemental Executive Retirement Plan (the "SERP") to restore to executives designated by the Compensation Committee of the Board of Directors the full benefits under the pension plan which would otherwise be restricted by certain limitations now imposed under the Internal Revenue Code. The SERP is currently unfunded, but an associated accrued liability of $390,000 is reflected in the Company's financial statements.

14. BUSINESS SEGMENTS

The Company operates principally in the farming and real estate industries. The farming segment involves those operations related to permanent crops, leasing farmland, and the supervision of farming activities. The real estate segment involves rents and royalties from lessees of Company-owned properties, and real estate development activities.

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

	2001	2000	1999
Segment profits from continuing operations:			
Real Estate	$ 3,762,000	$ 2,366,000	$ 3,304,000
Farming	(1,343,000)	71,000	1,148,000
Segment profits from continuing operations	2,419,000	2,437,000	4,452,000
Interest income	1,897,000	632,000	639,000
Corporate expenses	(3,347,000)	(3,029,000)	(3,198,000)
Interest expense	(695,000)	(1,426,000)	(214,000)
Income (loss) from continuing operations before minority interest	274,000	(1,386,000)	1,679,000
Minority Interest	(189,000)	(185,000)	--
Income (loss) from continuing operations before income tax provision	$ 85,000	$(1,571,000)	$ 1,679,000

	Identifiable Assets	Depreciation and Amortization	Capital Expenditures
2001			
Farming	18,912,000	1,168,000	884,000
Real Estate	44,523,000	1,148,000	16,413,000
Corporate	35,713,000	530,000	144,000
Total	$99,148,000	$2,846,000	$17,441,000
2000			
Farming	17,698,000	981,000	4,046,000
Real Estate	31,197,000	1,072,000	7,224,000
Corporate	49,392,000	971,000	1,093,000
Total	$98,287,000	$3,024,000	$12,363,000
1999			
Farming	13,574,000	811,000	2,086,000
Real Estate	31,975,000	906,000	22,722,000
Corporate	45,970,000	777,000	603,000
Total	$91,519,000	$2,494,000	$25,678,000

Segment profits are total revenues less operating expenses, excluding interest and corporate expenses. Identifiable assets by segment include both assets directly identified with those operations and an allocable share of jointly used assets. Corporate assets consist primarily of cash and cash equivalents, deferred income taxes, land and buildings. Land is valued at cost for acquisitions since 1936. Land acquired in 1936, upon organization of the Company, is stated on the basis (presumed to be at cost) carried by our predecessor.

The financial statements for prior periods have been reclassified to reflect the segregation of continuing and discontinued operations. The information presented above for 2001, 2000 and 1999 reflects the removal of the livestock segment of the business. The identifiable assets of that segment which were not discontinued have been included in the real estate segment of continuing operations. The net assets of discontinued operations are included in the Corporate Identifiable Assets for each year presented.

15. UNAUDITED QUARTERLY OPERATING RESULTS

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

	Total Revenue(1)	Segment Profit (Loss)	Income (Loss)	Net Income (Loss) Per Share(2)
2001				
First quarter	$ 2,021,000	$ (832,000)	$(798,000)	$(0.06)
Second quarter	3,663,000	711,000	916,000	0.06
Third quarter	5,863,000	1,517,000	290,000	0.02
Fourth quarter	7,765,000	1,023,000	(114,000)	(0.00)
	$19,312,000	$2,419,000	$ 294,000	$ 0.02
2000				
First quarter	$ 1,640,000	$ (492,000)	$(571,000)	$(0.04)
Second quarter	2,387,000	192,000	(215,000)	(0.02)
Third quarter	7,617,000	2,083,000	29,000	0.00
Fourth quarter	7,160,000	654,000	212,000	0.02
	$18,804,000	$2,437,000	$(545,000)	$(0.04)

(1) Includes interest income.
(2) Earnings per share on a diluted basis.

16. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The Company maintains investments in unconsolidated joint ventures. The Company accounts for these investments in these unconsolidated joint ventures using the equity method of accounting. The Company's investment deficit in its unconsolidated joint ventures at December 31, 2001 is $163,000. The equity in the net income of the unconsolidated joint ventures is $191,000 for the twelve months ended December 31, 2001, which is included in Real Estate operations in the accompanying consolidated financial statements. The Company's current unconsolidated joint ventures are as follows:

- Petro Travel Plaza LLC is a joint venture with Petro Stopping Centers, L.P. for the development and management of the Petro Travel Plaza. This is a 60% owned venture which owns and operates a travel plaza/commercial highway operation in the Tejon Industrial Complex. It houses multiple commercial eating establishments as well as diesel and gasoline operations.

- RM Development Associates LLC is an unconsolidated joint venture in which the Company has a 50% ownership interest. This is a venture with three home builders and community developers (Pardee Construction Company, Lewis Investment Company, and Standard Pacific Corp.), which is pursuing the entitlement and development of land that the Company owns in Los Angeles County.

- Tejon Dermody Industrial LLC is a joint venture between the Company and DP Partners for the development and ownership of a 651,000 square foot industrial building in the Tejon Industrial Complex. The Company owns a 50% interest in this venture.

Condensed financial information of the Company's unconsolidated joint ventures as of and for the year ended December 31 is as follows:

Condensed Combined Statement of Operations Information

	2001	2000
Net sales	$36,489,000	$44,918,000
Net income (loss)	321,000	(1,049,000)
Partner's share of net income (loss)	130,000	(407,000)
Equity in net income (loss) of unconsolidated joint ventures	$ 191,000	$ (642,000)

Condensed Combined Balance Sheet Information

	2001	2000
Current assets	$ 2,507,000	$ 2,589,000
Property and equipment, net	33,938,000	20,406,000
Long-term debt	(12,513,000)	(13,039,000)
Other liabilities	(11,062,000)	(1,628,000)
Net assets	$12,870,000	$ 8,328,000

The Company's investment deficit 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.

17. RELATED PARTY TRANSACTIONS

During December 2000, the Company sold certain cows, bulls, stocker cattle, and equipment, with a carrying value of $302,000, to a limited liability company owned by an officer of the Company for $1,328,000. The Company recognized a gain on sale of these assets of $1,026,000, which is included in discontinued operations the accompanying consolidated statement of operations for the year ended December 31, 2000. In addition, the Company entered into an agreement to lease certain land to the purchaser for livestock grazing purposes.

In December 2000 the Company offered to its stockholders the right to purchase 1,578,947 additional shares of its Common Stock for a purchase price of $19 per share or an aggregate of $30 million. In connection with that offering the Company entered into an agreement with Third Avenue Trust (acting on behalf of Third Avenue Value Fund, Third Avenue Small-Cap Value Fund and Third Avenue Real Estate Value Fund) and a private investment fund managed by Carl Marks Management Company, L.P. to purchase any of the shares offered to the extent that the gross proceeds to the Company from the offering to its stockholders were less than $30 million. The price payable per share under the agreement was the same as the price in the offering to the stockholders, $19 per share. In addition, the purchasers committed to exercise their own pro rata rights to purchase shares in the offering as stockholders but not to exercise their rights to purchase additional shares in the offering which other stockholders declined to purchase. Because the offering to the stockholders was oversubscribed, none of the purchasers purchased any shares pursuant to this agreement, but the company reimbursed the Carl Marks Management Company, L.P. investment fund $45,000 for its Hart-Scott-Rodino filing fees incurred in connection with the offering.

18. SUBSCRIPTION RIGHTS OFFERING

On January 16, 2001, the Company consummated a Subscription Rights Offering (the "Offering") whereby it distributed to stockholders of record at the close of business on December 11, 2000 transferable subscription rights to purchase additional shares of its common stock at a price of $19 per share. The Company used the net proceeds from the Offering, $29.6 million, to pay down debt and to provide additional working capital to enable it to pursue opportunities to develop its real estate holdings, including Tejon Industrial Complex and Tejon Mountain Village.

EXHIBIT 10.16

Ground Lease

Tejon Ranchcorp

and

Pastoria Energy Facility L.L.C.

This Lease is entered into as of July 19, 2001 between Tejon Ranchcorp, a California corporation ("Ranchcorp"), and Pastoria Energy Facility L.L.C., a Delaware limited liability company ("PEF"). Capitalized terms used in this Lease have the meanings stated in Section 23 or the provisions there referred to.

RECITALS

Ranchcorp is the owner of the Tejon Ranch. PEF is a special purpose entity created for the purpose of developing a combined-cycle, natural gas-fired combustion turbine merchant electric power plant to be located on a portion of the Tejon Ranch (the "Project"). Ranchcorp and PEF and certain of their Affiliates have agreed to work together toward development of the Project pursuant to a Transaction Agreement dated April 30, 1999, between the Tejon Interests and the Developer Interests (as originally executed and as thereafter amended (if at all) in accordance with its terms, the "Transaction Agreement"). Ranchcorp and PEF also are party to an Option Agreement dated April 30, 1999 (as originally executed and as thereafter amended (if at all) in accordance with its terms, the "Option Agreement"). This Lease is being entered into following PEF's exercise of the option contained in the Option Agreement.

IN THIS CONTEXT, the parties agree as follows:

Section 1. Premises

Ranchcorp leases to PEF, and PEF leases from Ranchcorp, that certain real property which is legally described in the attached Schedule 1 (the "Premises"). Notwithstanding the foregoing, the leasehold hereby conveyed does not include, and Ranchcorp expressly reserves to itself, all water, water rights and water stock (other than the right to use ground water from a well drilled for the purpose of providing basic water service to the Project only for drinking, bathrooms, kitchens, landscape irrigation and other comparable uses), minerals and mineral rights belonging to the Premises; provided that Ranchcorp shall have no surface rights related to any minerals or mineral rights, and shall not, in the exercise of any mineral rights, disturb the surface of the Premises, interfere with or disturb the occupancy or operations of PEF on the Premises, or drill at a depth which is less than five hundred (500) feet below the surface of the Premises.

Section 2. Term

2.1 Initial Term. The initial term of this Lease (the "Initial Term") shall commence upon the date of this Lease, and shall continue until the last day of the month containing the twenty-fifth (25th) anniversary of the Commencement Date, unless sooner terminated pursuant to the terms and conditions of this Lease. The "Commencement Date" is the earlier of (x) the Commercial Operation Date, and (y) the Nominal COD. The "Commercial Operation Date" is the date on which PEF, following completion of customary commissioning and testing of the Project, formally accepts the Project from its construction contractor as available for commercial operation for the purpose of producing electric energy and/or of providing Ancillary Services for sale to wholesale, retail or other purchasers on a continuous basis. The "Nominal COD" is the third anniversary of the date of this Lease; provided, if construction, commissioning or testing of the Project shall be delayed for any number of days by any Excepted Cause(s), the Nominal COD shall be extended by the same number of days. In that event, PEF must provide notice thereof to Ranchcorp within fifteen (15) days of the commencement of the Excepted Cause and if it fails to deliver timely notice, the date of the commencement of the Excepted Cause shall be deemed to have occurred no earlier than fifteen (15) days prior to the date notice is delivered. PEF also shall notify Ranchcorp in writing when the Commercial Operation Date has occurred, which notice shall also identify the date of expiration of the Initial Term.

2.2 Option to Extend. Ranchcorp grants to PEF an option to extend the Initial Term for three additional five (5) year periods (each an "Extended Term"). This option to extend shall be exercised by PEF by giving Ranchcorp written notice of its intent to extend this Lease not less than twelve (12) months, nor more than twenty-four (24) months, prior to the expiration of the preceding Term. Each Extended Term shall be on the same terms, covenants and conditions as provided in this Lease. As used in this Lease, the word "Term" means the Initial Term and, after exercise of any option to extend pursuant to this Section 2.2, includes any Extended Term.

2.3 Possession. Possession of the Premises shall be delivered to PEF on the date of this Lease.

Section 3. Rent

3.1 Fixed and Variable Rent. PEF shall pay rent to Ranchcorp during the Term in a fixed component and a variable component. The fixed component, as described in Section 3.2 (the "Fixed Rent"), shall be paid monthly in advance on or before the first day of each month for which it is payable. The variable component is described in Section 3.4 (the "Variable Rent"), and shall be payable as set forth in that Section. All sums due under this Lease, whether payable to Ranchcorp or to third parties, shall be defined as "Rent" for the purposes of enforcement of this Lease.

3.2 Fixed Rent After Commercial Operation.

(a) PEF shall pay Fixed Rent in the amount of $216,666.66 per month for the month in which the Commencement Date occurs and for each month thereafter during the Term until PEF completes decommissioning of the Project under Section 8.13, provided, however, that Fixed Rent shall be fully abated from the date on which PEF commences decommissioning the Project and for each month thereafter until the earlier of (x) completion of decommissioning or (y) twelve (12) months after PEF commences decommissioning. PEF shall be deemed to have commenced decommissioning on the day it permanently ceases operation of the Project to produce electric energy or to provide Ancillary Services. Completion of decommissioning means that all Improvements and personal property have been removed from the Premises to the extent required by Section 8.13 and the Premises have been restored to their pre-construction condition. Fixed Rent for any partial month at the beginning or end of the Term shall be prorated based on a 30-day month.

(b) The Fixed Rent shall be escalated on each anniversary of the first day of the month in which the Commencement Date occurs by an amount reflecting the annual percentage increase (if any) in the Consumer Price Index for All Urban Consumers, Los Angeles-Anaheim-Riverside Area, All Items (Base Year 1982-1984 = 100), published by the United States Department of Labor, Bureau of Labor Statistics (the "CPI"), during the twelve-month period from the date that is fifteen (15) months prior to the date of the escalation to the date that is three (3) months prior to the date of the escalation. In the event the CPI is ever discontinued, the parties shall substitute any generally recognized successor or substitute index published by a governmental agency and reflecting changes in consumer prices in the greater Los Angeles area.

(c) Notwithstanding the foregoing, in the event "C" (as defined in Section 3.4(c)) is less or more than 750 megawatts ("MW"), the monthly Fixed Rent payable under Section 3.2(a) will be adjusted as follows:

(i) In the event C exceeds 750 MW, the monthly Fixed Rent payable under Section 3.2(a) (as adjusted if at all under Section 3.2(b)) shall be increased by that percentage which is equal to:

$$(x - 750)/750$$

where "x" is equal to the lesser of C and 1000 MW.

(ii) In the event C is less than 750 MW, the monthly Fixed Rent payable under Section 3.2(a) (as adjusted if at all under Section 3.2(b)) shall be decreased by that percentage which is equal to:

$$(750 - y)/750$$

where "y" is equal to the greater of C and 600 MW.

(d) The monthly Fixed Rent payable under Section 3.2(a) shall be increased by $0.1667 per foot for every linear foot of flood control berms which PEF locates off the Premises in "Parcel D" (as defined in the Project Easement Agreement); provided, there shall be no change in any of the payments required under this Section 3.2(d) in the event of any relocation of the berms at Ranchcorp's request under the Project Easement Agreement.

(e) In the event the Project does not utilize air cooled condensers as either its primary or backup cooling source, the monthly Fixed Rent payable under Section 3.2(a) shall be increased by $1,666.67 per acre for every acre by which the Project Site exceeds 30 acres.

3.3 Advances Against Fixed Rent. Commencing on the first day of the month next succeeding the month in which this Lease is executed and continuing on the first day of each month thereafter until the earlier of the Commercial Operation Date and the date on which $2.4 million has been advanced by PEF under this Section 3.3, PEF will advance the sum of $100,000 per month to Ranchcorp. All portions of such advances that Ranchcorp has not previously repaid, plus interest thereon at the rate of 10 percent per annum without compounding from the date of advance until the date of repayment, shall be credited against the Fixed Rent payments (if any) required from PEF under Section 3.2, in equal monthly amounts calculated to repay all such advances, plus the prescribed interest, to PEF over the first four years after PEF begins paying Fixed Rent under Section 3.2. In the event that this Lease is terminated before all advances have been repaid, Ranchcorp shall be entitled to retain, and shall have no obligation to repay any portion of, any advances it received from PEF pursuant to this Section prior to termination of this Lease.

3.4 Variable Rent.

(a) Payable After Commercial Operation. The Variable Rent payable under this Section 3.4 is payable for the calendar month in which the Commercial Operation Date occurs and for each calendar month thereafter through and including the calendar month in which this Lease terminates. The Variable Rent payable under this Section 3.4 for any calendar month shall be due and payable within 20 days after the end of that calendar month. Each payment of Variable Rent under this Section 3.4 shall be accompanied by PEF's detailed calculation of the amount due and shall include the statement required from PEF under Section 3.4(e).

(b) Basic Calculation. The Variable Rent payable for a calendar month under this Section 3.4 will be an amount equal to 1 percent (1%) of the Spark Spread for that calendar month.

(c) Spark Spread. The "Spark Spread" for any calendar month is an amount equal to:

$$H \times [(C \times PX) - (HR \times C \times GP)]$$

where:

"H" is equal to the aggregate number of Revenue Hours occurring during the calendar month; and

"C" is equal to the maximum electrical output of the Project (expressed in MW) which is guaranteed to PEF by its contractor for construction of the Project.

"PX" is equal to the quotient of (x) the sum of the PX Prices for each Revenue Hour occurring during the calendar month, divided by (y) the aggregate number of Revenue Hours occurring during the calendar month; and

"HR" is equal to 7.250; and

"GP" is equal to the quotient of (x) the sum of the Daily Gas Prices for each Revenue Day during the calendar month, divided by (y) the aggregate number of Revenue Days occurring during the calendar month.

(d) Other Defined Terms.

Ancillary Services -- has the meaning specified in the ISO Tariff.

Daily Gas Price - for any Revenue Day is the daily price (expressed in $/MMBTU) of natural gas at the California-Arizona border, as published by Gas Daily for the Revenue Day under the "Others" table, under the heading titled "SoCal gas, large packages (deliveries at Topock, Daggett, Blythe, Needles, Ehrenberg)."

Gas Daily - Pasha Publications' Gas Daily, and any successor thereto.

ISO -- the California Independent System Operator Corporation, a California non-profit corporation, and any successor thereto

ISO Controlled Grid - the transmission lines and associated facilities controlled by the ISO.

ISO Tariff -- the California Independent System Operator Agreement and Tariff dated March 31, 1997, as modified through the date of this Agreement.

ISO Zone - the ISO zone in which the Pastoria substation may from time to time be located. The Pastoria Substation currently is located in (and the ISO Zone therefore currently is at the date of the Transaction Agreement) the ISO zone known as SP 15.

Pastoria Substation - the electrical substation through which the Project delivers electrical energy to the ISO Controlled Grid, planned at the date of the Option Agreement to be the substation located in the vicinity of hypothetical Section 19, Township 10 North, Range 18 West, SBBM, in Rancho El Tejon, Kern County, California.

PX - the California Power Exchange Corporation, a California non-profit corporation, and any successor thereto.

PX Price -- for any Revenue Hour is the Day Ahead Zonal Price (Constrained) for that Revenue Hour for the ISO Zone as published by the PX.

Revenue Day -- any calendar day during which a Revenue Hour occurs.

Revenue Hour -- any hour for which the Project is paid to produce electric energy or to provide Ancillary Services.

(e) Audit Rights. PEF shall provide to Ranchcorp monthly with PEF's payment of the Variable Rent provided for in this Section 3.4 a statement of the total Revenue Hours which occurred during the month for which the Variable Rent is payable. No more frequently than once each year, PEF shall, upon Ranchcorp's request, afford Tejon access to PEF's books and records during normal business hours for the purpose of verifying (and to the extent necessary to verify) the accuracy of PEF's statements as to the Revenue Hours occurring during any period not previously audited by Ranchcorp or previously reported on by a Big 6 Firm pursuant to this Section 3.4(e). In lieu of such access, PEF may instead elect to provide such access to a Big 6 Firm which Ranchcorp selects and to cause such firm to report, based on its examination of PEF's books and records, as to the number of Revenue Hours which occurred during such period. Any such report shall be conclusive as the subject thereof. All information to which Tejon or a Big 6 Firm is afforded access or which Tejon otherwise learns pursuant to this Section 3.4(e) shall be deemed "Confidential Information" for purposes of the Confidentiality Agreement referred to in Section 9 of the Transaction Agreement. "Big 6 Firm" means as of any given date of determination any of the six largest national accounting firms as of the determination date.

(f) Changes. In the event of any change in the tariffs, practices or operations of the PX, the ISO or Gas Daily subsequent to the date of the Transaction Agreement which results in any of the following:

(i) The PX Price not being published by the PX as necessary to permit the calculation of Variable Rent payable under this Section 3.4;

(ii) The PX Price being materially less representative than on the date of the Transaction Agreement of the day ahead wholesale market price of electric energy delivered to the ISO Zone; or

(iii) GP not being published by Gas Daily as necessary to permit the calculation of Variable Rent payable under this Section 3.4; or

(iv) GP being materially less representative than on the date of the Transaction Agreement of the wholesale price of natural gas delivered at the Arizona/California Border (Topock, Daggett, Blythe, Needles, Ehrenberg) in volumes of 5,000 MMBTU or more per day;

then, promptly upon request by either Ranchcorp or PEF, the parties will meet and attempt to agree on one or more amendments to this Lease which will permit the Spark Spread to be calculated, as near as practicable, on the same basis and with the same results as it was calculated prior to the change. In the event the parties are unable to agree on any such amendment thought by either party to be necessary, the matter shall be settled by binding arbitration under Section 12 of the Transaction Agreement.

3.5 Late Charge. For any payment of Fixed Rent or Variable Rent not paid within ten (10) days after the date it is due, PEF shall pay Ranchcorp, as additional Rent, a late charge equal to one percent (1%) of the amount past due as compensation to Ranchcorp for the extra costs incurred as a result of the late payment. With any Fixed Rent or Variable Rent Payment that PEF makes more than 30 days after it was due, PEF shall also pay interest on the overdue amount calculated at the lesser of 18 percent per annum or the maximum rate allowed by law, without compounding, from the day after the payment was due until the date such Rent is paid in full. For any other Rent payment not paid within ten (10) days after the date it is due, PEF shall pay Ranchcorp, as additional Rent, a late charge equal to three percent (3%) of the amount past due as compensation to Ranchcorp for the extra costs incurred as a result of the late payment. With any other Rent payment that PEF makes more than 30 days after it was due, PEF also shall pay interest on the overdue amount calculated at the lesser of 10% per annum or the maximum rate allowed by law, without compounding, from the day after the payment was due until the date such Rent is paid in full. The parties agree that the late charge and the interest prescribed by this section represent fair and reasonable estimates of the detriment that Ranchcorp will suffer by reason of late payment of Rent by PEF.

3.6 Real Estate Taxes and Assessments. As additional rent ("Additional Rent") payable under this Lease, PEF shall pay before delinquency all real and personal property taxes, general and special assessments, levies and other governmental charges of every description (the "Property Taxes") which are levied, assessed, charged or imposed upon or against the Premises or the Project (the Project and all other improvements to the Premises and all alterations, additions or improvements to any thereof are referred to in this Lease as the "Improvements"), or against any legal or equitable interest of Ranchcorp in the Premises, or against any of PEF's personal property now or hereafter located on the Premises, for or attributable to any portion of the Term. Ranchcorp shall cause the Premises to be separately assessed from any other real property owned by Ranchcorp. All Property Taxes required to be paid by PEF shall be prorated for the first year of the Term and for the year in which the Lease expires or terminates. If the law permits the payment of the Property Tax in installments (whether or not interest accrues on the unpaid balance) PEF may elect to pay the tax before delinquency in installments.

Ranchcorp will promptly notify PEF of all notices, levies and assessments of Property Taxes received in connection with the Premises, and PEF shall pay them prior to delinquency, provided, however, PEF may, at its expense , contest in all desirable proceedings the validity of, amount of, or assessment of any Property Tax agreed to be paid by PEF, provided, however, that PEF at all times shall keep the Premises free from any delinquent tax lien. Any penalty, interest or delinquency charge that may result from the contest shall be the obligation of PEF. Ranchcorp shall not be required to join in any proceeding or contest brought by PEF unless the provisions of any law require that the proceeding or contest be brought by or in the name of the fee owner of the Premises. In that case, Ranchcorp shall join in the proceeding or contest or permit it to be brought in Ranchcorp's name and all costs, including Ranchcorp's attorneys' fees, shall be borne by PEF. Ranchcorp agrees to execute any documents necessary to perfect PEF's right of contest as provided for in this Section.

3.7 Apportionment of Property Taxes. In the event that the Premises are included in the same tax parcel as other real or personal property owned by Ranchcorp, Ranchcorp and PEF agree to cooperate in requesting that the Premises be separately assessed from other property owned by Ranchcorp. In the event that the Premises are included in a tax bill with other property owned by Ranchcorp, Ranchcorp shall pay the property tax bill before delinquency and PEF shall reimburse Ranchcorp for the portion of the tax bill attributable to the land and Improvements comprising the Premises, based on the actual assessed value of the land and Improvements comprising the Project. Any dispute between the parties regarding the amount of PEF's property tax obligation under this section shall be resolved by arbitration as provided by Section 12 of the Transaction Agreement.

3.8 Other Taxes. Property Taxes shall not include and PEF shall not be required to pay the following: water district assessments and liens, business, income or profit taxes levied or assessed against Ranchcorp by federal, state, county, municipal or other governmental agencies, estate, succession, or inheritance tax, or capital levy of Ranchcorp; or corporation, franchise or other profit taxes imposed on Ranchcorp; any net income, profits or excess profits taxes, or any tax which may, at any time during the Term, be required to be paid on any gift or demise, deed, mortgage, descent or other alienation of any part or all of the estate of Ranchcorp in and to the Premises or the Improvements, provided, however, that PEF shall pay any recording costs or documentary transfer taxes or fees arising from execution of this Lease or from recording a memorandum of this Lease.

3.9 Deferral. PEF shall have the right to allow any assessment or any other charge PEF is required to pay as Additional Rent to go to bond or otherwise defer payment thereon, other than through voluntary delinquency, for the maximum lawful period, provided that PEF shall not permit any liens for delinquent taxes or other assessments to be placed on the Premises. Regardless of whether any such obligation is so deferred, PEF shall be liable for any portion of the obligation, plus any applicable interest, which applies or is attributable to any portion of the Term.

3.10 No Abatement. Except as otherwise expressly provided in this Lease, this Lease shall continue in full force and effect, and the obligations of PEF hereunder shall not be released, discharged or otherwise affected, by reason, of: (a) any damage to or destruction of the Premises or any portion thereof or any Improvements thereon, or any Taking thereof in eminent domain; (b) any restriction or prevention of or interference with any use of the Premises or the Improvements or any part thereof; (c) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other proceeding relating to Ranchcorp, PEF, or any subtenant, licensee or concessionaire or any action taken with respect to this Lease by a trustee or receiver, or by any court, in any proceeding; (d) any claim that PEF or any other person has or might have against Ranchcorp; (e) any failure on the part of Ranchcorp to perform or comply with any of the terms of this Lease or of any other agreement with Ranchcorp; (f) any failure on the part of any sublessee, licensee, concessionaire, or other person to perform or comply with any of the terms of any sublease or other agreement between Ranchcorp and any such person; (g) any termination of any sublease, license or concession, whether voluntary or by operation of law; or (h) any other occurrence whatsoever, whether similar or dissimilar to the foregoing. The obligations of PEF under this Lease shall be separate and independent covenants and agreements. PEF hereby waives, to the full extent permitted by applicable law, all rights now or hereafter conferred by statute, including without limitation the provisions of California Civil Code Sections 1932, 1933, 1941 or 1942 or any similar law, to quit, terminate or surrender this Lease or the Premises or any part thereof, or to any abatement, suspension, deferment, diminution or reduction of any Rent, unless otherwise expressly provided in this Lease.

3.11 Effect on Ranchcorp's Rights. Ranchcorp's rights pursuant to this Section 3, including without limitation, Ranchcorp's rights to collect Rent, Additional Rent and other charges due under this Lease for any period during which this Lease is in effect, shall survive any termination of the Lease, regardless of the provision under which termination is effected. Notwithstanding anything to the contrary contained herein, Ranchcorp shall have no obligation or duty to mitigate or attempt to offset any damages which are or may be suffered by Ranchcorp as a result of any default of PEF under this Lease; provided that PEF shall retain its rights under Sections 18.1 (b) and (c) to submit proof as to the rental loss that Ranchcorp could avoid by such mitigation. Any payment by PEF of a sum of money less than the entire amount due Ranchcorp at the time of such payment shall be applied to the obligations of PEF then furthest in arrears. No endorsement or statement on any check or accompanying any payment shall be deemed an accord and satisfaction and any payment accepted by Ranchcorp shall be without prejudice to Ranchcorp's right to obtain the balance due or to pursue any other remedy available to Ranchcorp under this Lease or in law or equity for any default still outstanding.

Section 4. Priority

PEF shall not be required to subordinate the leasehold estate created by this Lease to any lien or encumbrance whatsoever. Ranchcorp shall have no obligation to subordinate its interest in this Lease, or in the rents deriving from it, or its fee interest in the Premises to any liens or encumbrances related to any leasehold or project financing arranged by or on behalf of PEF.

Section 5. Quiet Enjoyment.

Upon the payment by PEF of Rent and upon the performance of all covenants, terms and conditions on PEF's part required to be observed and performed, PEF shall peaceably and quietly hold and enjoy the Premises without hindrance or interruption by Ranchcorp or any other Person lawfully or equitably claiming by, through, or under Ranchcorp.

Ranchcorp agrees that during the Term:

(i) Neither Ranchcorp nor any of Ranchcorp's Agents will commit or permit waste or create a nuisance that affects the Premises.

(ii) Neither Ranchcorp nor any of Ranchcorp's Agents will unlawfully Release a Hazardous Substance on, about or beneath any portion of the Tejon Ranch which affects surface water or groundwater, or the surface or subsurface environment, of the Premises. In the event any unlawful Release of a Hazardous Substance to the environment occurs on or about or beneath any portion of the Tejon Ranch which affects the Premises as a result of any act or omission of Ranchcorp or Ranchcorp's Agents, Ranchcorp shall promptly undertake reasonable measures to abate the unlawful Release at Ranchcorp's sole cost, and to remediate to the extent required by and in accordance with applicable

Environmental Laws and at Ranchcorp's sole cost any portion of such Release that affects the Premises. Ranchcorp shall indemnify, defend, protect and hold PEF harmless from and against any and all claims, losses, damages, liabilities and costs, including without limitation reasonable consultants' and attorneys' fees and costs, arising out of or relating to the presence of Hazardous Substances on or about the Premises as a result of any act or omission of Ranchcorp or Ranchcorp's Agents.

(iii) Neither Ranchcorp nor any of Ranchcorp's Agents will use any portion of the Tejon Ranch within one mile of the Premises for a purpose which could be reasonably anticipated to interfere materially with, or to be incompatible with, PEF's permitted use of the Premises, provided that PEF acknowledges that the gravel quarry and permanent crops, and operations related to those uses, as conducted at the date of the Option Agreement in such portions of the Tejon Ranch are compatible with PEF's use of the Premises and do not contravene this Section 5.

Except as otherwise expressly provided in this Section 5, nothing in this Lease shall limit or restrict in any way Ranchcorp's rights to develop or use any portion of the Tejon Ranch as it deems appropriate in its sole and absolute discretion.

Section 6. Use; Operation of the Project.

6.1 Use.

(a) PEF shall have the right to use the Premises for the purposes of (i) constructing, maintaining and decommissioning the Project, (ii) operating the Project for the purpose of producing and selling electric energy and providing Ancillary Services, and (iii) undertaking other lawful uses incidental to the production of electricity and the provision of the Ancillary Services, all such purposes to be in accordance with all present and future zoning laws, rules and regulations of governmental authorities having jurisdiction over the Premises.

(b) PEF (i) shall not undertake or permit any subsurface drilling on the Premises other than that required for constructing and maintaining foundations for structures, for installing well(s) for the production of basic water service to the Project only for drinking, bathrooms, kitchens, landscape irrigation and other comparable uses and for installing pipelines and other underground facilities that are integral parts of the Project; and (ii) shall refrain from entering into any transactions or agreements, and from providing any services in a manner, that would cause PEF or the Project to become a public utility subject to the regulatory jurisdiction of the Public Utilities Commission of the State of California.

(c) All uses of the Premises other than the permitted uses described in this Section 6 are prohibited.

6.2 Operation of the Project. At all times after the Commercial Operation Date, the Project shall be operated, maintained and managed (either directly by PEF or its permitted successors and assigns through its or their own employees or those of its or their Affiliates or indirectly through independent contractors employed by it or them) by persons experienced in operating gas-fired electric power generation facilities of at least 300 MW in the aggregate, including at least one gas-fired facility of at least 110 MW.

6.3 Compliance With Law. PEF, at PEF's cost and expense, shall comply with all Applicable Laws. Any work or installations made or performed by or on behalf of PEF or any person or entity claiming through or under PEF in order to conform the Premises to Applicable Laws shall be subject to and performed in compliance with the provisions of Section 9. PEF shall promptly notify Ranchcorp of, and shall promptly rectify, any violation of Applicable Laws.

6.4 No Waste or Nuisance. PEF shall not commit or permit waste or create or permit a nuisance upon the Premises or create same upon any other land or waters owned by Ranchcorp.

Section 7. Utilities

PEF shall pay for all water, sewer, gas, heat, light, power, steam, communications, waste removal and other utilities and services supplied to the Premises and the Improvements.

Section 8. Improvements, Alterations and Personal Property.

8.1 Construction of the Project. PEF hereby is granted permission, at PEF's sole cost and expense and if PEF elects, to design, develop, construct operate and maintain the Project in such manner as PEF deems appropriate, subject always however to the requirements of this Lease, and the Final Project Decision. PEF is under no obligation to develop, construct, operate or maintain the Project, and may decline to do so for any or no reason PEF deems appropriate.

8.2 Additional Improvements; Alterations. PEF shall have the right to construct additional improvements and alterations to the Project on the Premises ("Alterations") without the consent of Ranchcorp provided all such Alterations are permitted uses under Section 6.1. Any Alterations shall be at PEF's sole cost and expense, and shall be subject to the terms of this Section 8.

8.3 Permits and Approvals. PEF shall be solely responsible for obtaining, at its sole cost and expense, any approval or other governmental action necessary to permit the development, construction, operation and decommissioning of the Project and any Alterations in accordance with this Lease; provided Ranchcorp shall support PEF's activities as provided in the Transaction Agreement.

8.4 Prerequisites to Commencement of Construction.

(a) In addition to all other requirements set forth in this Section 8, before commencing the construction of the Project or any Alterations and before any building materials have been delivered to the Premises by PEF or under PEF's authority, PEF shall obtain and maintain, or cause to be obtained and maintained, at its own expense, the following insurance coverage in full force and effect to cover all activities contemplated herein throughout the term of this Lease, unless otherwise specified:

  (i) Broad form commercial general liability insurance, including products, completed operations and contractual liability coverage in limits of not less than $1 million per occurrence combined single limit for bodily injury and property damage. This insurance shall include coverage related to any construction exposure.

  (ii) Statutory workers' compensation insurance in legally required limits.

(iii) Employers' liability insurance with limits of not less than $1 million per occurrence.

(iv) Excess liability insurance providing excess commercial general liability, automobile liability and employers' liability insurance with a limit not less than $24 million per occurrence.

(v) At the sole discretion of PEF, either (A) pollution liability insurance, including liability and site remediation coverage for both sudden and accidental and non-sudden occurrences with limits of the greater of $5 million per occurrence combined single limit for bodily injury and property damage with $5 million annual aggregate, or such limits as may be required according to applicable CFR Codes of the State of California, or (B) in the event that PEF elects, in its sole discretion, not to obtain and maintain, or cause to be obtained and maintained, pollution liability insurance as contemplated by this Section 8.4(a)(v), PEF shall cause a guaranty, in form and substance substantially equivalent to the decommissioning security contemplated by Section 8.14, or otherwise in form and substance satisfactory to Ranchcorp, to be issued by Calpine Corporation, a Delaware corporation ("Calpine"), in favor of Ranchcorp (a "Calpine Guaranty"), guaranteeing the payment and performance of all of PEF's obligations under Section 10, up to a maximum guaranteed amount of $5,000,000 per occurrence, with a $5,000,000 annual aggregate limit for all occurrences in any calendar year.

If PEF has elected under Section 8.4(a)(v) not to maintain, or cause to be maintained, the pollution liability insurance as contemplated in Section 8.4(a)(v)(A) and either the tangible net worth (as such term is defined under generally accepted accounting principles ("GAAP")) of Calpine shall be less than Four Hundred Fifty Million Dollars ($450,000,000), or any voluntary or involuntary bankruptcy proceeding has been commenced against Calpine, then PEF shall promptly, and in any event within the number of days specified below, obtain or cause to be obtained either (1) pollution liability insurance satisfying the requirements of Section 8.4(a)(v)(A) within 45 days after PEF acquires actual knowledge of the decrease in net worth or the commencing of bankruptcy proceedings as contemplated above, or (2) replacement security for such Calpine Guaranty provided pursuant to Section 8.4(a)(v) within 15 business days after PEF acquires actual knowledge of the decrease in net worth or the commencing of bankruptcy proceedings as contemplated above, which replacement security shall be reasonably satisfactory to Ranchcorp, and it being acknowledged and agreed by Ranchcorp that either (x) a replacement guaranty issued by an affiliate of Calpine which maintains a tangible net worth (as defined under GAAP) of not less than Four Hundred Fifty Million Dollars ($450,000,000), in form and substance substantially equivalent to the Calpine Guaranty being replaced, (y) cash or cash-equivalents of not less than $5,000,000, which are pledged as collateral security for PEF's obligations under Section 8.4(a)(v)(B) to Ranchcorp pursuant to a security agreement in form and substance reasonably satisfactory to Ranchcorp which, together with any additional documents or instruments provided by or on behalf of PEF, provide a perfected, first-priority security interest in and to such collateral to Ranchcorp, or (z) a letter of credit drawable in the United States of America in form and substance reasonably satisfactory to Ranchcorp and in a stated amount of not less than $5,000,000 issued by a banking institution (such banking institution meeting the requirements of this Section 8.4(a)(v), a "LOC Bank") organized in the United States or in another country but having a place of business in the United States engaged in the banking business, the senior long-term unsecured United States Dollar-denominated debt obligations of which are rated A or better by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto ("S&P") or the equivalent rating by Moody's Investors Service, Inc. and any successor thereto ("Moody's"), naming Ranchcorp as the beneficiary thereof, shall be deemed to be reasonably satisfactory to Ranchcorp.

(vi) Business automobile liability insurance covering all owned and non-owned and hired vehicles in limits of not less than $1 million per occurrence combined single limit for bodily injury and property damage, including all statutory coverage for all states of operation.

(vii) "All-risk" property insurance insuring all real and personal property at full replacement cost value, together with rent coverage/business interruption insurance in an amount necessary to satisfy PEF's rent obligations under this Lease or, if PEF does not maintain such rent coverage insurance with Ranchcorp as the loss payee thereof, PEF shall cause to be issued a Calpine Guaranty guaranteeing the payment of the Fixed Rent during the duration of any business interruption event (as defined below) with respect to PEF, up to a maximum amount of two (2) years of Fixed Rent with respect to each such occurrence of a business interruption event, in each case, to the extent such Fixed Rent is due and payable pursuant to Section 3.2 hereof and is not otherwise paid from any other source. For purposes of this Section 8.4(a)(vii), a "business interruption event" shall mean an event which results in the necessary interruption or reduction of business operations that are conducted by PEF with respect to the Project and are caused by any loss, damage or destruction by any of the perils that are not excluded under the property casualty insurance then maintained by or on behalf of PEF with respect to the Project.

(b) The coverages obtained by PEF pursuant to this Section shall be with insurance companies with Best's Insurance Guide Rating of A:VIII or better (or an equivalent rating by another nationally recognized insurance rating agency of similar standing if Best's Insurance Guide and Key Ratings shall no longer be published).

(c) PEF shall ensure that each subcontractor shall procure and maintain at all times during the period of its performance of work with respect to the Project such insurance as shall be reasonable and in accordance with industry practices in relation to the work being performed or services provided and as is customary for companies of similar size engaged in similar businesses. Despite any conflicting provision in PEF's or any subcontractor's insurance policies to the contrary, any comparable insurance carried by Ranchcorp which may be applicable shall be deemed to be excess insurance. All insurance required pursuant to this Section shall be primary for all purposes under this Agreement and all of the insurance to be carried by PEF or any subcontractor pursuant to this Section shall so provide.

(d) All liability insurance coverage required under this Lease (except for workers' compensation coverages) shall, to the extent available and on reasonable commercial terms, include Ranchcorp and its directors, officers, agents and employees and Covered

Lenders as additional insureds and provide coverage on an occurrence basis or another basis substantially equivalent to that. "Covered Lenders" means lenders having as security for the obligations owed to them all or any part of the Premises or the Easement Parcels (as defined in the Option Agreement). All such policies shall contain "cross-liability" or "severability of interest" clauses or endorsements. Notwithstanding any other provision of such policies, the insurance afforded shall apply separately to each insured, named insured, or additional insured with respect to any claim, suit, or judgment made or brought by or for any other insured, named insured, or additional insured as though a separate policy had been issued to each, except the insurer's liability shall not be increased beyond the amount or amounts for which the insurer would have been liable had only one insured been named. Ranchcorp shall not, by reason of its inclusion under any of these policies, incur liability to the insurance carrier for the payment of any premium.

(e) PEF and Ranchcorp shall require their insurance carriers, with respect to all insurance policies to be carried with respect to the Project, to waive all rights of subrogation against each other and, in the case of PEF, such waivers shall include Ranchcorp and Ranchcorp's directors, officers, agents and employees. PEF agrees to exercise its reasonable efforts to obtain from any subcontractor waivers of subrogation against Ranchcorp and Ranchcorp's directors, officers, agents and employees.

(f) Any insurance required to be obtained and maintained by PEF shall be subject to either (A) a deductible not exceeding $100,000 (the "Maximum Deductible Amount") per policy period, or (B) a deductible amount per policy period satisfactory to PEF that exceeds the Maximum Deductible Amount (a "PEF Deductible Amount"); *provided*, that, in the event that Ranchcorp has incurred any loss or has any claim for which insurance proceeds would have been payable under the insurance then required to be maintained by PEF under Section 8.4(a) but for the fact that the deductible amount exceeded the Maximum Deductible Amount, PEF shall pay to Ranchcorp an amount (the "PEF Deductible Payment") equal to the additional amount of the insurance proceeds which would have been paid to Ranchcorp pursuant to such loss or claim under such insurance policy then required to be maintained by PEF under Section 8.4(a), but for the fact that such insurance policy was subject to the PEF Deductible Amount and not the Maximum Deductible Amount.

If PEF elects to maintain any insurance policy required pursuant to Section 8.4(a) which is subject to a PEF Deductible Amount rather than a Maximum Deductible Amount, PEF shall cause a Calpine Guaranty, guaranteeing payment to Ranchcorp of any PEF Deductible Payment, if and to the extent that such PEF Deductible Payment becomes due and payable under this Section 8.4(f), to be issued in favor of Ranchcorp. If during any period that a Calpine Guaranty is required to be maintained hereunder, either the tangible net worth (as such term is defined under GAAP) of Calpine shall be less than Four Hundred Fifty Million Dollars ($450,000,000), or any voluntary or involuntary bankruptcy proceeding has been commenced against Calpine, then PEF shall promptly, and in any event within the number of days specified below, obtain or cause to be obtained either (1) insurance satisfying the requirements of Section 8.4(a) which is subject to the Maximum Deductible Amount within 45 days after PEF acquires actual knowledge of the decrease in net worth or the commencing of bankruptcy proceedings as contemplated above, or (2) replacement security for such Calpine Guaranty provided pursuant to this Section 8.4(f) within 15 business days after PEF acquires actual knowledge of the decrease in net worth or the commencing of bankruptcy proceedings as contemplated above, which replacement security shall be reasonably satisfactory to Ranchcorp, it being acknowledged and agreed by Ranchcorp that either (x) a replacement guaranty issued by an affiliate of Calpine which maintains a tangible net worth (as defined under GAAP) of not less than Four Hundred Fifty Million Dollars ($450,000,000) in form and substance substantially equivalent to the Calpine Guaranty being replaced, (y) cash or cash-equivalents of not less than the excess of the PEF Deductible Amount over the Maximum Deductible Amount, which are pledged as collateral security for PEF's obligations for any PEF Deductible Payment, pursuant to a security agreement in form and substance reasonably satisfactory to Ranchcorp which, together with any additional documents or instruments provided by or on behalf of PEF, provide a perfected, first-priority security interest in and to such collateral to Ranchcorp, or (z) a letter of credit to be drawable in the United States in form and substance reasonably satisfactory to Ranchcorp and in a stated amount of not less than the excess of the PEF Deductible Amount over the Maximum Deductible Amount issued by an LOC Bank, naming Ranchcorp as the beneficiary thereof, shall be deemed to be reasonably satisfactory to Ranchcorp.

(g) In the event any insurance hereby required to be maintained by PEF, other than insurance required by law to be maintained, shall not be available and commercially feasible in the commercial insurance market, Ranchcorp shall not unreasonably withhold its agreement to waive such requirement to the extent maintenance thereof is not so available; provided, however, that (i) PEF shall first request any such waiver in writing, which request shall be accompanied by a letter from a licensed insurance advisor of recognized national standing certifying that such insurance is not reasonably available and commercially feasible in the commercial insurance market for electric generating plants of similar type and capacity as the Project and explaining in detail the basis for such conclusions, such insurance advisor and the form and substance of such reports to be reasonably acceptable to Ranchcorp; (ii) at any time after the granting of any such waiver, Ranchcorp may request, and PEF shall furnish to Ranchcorp within thirty (30) days after such request, supplemental reports reasonably acceptable to Ranchcorp from such insurance advisor updating its prior report and reaffirming such conclusion; and (iii) any such waiver shall be effective only so long as such insurance shall not be available and commercially feasible in the commercial insurance market, it being understood that failure of PEF to timely furnish any requested supplemental report shall be conclusive evidence that such waiver is no longer effective because such condition no longer exists, but that such failure is not the only way to establish such nonexistence. Failure at any time to satisfy the conditions to any waiver of an insurance requirement set forth in the proviso to the preceding sentence shall not impair or be construed as a relinquishment of PEF's ability to obtain a waiver of an insurance requirement pursuant to the preceding sentence at any other time upon satisfaction of such conditions.

(h) PEF shall furnish Ranchcorp with certificates of insurance on forms acceptable to Ranchcorp to evidence that policies providing the required coverage and limits of insurance for PEF are in full force and effect. The certificates shall provide that any company issuing an insurance policy under this Agreement shall provide not less than thirty (30) days' advance notice in writing to Ranchcorp prior to cancellation, termination, or material change of any policy of insurance and ten (10) days' advance notice in writing to Ranchcorp prior to cancellation for non-payment. In addition, PEF shall immediately provide written notice to Ranchcorp upon receipt of notice of cancellation of an insurance policy or decision to terminate or materially change an insurance policy. All certificates of insurance shall clearly state that all applicable requirements of this

Section have been satisfied. Certificates of insurance for insurance to be furnished by PEF pursuant to this Section and notices of any cancellations, terminations, or alterations of such policies shall be mailed to Ranchcorp at the address set forth for notices to Ranchcorp in this Lease.

(i) The coverage requirements set forth in this Section shall be adjusted every five years, commencing in 2004, by an amount reflecting the annual percentage increase (if any) in the CPI, during the twelve-month period from the date that is fifteen (15) months prior to the date of the escalation to the date that is three (3) months prior to the date of the escalation. In the event the CPI is ever discontinued, the parties shall substitute any generally recognized successor or substitute index published by a governmental agency and reflecting changes in consumer prices in the greater Los Angeles area.

8.5 General Construction Requirements.

(a) PEF shall construct the Project and any Alterations in strict accordance with all Applicable Laws, and with all other provisions of this Lease.

(b) Prior to the commencement of construction, Ranchcorp shall have the right to post in a conspicuous location on the Premises as well as to record in the Official Records of Kern and Los Angeles Counties, a Notice of Ranchcorp's Nonresponsibility. PEF covenants and agrees to give Ranchcorp at least ten (20) days prior written notice of the commencement of any construction.

(c) PEF shall take all necessary safety precautions during any construction.

8.6 Construction Completion Procedures.

(a) On completion of the construction of the Project or any Alterations during the Term, PEF shall file for recordation, or cause to be filed for recordation, a notice of completion. PEF hereby appoints Ranchcorp as PEF's attorney-in-fact to file the notice of completion on PEF's failure to do so after the work of improvement has been substantially completed.

(b) On completion of construction of the Project or any Alterations, PEF shall deliver to Ranchcorp evidence satisfactory to Ranchcorp of payment of all costs, expenses, liabilities and liens arising out of or in any way connected with such construction (except for liens that are contested in the manner provided in this Lease).

8.7 Mitigation Measures. PEF will incorporate into the design, construction and operation of the Project the environmental mitigation measures and pollution and waste (including waste water and/or solid waste) control technologies described in Schedule 8.7.

8.8 Laydown License Area. During the construction of the Project, Ranchcorp shall allow PEF an exclusive license to enter upon and use such adjacent property belonging to Ranchcorp in the Site Selection Area as shall be reasonably needed (currently thought to be 75 contiguous acres) for the storage of equipment and materials for the Project, for staging of construction work on the Project, and for construction of the Project (the "Laydown License Area").

8.9 Permits. Ranchcorp shall, upon written request of PEF, execute and deliver all applications for permits, licenses or other authorizations relating to the construction, use and occupancy of the Premises and the Improvements required by any municipal, county, state or federal authorities, or required in connection with any repair or Alteration of the Improvements, provided that such permits, licenses or other authorizations are consistent with the terms of this Lease and the other Project Agreements.

8.10 Personal Property. All equipment, furniture and other personal property installed by PEF on the Premises shall remain the property of PEF. At any time during the Term, PEF may remove any and all such equipment, furniture and personal property. Any removal shall be performed in a good and workmanlike manner and PEF shall repair any damage or injury to the Premises resulting from the removal. PEF shall be entitled to all depreciation or amortization deductions attributable to all such equipment, furniture and personal property.

8.11 Easements. Upon request by PEF, Ranchcorp shall grant to public entities and public utilities, for the sole purpose of providing operating utilities to the Project, rights of way or easements on, in or over the Premises for poles or conduits or both for telephone, electricity, water, sanitary sewers and storm sewers and for other utility, municipal and district services reasonably required for the Project or any Alterations, in locations and on alignments subject to Ranchcorp's reasonable review and approval. Ranchcorp agrees to execute and acknowledge all required documentation to create the required easements or rights of way. This Section 8.11 shall not apply to any easement or right of way that is included in the Easement Deed and Agreement between the parties of even date with this Lease.

8.12 Ownership of Improvements. The Improvements shall be owned in fee by PEF or a permitted sublessee of the Premises. At any time during the Term, PEF may remove any and all of the Improvements. Any removal shall be performed in a good and workmanlike manner consistent with the requirements of this Section 8. PEF shall repair any damage or injury to the Premises resulting from the removal. PEF shall be entitled to all depreciation or amortization deductions attributable to the Improvements.

8.13 Surrender. Before the end of the Term, PEF shall decommission the Project by removing all buildings, equipment, and personal property from the Premises and shall return the Premises to their pre-construction condition. For purposes of this section and Section 8.14, the "Project" refers to the original generating plant, as well as any Alterations, subsequent expansions, re-powering, or other modifications thereof, and any then-existing above-ground power lines. PEF may abandon buried pipelines in place after decommissioning them in accordance with applicable state and/or federal regulations.

8.14 Decommissioning Security. Concurrently with the execution of this Lease, PEF has furnished Ranchcorp with security for its obligations under Section 8.13 in the form required under Section 4.2(e) of the Option Agreement.

8.15 Material Environmental Conditions. In the event that during construction of the Project PEF discovers any Hazardous Substance on the Property which will prevent or materially interfere with or make materially more costly the construction, operation or financing of the Project, Ranchcorp shall within 25 days after request therefor by PEF identify alternative property adjacent to or in the vicinity of the Project site which will enable PEF to avoid the Hazardous Substance (and any other Hazardous Substance) without making access to the WRM and DWR electric loads less feasible physically or economically than the property affected by the Hazardous Substance and which is not affected by any Hazardous Substance but is otherwise generally as suitable for the Project as the property affected by the Hazardous Substance (the "Alternative Property"). If PEF approves the Alternative Property (which approval shall not be unreasonably withheld or delayed), this Agreement shall be amended to substitute the Alternative Property for the portion of the Property affected by the Hazardous Substance and this Lease shall be amended, and the memorandum hereof recorded to reflect the substitution. Notwithstanding the foregoing, in the event no Alternative Property is or can be supplied and a governmental authority requires cleanup of the Hazardous Substance, then Ranchcorp will at its option either (A) clean up or remediate the Hazardous Substance when and to the extent required by the governmental authority, or (B) reimburse PEF for its costs incurred in cleaning up or remediating the Hazardous Substance when and to the extent required by the governmental authority. PEF's rights under this Section shall not be impaired by its failure to exercise any of its rights under Section 1.5(c) or 11.3 of the Option Agreement.

Section 9. Maintenance; Repairs; Reconstruction.

9.1 Maintenance. PEF shall keep the Premises and the Improvements in good order, condition and repair, including without limitation, all repairs to the exterior or interior of the Improvements and all repairs of a structural nature. All repairs shall be at the expense of PEF, except repairs caused by the negligence or willful conduct of Ranchcorp or Ranchcorp's agents. Ranchcorp shall not be obligated to make any repairs, replacements or renewals of any kind, nature or description whatsoever (including but not limited to repairs or restoration) required due to flooding of Pastoria Creek, and PEF hereby expressly waives any right to terminate this Lease and any right to make repairs at Ranchcorp's expense under Sections 1932, 1933, 1941 and/or 1942 of the California Civil Code, or any amendments thereof or any similar law, statute or ordinance now or hereafter in effect on account of any such flooding or any failure to make any such repairs.

9.2 Obligation to Repair. PEF shall have the right to contest by appropriate judicial or administrative proceedings, without cost or expense to Ranchcorp, the validity or application of any Applicable Law or other requirement that PEF repair, maintain, alter or replace the Improvements in whole or in part or that would affect PEF's use of the Premises or the Improvements. In the event that any such contest is finally determined in a manner adverse to PEF, PEF shall either undertake the required repairs, maintenance, alterations or replacements to the Premises and the Improvements, or modify its use of the Premises and the Improvements so that no repair, maintenance, alteration or replacement is required.

9.3 Damage or Destruction. If the Improvements are totally or partially destroyed or damaged at any time, PEF may repair or reconstruct the Improvements.

Section 10. Hazardous Substances

PEF shall provide to Ranchcorp prior to commencing construction of the Project, and shall thereafter periodically update, a list of Hazardous Substances that PEF requires on the Premises for the construction, operation, maintenance and/or decommissioning of the Project or any Alterations. PEF shall not cause or permit possession or storage on the Premises of any Hazardous Substance other than those named on the then-most recent list of Hazardous Substances provided to Ranchcorp. PEF shall not cause or permit to occur during the Term any unlawful Release of a Hazardous Substance on, about or beneath the Premises, whether affecting surface water or groundwater, air, the surface or subsurface environment. In the event any unlawful Release of a Hazardous Substance to the environment occurs on or about or beneath the Premises during the Term as a result of any act or omission of PEF or any of PEF's

Agents, PEF shall promptly undertake all remedial measures required to clean up and abate or otherwise respond to the unlawful Release in accordance with applicable Environmental Laws at PEF's sole cost, and PEF shall, subject to Section 12.8 of the Transaction Agreement, indemnify, defend, protect and hold Ranchcorp harmless from and against any and all claims, losses, first and third party damages, liabilities and costs, including without limitation reasonable consultants' and attorneys' fees and costs, arising out of or relating to the presence of Hazardous Substances on or about the Premises as a result of any act or omission of PEF or PEF's Agents. If any unlawful Release of a Hazardous Substance which is used on the Premises by PEF or any of PEF's Agents comes to be located on or beneath the Premises or within 50 feet of the property line of the Premises, unless the source of such release is readily identifiable at the time the Release becomes known, such release shall be presumed (subject to the following sentence) to be the result of an act or omission of PEF or PEF's Agents and shall trigger PEF's remedial and indemnity obligations under this section. Those obligations shall continue in effect until and unless a different source of the Release is identified with a reasonable degree of certainty, as evidenced either by Ranchcorp's written concurrence with identification of a different source or a decision concurring with identification of a different source by an arbitrator engaged pursuant to the following sentence. Any dispute between the parties regarding the source of a Release shall be resolved by arbitration as provided under Section 12 of the Transaction Agreement. Nothing in this Lease is intended to release any party from any liability it may have under the Comprehensive Environmental Response Compensation and Liability Act. The prior sentence is not intended to modify any indemnity or other undertaking of any party under any of the Project Agreements.

Section 11. Sublease.

PEF shall have the right from time to time or at any time to sublet the Premises (a) to any Project Financing Entity as may be necessary or convenient in connection with any financing of the Project, and (b) to any Person who or which is a Qualified Person at the date of the sublease; provided that any subtenant must be an owner of the Project and must have assumed PEF's obligations under the Transaction Agreement and the Easement Agreement. Upon the execution of any permitted sublease of the Premises by PEF, Ranchcorp shall execute a non-disturbance agreement in form satisfactory to both Ranchcorp and PEF in their reasonable discretion. Any such sublease shall be subject in all respects to this Lease.

Section 12. Assignments and Pledges of Collateral.

Subject to and only in accordance with the terms of Section 11 and Schedule 11.4 of the Transaction Agreement, PEF shall have the right, at any time and from time to time, to enter into any leasehold mortgage or other security agreement regarding, or to assign all or portions of, its rights and interests under this Lease. All other assignments, pledges, mortgages, or other transfers of PEF's rights or interests under this Lease, except for those permitted under Section 11 and Schedule 11.4 of the Transaction Agreement, are prohibited.

Section 13. Indemnity.

13.1 Indemnity.

Subject to Section 12.8 of the Transaction Agreement:

(a) With respect to claims by PEF or by any of PEF's Agents or by third parties (other than any of the Tejon Interests) arising or claimed to arise out of the presence or activities of

PEF or any of PEF's Agents on the Tejon Ranch, and to claims by PEF or by any of PEF's Agents for work performed on the Project or for materials supplied to the Project, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liabilities, claims, expenses, causes of action, judgments and liens filed against the Premises or against any other land or land rights owned by Ranchcorp in Kern County, California, arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from active negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

(b) With respect to claims by Ranchcorp for physical damage to its property or for personal injury to Ranchcorp or Ranchcorp's Agents arising out of the presence of PEF or any of PEF's Agents on the Tejon Ranch, PEF will defend, indemnify and hold Ranchcorp harmless from all actual losses, damages, liens, liabilities, claims, expenses, causes of action and judgments arising directly from the actions of PEF or any of PEF's Agents, except to the extent arising (i) from negligence, recklessness, willful misconduct or breach of contract or law by Ranchcorp or any of Ranchcorp's Agents, (ii) as a consequence of strict liability imposed upon Ranchcorp or any of Ranchcorp's Agents as a matter of law, or (iii) from the discovery or disclosure of any Hazardous Substance or other substance in, under or about the Tejon Ranch unless the presence thereof is due to any act or omission of PEF or any of PEF's Agents.

Section 14. Mechanics and Other Liens.

PEF shall keep the Premises free and clear of all mechanics', materialmen's and other liens for work done, services performed or materials used in or about the Premises or the Improvements or in connection with any operations of PEF ("Mechanics' Liens"). PEF shall have the right to contest the amount or validity of any Mechanics' Lien by giving Ranchcorp written notice of PEF's intention to do so within twenty (20) days after the recording of a Mechanics' Lien. During the period of the contest, provided that PEF properly records the bond permitted, in the amount provided, by California Civil Code Section 3143, Ranchcorp shall not satisfy and discharge the Mechanics' Lien and PEF shall not be in default so long as such bond remains valid and effective. PEF shall satisfy and discharge any Mechanics' Lien within twenty (20) days after the final determination of its amount or validity to the extent held valid and all penalties, interest and costs related to the Lien; provided, however, that the satisfaction and discharge of the Mechanics' Lien shall not, in any case, be delayed until execution is levied upon any judgment. PEF shall indemnify and hold Ranchcorp harmless against all loss, cost, expense and damage (including reasonable attorneys' fees) arising out of the contest. Ranchcorp shall not be required to join in any proceeding to contest the amount or validity of any Mechanics' Lien, except that if any law shall require that the proceeding be brought by Ranchcorp, Ranchcorp agrees to join in the proceeding, or permit it to be brought in its name. Ranchcorp shall cooperate with PEF in any contest. PEF's obligations under this Section with regard to Mechanic's Liens arising prior to the Commercial Operation Date are guaranteed by Calpine under Section 2.2 of the Transaction Agreement.

Section 15. Eminent Domain.

15.1 Taking of Premises. If at any time during the Term, all or any portion of the Project or the Premises are taken as a result of the exercise of the right of eminent domain, the rights of Ranchcorp and PEF to the compensation for the taking shall be determined in accordance with this Section 15. The terms "taken" or "taking" shall mean an acquisition and/or damaging, including severance damage, by eminent domain, or by inverse condemnation, or by voluntary deed or transfer in contemplation of a taking or under threat of a taking, or for any public or quasi-public use under any statute or law. The "date of taking" shall be the earliest of (a) the date actual physical possession is taken by the condemnor; (b) the date on which the right to compensation and damages accrues under Applicable Laws; or (c) the date on which title vests in the condemnor. "Entire Taking" means a taking as the result of which operating the Project, even at reduced capacity, to produce electric energy and/or to provide Ancillary Services is not, and is not reasonably likely to become again, commercially viable. "Partial Taking" means a taking other than an Entire Taking.

15.2 Effect on Rent. In the event of a Partial Taking as a result of which the capacity of the Project is reduced, this Lease shall continue in full force and effect for the remainder of the Term and : (a) Fixed Rent shall be adjusted as set forth in the same manner as for changes in "C" under Section 3.2(c), and (b) Variable Rent shall be adjusted by adjusting the factor "C" in the formula stated in Section 3.4(c) for calculating the Spark Spread to conform with the reduced capacity of the Project. During any period of a temporary taking, or during any period after the date of a Partial Taking, during which the Project necessarily ceases to operate, no portion of Rent shall be abated.

15.3 Notice. The party receiving any notice of an intended taking, service of legal process relating to a taking, notice regarding any proceedings or negotiations with respect to a taking, or notice of intent to negotiate a transfer in lieu of a taking shall promptly give the other party notice of the receipt, contents and date of the notice received. PEF shall provide any Project Financing Entity with a copy of any notice of any threatened or pending taking.

15.4 Compensation. The rights of Ranchcorp and PEF to any award, compensation or damages for a taking shall be separately determined by the condemning authority or the court having jurisdiction over any proceedings as follows:

(a) Entire Taking. In the event of an Entire Taking, this Lease shall terminate on the date of taking and each party shall have the right to make its own claim for any and all awards, compensation and damages for the taking. The parties agree that an element of Ranchcorp's claim will be the present value of its rental stream under this Lease.

(b) Partial Taking. In the event of a Partial Taking, all awards, compensation and damages shall first be used for replacement and restoration of the Project and the Premises, and then the remainder shall be allocated between Ranchcorp and PEF as provided in Section 15.4(a).

(c) Temporary Taking. If the Project or the Premises are temporarily taken, PEF shall receive the entire amount of any awards, compensation and damages for the temporary taking, and Ranchcorp hereby assigns such awards, compensation and damages to PEF to the extent that the taking does not extend beyond the expiration of the Term.

15.5 Representation in Proceedings or Negotiations. Subject to the allocation provisions of Section 15.4, Ranchcorp, PEF and any Project Finance Entities shall have the right to participate as their interests may appear in any proceeding, negotiation or settlement of awards, compensation and damages and may contest and appeal any awards, compensation and damages. Neither Ranchcorp nor PEF shall enter into any agreement or settlement with or sale or transfer to the condemning authority without the consent of the other. Ranchcorp and

PEF each agree to execute and deliver to the other any instruments which may be required to effectuate or facilitate the provisions of this Section 15. In the event the condemning authority or court having jurisdiction over any takings proceedings does not make the allocation and distribution of the award, compensation and damages in accordance with this Section 15, and the parties cannot mutually agree upon the appropriate allocation, the allocation shall be determined pursuant to the dispute resolution provisions set forth in Section 12 of the Transaction Agreement.

Section 16. Ranchcorp's Right of Inspection.

Ranchcorp may, at reasonable times during the Term and upon reasonable prior written notice to PEF, enter upon the Premises during regular business hours for the purpose of inspecting the Premises and the Improvements and for such other purposes as the reasonable protection of its interests requires, subject, however, to PEF's reasonable requirements regarding security on the Premises and the confidentiality of its business affairs, which shall not bar Ranchcorp's right to make reasonable inspections.

Section 17. Default.

The occurrence of any one of the following shall constitute a default and breach of this Lease by PEF. Notices given under this Section 17 shall specify the alleged default and the applicable Lease provisions, and shall demand that PEF perform the provisions of this Lease or pay the rent that is in arrears, as the case may be, within the applicable time period. Ranchcorp need not elect its remedy or remedies for an uncured default at the time it gives notice of a default.

17.1 Failure to Pay Rent. Any failure of PEF to pay Rent or any other required payments, where the failure continues for a period of ten (10) days after written notice from Ranchcorp to PEF. Such notice shall not be deemed to be the notice required under California Code of Civil Procedure Section 1161; Ranchcorp must separately provide such Section 1161 notice.

17.2 Failure to Observe Other Provisions. Any failure by PEF to observe or perform any other provision of this Lease to be observed or performed by PEF, where the failure continues for thirty (30) days after written notice by Ranchcorp to PEF. Such notice shall not be deemed to be the notice required under California Code of Civil Procedure Section 1161; Ranchcorp must separately provide such Section 1161 notice. However, if the nature of PEF's default is such that it cannot reasonably be cured within the thirty (30) day period, PEF shall not be in default if PEF commences the cure within the thirty (30) day period and thereafter diligently prosecutes the cure to completion.

17.3 Abandonment. The abandonment of the Premises.

17.4 Insolvency. Should PEF admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation under any law or statute of any government or any subdivision thereof either now or hereafter in effect, make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Premises.

17.5 Receivership. Should a court of competent jurisdiction enter an order, judgment or decree appointing a receiver of PEF or of the whole or any substantial part of the Premises or of the Project and should such order, judgment or decree not be vacated, set aside or stayed within ninety (90) days after the date of entry of such order, judgment, or decree, or should a stay thereof be thereafter set aside.

17.6 Involuntary Bankruptcy. Should a court of competent jurisdiction enter an order, judgment or decree approving a petition filed against PEF under any bankruptcy, insolvency, reorganization, readjustment of debt, dissolution or liquidation law or statute of the federal government or any state government or any subdivision of either now or hereafter in effect, and should such order, judgment or decree not be vacated, set aside or stayed within sixty (60) days from the date of entry of such order, judgment or decree, or should a stay thereof be thereafter set aside.

Section 18. Remedies.

In the event of a default by PEF, Ranchcorp shall have the following remedies. These remedies are not exclusive; they are cumulative and are in addition to any other right or remedy available to Ranchcorp at law or in equity. Ranchcorp may initiate an action for damages or injunctive relief without terminating this Lease or PEF's right to possession.

18.1 Termination of Right to Possession. If the default is in the observance or performance of any material obligation of PEF under this Lease, Ranchcorp may terminate PEF's right to possession of Premises. The parties agree that a "material obligation" shall be any obligation of PEF which is material to the realization by Ranchcorp of any of the material benefits intended to be conferred on Ranchcorp by this Lease and includes without limitation any default under Section 17.1. No act by Ranchcorp, other than giving specific notice of termination to PEF, shall terminate this Lease. Acts of maintenance, or efforts to relet the Premises, shall not constitute a termination of PEF's right to possession. On termination, Ranchcorp has the right to recover from PEF: (a) the worth, at the time of the award, of the unpaid Rent that had been earned at the time of termination of this Lease; (b) the worth, at the time of the award, of the amount by which the unpaid Rent that would have been earned after the date of termination of this Lease until the time of the award exceeds the amount of loss of rent that PEF proves could have reasonably been avoided; and (c) the worth, at the time of the award, of the amount by which the unpaid Rent for the balance of the Term after the time of the award exceeds the amount of the loss of Rent that PEF proves could have been reasonably avoided;

"The worth, at the time of the award," as used in (a) and (b) of this Section 18.1 is to be computed by allowing interest at the rate of 10% per annum. "The worth, at the time of the award," as referred to in (c) of this Section 18.1, is to be computed by discounting the amount by the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus 1%.

18.2 Civil Code Section 1951.4. Ranchcorp shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations).

18.3 Self-Cure; Costs Thereof. In the event of a default arising from PEF's failure to perform work required to be performed by PEF under this Lease within the time required by the Lease and/or by Ranchcorp's related notice of default, unless Ranchcorp is expressly prohibited from performing such work by this Lease, Ranchcorp may elect, but shall not be required, to perform such work after delivery of thirty (30) days prior written notice to PEF of such election (except that no such prior notice shall be required in the event of an emergency). If Ranchcorp so elects, PEF shall pay all of Ranchcorp's costs and expenses of such work, plus an overhead and management fee of ten percent (10%) of such costs and expenses, within twenty (20) days after PEF receives Ranchcorp's itemized invoice for such work. If PEF does not pay such an invoice within such 20-day period, (i) the obligation shall accrue interest at the rate of 10% per annum without compounding from the twentieth day after PEF received the invoice until it is fully paid, and (ii) without further notice to PEF, shall constitute a default under Section 17.1.

Section 19. Waiver.

No waiver of any default under this Lease shall constitute or operate as a waiver of any subsequent default, and no delay, failure or omission in exercising or enforcing any right, privilege, or option under this Lease shall constitute waiver, abandonment or relinquishment of, or prohibit or prevent any election under or enforcement or exercise of, any right, privilege or option under this Lease. Any waiver of any provisions of this Lease by Ranchcorp or PEF must be in writing and signed by the party against whom it is sought to be enforced. The receipt by Ranchcorp of Rent with knowledge of any default under this Lease, or after having provided notice of a default, or after having commenced an action to enforce this Lease shall not constitute or operate as a waiver of the default, unless the payment of such Rent cures the monetary default.

Section 20. No Merger.

There shall he no merger of the leasehold estate created by this Lease with the fee estate in the Premises by reason of the fact that the same person may own or hold (i) the leasehold estate created by this Lease or any interest in the leasehold estate and (ii) the fee estate in the Premises or any interest in the fee estate unless and until Ranchcorp shall execute, acknowledge and record a written instrument effecting the merger. Termination of this Lease shall not, unless Ranchcorp elects, cause a merger of the estates of Ranchcorp and PEF. Termination shall, at the option of Ranchcorp, either cause a termination of any sublease in effect or act as an assignment to Ranchcorp of PEF's interest in any sublease.

Section 21. Reserved

Section 22. General Provisions.

22.1 Covenants Running With the Land. The agreements, covenants and conditions contained in this Lease are and shall be deemed to be covenants running with the land and the reversion and shall be binding upon and shall inure to the benefit of Ranchcorp and PEF and their respective permitted successors and assigns. All references in this Lease to "PEF" or "Ranchcorp" shall be deemed to refer to and include permitted successors and assigns of PEF or Ranchcorp, respectively, without specific mention of such successors or assigns.

22.2 Estoppel Certificates. PEF or Ranchcorp, as the case may be, shall execute, acknowledge and deliver to the other or any Person specified by the other, promptly upon request, its certificate certifying: (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect, as modified, and stating the modifications); (b) the dates, if any, to which all Rent has been paid; (c) whether there are then existing charges, offsets or defenses against the enforcement by Ranchcorp of any agreement, covenant or condition on the part of PEF (and, if so, specifying the same); and (d) whether there are then existing any defaults by PEF under the Lease and whether any notice has been given to PEF of any default which has not been cured (and, if so, specifying the same). Any certificate may be relied upon by the Person to whom the certificate is delivered.

22.3 Holding Over. This Lease shall terminate without further notice upon the expiration of the Term, and any holding over by PEF after the expiration of the Term shall not constitute a renewal or give PEF any rights to the Premises. PEF shall pay Rent as provided under Section 3 of this Lease during any holdover period. If PEF holds over with the consent of Ranchcorp, PEF shall be a tenant from month-to-month during the holdover period. If PEF holds over without Ranchcorp's consent, PEF shall be a tenant at sufferance during the holdover period.

22.4 Miscellaneous.

(a) Time is of the essence in each of the provisions of this Lease.

(b) All Exhibits referred to are attached to this Lease and incorporated by reference.

(c) Contemporaneously with the execution of this Lease, Ranchcorp and PEF will execute, acknowledge and record in the Official Records of Kern County a memorandum of lease in the form of attached Schedule 22.4(c).

(d) The provisions of Section 14 of the Transaction Agreement apply to this Lease.

(e) This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other party.

22.5 Authority of PEF. PEF warrants to Ranchcorp that PEF is a validly existing limited liability company under the laws of the State of Delaware, that it is duly qualified to do business in the State of California, that its entry into and performance of this Lease has been duly authorized, that the officer(s), director(s), or employee(s), as applicable, executing this Lease on PEF's behalf are duly authorized to do so, and that this Lease is binding upon PEF.

22.6 Authority of Ranchcorp. Ranchcorp warrants to PEF that Ranchcorp is a validly existing corporation under the laws of the State of California, that its entry into and performance of this Lease has been duly authorized, that the officer(s), director(s), or employee(s), as applicable, executing this Lease on Ranchcorp's behalf are duly authorized to do so, and that this Lease is binding upon Ranchcorp.

22.7 Labor Issues. The parties will consult with one another, and consider each other's views, regarding labor issues of concern to either party

22.8 Consent. Without prejudice to its other rights and remedies under this Lease and the other Project Agreements, either party shall have the right to institute an arbitration for declaratory relief under Section 12 of the Transaction Agreement to determine whether any proposed withholding or delay of any consent or approval by the party would be unreasonable.

Section 23. Glossary.

Additional Rent - Section 3.6.

Affiliate - Section 15 of the Transaction Agreement.

Alterations - Section 8.2.

Ancillary Services -- Section 3.4(d).

Applicable Laws - all applicable laws, codes, ordinances, orders, rules, regulations and requirements, including, without limitation, all Environmental Laws, of all federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers relating to or affecting the Premises, the Improvements or the use, operation or occupancy of the Premises, whether now existing or hereafter enacted.

C - Section 3.4(c).

Calpine - Section 8.4(a)(v).

Calpine Guaranty - Section 8.4(a)(v).

Commencement Date - Section 2.1.

Commercial Operation Date - Section 2.1.

Daily Gas Price - Section 3.4(d).

Developer Interests - Calpine and PEF.

Entire Taking - Section 15.1.

Environmental Laws - all present and future federal, state and local laws, statutes, ordinances, regulations, rules, judicial and administrative orders and decrees, permits, licenses, approvals, authorizations and similar requirements pertaining to the protection of human health and safety or the environment.

Excepted Cause - Section 15 of the Transaction Agreement.

Extended Term - Section 2.2.

Final Project Decision - the CEC's final decision with respect to the Project AFC.

Fixed Rent - Section 3.1.

GAAP - Section 8.4(a)(v).

Gas Daily - Section 3.4(d).

GP -- Section 3.4(c).

Hazardous Substance - any chemical, substance, medical or other waste, living organism or combination thereof which is or may be hazardous to the environment or human or animal health or safety due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects. "Hazardous Substances" shall include, without limitation, petroleum hydrocarbons, including crude oil or any fraction thereof, asbestos, radon, polychlorinated biphenyls (PCBs), methane and all substances which now or in the future may be defined as "hazardous substances," "hazardous wastes," "extremely hazardous wastes," "Hazardous Substance," "toxic substances," "infectious wastes," "biohazardous wastes," "medical wastes," "radioactive wastes" or which are otherwise listed, defined or regulated in any manner pursuant to any Environmental Laws.

HR -- Section 3.4(c).

Improvements - Section 3.6.

Initial Term - Section 2.1.

ISO -- Section 3.4(d).

ISO Controlled Grid - Section 3.4(d).

ISO Tariff -- Section 3.4(d).

Laydown License Area - Section 8.8.

Minimum Deductible Amount - Section 8.4(f).

Mechanics' Liens - Section 14.

Moody's - Section 8.4(a)(v).

Nominal COD - Section 2.1

Option Agreement - Recitals.

Partial Taking - Section 15.

Pastoria Substation - Section 3.4(d).

PEF - introductory paragraph.

PEF's Agents - any Affiliate of either of the Developer Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Developer Interests or any of their Affiliates.

PEF Deductible Amount - Section 8.4(f).

PEF Deductible Payment - Section 8.4(f).

Premises - Section 1.

Project - Recitals.

Project Financing Agreements - Section 11.5 of the Transaction Agreement.

Project Financing Entity - Section 11.5 of the Transaction Agreement.

Project Financing -- Section 11.5 of the Transaction Agreement.

Property Taxes - Section 3.6.

PX - Section 3.4(d).

PX Price -- Section 3.4(d).

Qualified - Section 11.3(c) of the Transaction Agreement.

Ranchcorp - introductory paragraph.

Ranchcorp's Agents - any Affiliate of any of the Tejon Interests and any contractor, consultant, agent, employee, invitee or other Person acting at the request and for the benefit of any of the Tejon Interests or any of their Affiliates.

Release - any accidental or intentional spilling, leaking, pumping, pouring, emitting, emptying, discharging, injection, escaping, leaching, migrating, dumping or disposing into the air, land, surface water, ground water or the environment.

Rent - Section 3.1.

Revenue Day -- Section 3.4(d).

Revenue Hour -- Section 3.4(d).

S&P - Section 8.4(a)(v).

Security Agreement - Section 1 of Schedule 11.4 of the Transaction Agreement.

Site Selection Area - Section 1.1 of the Option Agreement.

Spark Spread - Section 3.4(c).

Taken or Taking - Section 15.1.

Tejon Interests - Ranchcorp, Tejon Ranch Co. and Pastoria Power Project LLC.

Tejon Ranch - the approximately 270,000 acres of real property in Kern and Los Angeles counties currently owned by Ranchcorp and known as The Tejon Ranch.

Term - Section 2.2.

Transaction Agreement - Recitals.

Variable Rent - Section 3.1.

IN WITNESS WHEREOF, Ranchcorp and PEF have executed this Lease as of the date first written above.

TEJON RANCHCORP,
a California corporation

By:

Name:
Title:

By:

Name:
Title:

PASTORIA ENERGY FACILITY L.L.C.,
a Delaware limited liability company

By:

Name:
Title:

Schedule 8.7

Environmental Mitigation Measures

1. Before commencing construction of the Project or at such other, later time specified by Ranchcorp, PEF will plant one or more windrow(s) of trees totaling not more than five miles in length in such location(s) on Ranchcorp's land as Ranchcorp shall designate. Ranchcorp will notify PEF of the type(s), number and spacing of the trees to be planted. PEF will acquire trees of approximately 15 gallons in size for this purpose.

2. If PEF decides that it will construct the Project with a closed loop (dry) cooling system, it shall design, build and operate that system to ensure no exceedances of applicable noise emission standards stated in the General Plan of Kern County, California, as of the date of execution of the Option Agreement.

3. If PEF decides that it will construct the Project with a water cooling system, it shall pursue that approach in accordance with the following terms:

    A. PEF may design, construct and operate the Project with once through cooling, provided that, if the Project includes one or more cooling towers, PEF complies with the "Cooling Tower Conditions."

    B. PEF may design, construct and operate the Project with a semi-open system with waste water reduction, which produces waste water discharge at a flow rate, and with concentrations of total dissolved solids (TDS), suitable to ensure no degradation of waters in the injection zone into which the waste water will be injected, provided that, (i) after the Project is constructed, PEF will adjust the volume of, and the TDS concentrations in, the Project's wastewater as necessary to ensure that the wastewater can be disposed of in the planned number and size of injection wells without increasing the TDS concentration of the receiving water; and (ii) PEF complies with the Cooling Tower Conditions.

    C. Should neither once through cooling nor a semi-open cooling system be available to the Project under the terms and conditions of paragraphs A and B above, then PEF shall design, construct and operate the Project with a zero-discharge cooling system, provided that PEF complies with the Cooling Tower Conditions.

The "Cooling Tower Conditions" are (i) that PEF will install drift eliminators on the Project's cooling tower(s) of the type representing best available technology for the control of particulate emissions from the towers; and (ii) that PEF will contain any solid waste "salt cake" created by operation of the Project's cooling towers to avoid discharge of the waste material to air or land at or adjacent to the Premises prior to required shipping of the waste off of the Premises for disposal.

4. PEF will restore the Laydown License Area to its pre-construction state and will take reasonable measures to achieve such restoration within 12 months after it completes construction of the Project. PEF shall monitor the progress of revegetation and other aspects of the restoration of the area and shall perform any further work that is reasonably necessary to restore the area to its pre-construction state.

5. Prior to commencement of construction of the Project, PEF shall obtain incidental take authority from the U.S. Fish & Wildlife Service and an incidental take permit from the California Department of Fish & Game (except to the extent either agency provides PEF and Ranchcorp a letter stating that such incidental take authority or permit is not required) respecting any species listed under the Federal or California Endangered Species Acts that are likely to be taken (as defined in each agency's governing laws and regulations) by construction or operation of the Project . If, as a condition to issuance of the incidental take authority or permit, PEF is required to tender mitigation land to either agency, PEF shall so notify Ranchcorp and Ranchcorp shall have thirty (30) days to notify PEF that Ranchcorp has land suitable for mitigation purposes that it is willing to provide to PEF. If Ranchcorp provides PEF with notice that it has suitable land available, PEF shall seek the agencies' concurrence that Ranchcorp's available land is suitable for mitigation purposes. If PEF obtains the agencies' concurrence, Ranchcorp shall convey the land or appropriate interests therein to the entity designated by the agencies. Concurrent with such conveyance, PEF shall pay Ranchcorp $500 per acre for the land, plus all fees and endowments required to be paid to the agencies or the donee entity designated by the agencies, plus all of Ranchcorp's costs incurred in parcelizing (if necessary) and conveying the land or interest therein.

6. Except to the extent inconsistent with applicable safety or other requirements, PEF will paint its above-ground facilities other than its electric transmission towers in earth-tone colors to minimize the Project's visual contrast with the surrounding landscape.

7. PEF will secure the Project site and buildings to protect public safety.

8. PEF will limit outdoor lighting on the Premises to the minimum required by applicable public and occupational safety rules and regulations.

SCHEDULE 22.4(c)

Recording Requested By
and When Recorded Return. To:

Sachin Mehta
Thelen Reid & Priest, LLP
101 Second Street, Suite 1800
San Francisco, CA 94105-3601

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE is entered into as of ____________, ______ (the "Effective Date") by and between Tejon Ranchcorp, a California corporation ("Landlord") and Pastoria Energy Facility, LLC, a Delaware limited liability company ("Tenant").

A. Landlord and Tenant entered in that certain Option Agreement, dated April 30, 1999, as amended by that certain letter agreement, dated March 5, 2001 (the "Option Agreement") pursuant to which Landlord granted an option to Tenant to lease the Premises (as defined below) pursuant to the Ground Lease (as defined below), and for which a Memorandum of Option was recorded on May 30, 1999 as document number 0199063511 in the Kern County Official Records.

B. Landlord and Tenant are the parties to that certain Ground Lease of even date herewith (the "Lease") covering certain real property located in Kern County, California and more particularly described in Exhibit A attached hereto (the "Premises"), on the terms and conditions set forth below.

C. Landlord and Tenant are recording this Memorandum so that third parties shall have notice of the rights and obligations of Landlord and Tenant under the Lease.

NOW THEREFORE, in consideration of the Lease and other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. Premises. Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord, upon the terms and conditions of the Lease, which terms are incorporated herein by this reference, including, without limitation, that Landlord shall have no surface rights related to any minerals or mineral rights, and shall not, in the exercise of any mineral rights, disturb the surface of the Premises, interfere with or disturb the occupancy or operations of Tenant on the Premises, or drill at a depth which is less than five hundred (500) feet below the surface of the Premises.

2. Term. The term of the Lease commenced on the Effective Date and expires, if not sooner terminated pursuant thereto, on the twenty-fifth (25th) anniversary of the Commencement Date as defined in the Lease.

3. Option to Extend. Tenant has an option to extend the term of the Lease for three additional five (5) year periods as more particularly described in the Lease.

4. Controlling Document. This Memorandum of Lease is subject to all the terms and conditions of the Lease. Should there be any inconsistency between the terms of this instrument and the Lease, the terms of the Lease shall prevail.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have executed this Memorandum of Lease as of the, date first above written.

LANDLORD:

TEJON RANCHCORP,
a California corporation

By: --

Its: --

By: --

Its: --

TENANT:

PASTORIA ENERGY FACILITY L.L.C.
a Delaware limited liability company

By: --

Its: --

[ACKNOWLEDGEMENTS ATTACHED]

ACKNOWLEDGMENT

State of California)
)
County of)

On ________________ [date] before me, _________________________ [name and title "Notary Public"], personally appeared ______________________ [name of signer(s)], personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her their signature(s) in the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

- ---------------------------- (Signature of Notary) (Seal of Notary)

ACKNOWLEDGMENT

State of California)
)
County of)

On ---------------- [date] before me, ------------------------- [name and title "Notary Public"], personally appeared ---------------------- [name of signer(s)], personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her their signature(s) in the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

- ---------------------------- (Signature of Notary) (Seal of Notary)

[EXECUTION COPY]

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT

of

TEJON DERMODY INDUSTRIAL LLC,

a Delaware Limited Liability Company

As of March 20, 2001

TABLE OF CONTENTS

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
TEJON DERMODY INDUSTRIAL LLC

This AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (the "Agreement") for Tejon Dermody Industrial LLC (the "Company"), by and between Tejon Industrial Corp., a California corporation ("Tejon"), and Dermody Properties, a Nevada corporation ("Dermody"), which are referred to herein as the "Members" and each as a "Member," is made effective as of March 20, 2001 (the "Effective Date").

WHEREAS, Tejon caused the formation of the Company on January 19, 2001 by filing with the Secretary of State of the State of Delaware that certain Certificate of Formation of the Company dated January 19, 2001;

WHEREAS, Tejon, as the sole Member of the Company, organized the Company under the Delaware Limited Liability Company Act (as such may be amended from time to time, the "Act") with the execution of that certain Limited Liability Company Agreement on January 19, 2001 (the "Original LLC Agreement");

WHEREAS, pursuant to the terms and conditions of that certain Letter of Intent by and between Tejon and Dermody, dated December 12, 2000, Tejon and Dermody agreed to negotiate the terms of a joint venture between the parties on the terms and conditions and for the purposes set forth therein and herein; and

WHEREAS, the Members have reached agreement with respect to the joint venture and have elected to use the Company as the entity through which the joint venture will be conducted; and

WHEREAS, the Members have decided to make certain amendments to the Original LLC Agreement, and, as so amended, to restate the Original LLC Agreement in its entirety.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements herein contained, the Original LLC Agreement is hereby amended and restated in its entirety as follows:

ARTICLE 1
ORGANIZATIONAL MATTERS

1.1 Formation. The Members formed the Company as a limited liability company under the Act for the purposes and upon the terms and conditions set forth in this Agreement. The rights, powers, duties, and liabilities of the Members shall be as provided in the Act, except as otherwise expressly provided herein. In the event of any inconsistency between any terms and conditions contained in the Agreement and any non-mandatory provisions of the Act, the Agreement shall govern.

1.2 Name. The name of the Company shall be "Tejon Dermody Industrial LLC." The Company may conduct business under one or more fictitious names Approved by the Members.

1.3 Principal Place of Business; Other Places of Business. The principal place of business of the Company is 4436 Lebec Road, Lebec, California 93243, or such other place Approved by the Members. The Company may maintain offices and places of business at such other place or places within or outside the State of Delaware, as Approved by the Members.

1.4 Business Purpose. Tejon is owner of the Tejon Industrial Complex, consisting of approximately 346 acres of land (the "Industrial Park"). The principal purposes of the Company shall be to develop and improve the real property described on Exhibit "B" attached hereto and incorporated herein (the "Property"). The contemplated improvements to the Property include one or more buildings, totaling up to (but no more than) 700,000 gross interior square feet. The Property shall be developed, entitled and improved consistent with the plan and related budgets attached hereto as Exhibit "C" and incorporated herein, as such may be amended or supplemented from time to time as provided herein or otherwise with the Approval of the Members (the "Business Plan"), and Builder Development Restrictions in substantially the form and content of Exhibit "D" attached hereto (which the Members shall execute on behalf of the Company) (as such may be amended from time to time as provided therein or herein, the "Builder Development Covenants"). In addition to the foregoing, the purposes of the Company shall include (a) constructing any off-site improvements necessary or desirable to develop, entitle and improve the Property consistent with the Business Plan, which improvements are not to be constructed by the Community Facilities District and which are Approved by the Members, (b) financing the activities of the Company, consistent with the Business Plan or as otherwise provided in this Agreement, (c) leasing the improvements on the Property to one or more tenants, including entering into build-to-suit and similar pre-lease arrangements with respect to such improvements, consistent with the Business Plan, (d) operating, maintaining and managing the improvements on the Property consistent with the Business Plan, and (e) selling or exchanging the Property and/or the improvements thereon (or an interest or interests in the Property and/or the improvements thereon) pursuant to the terms hereof. Any proposal to amend the Business Plan must, prior to being given effect, be Approved by the Members.

Subject to the limitations set forth in this Agreement, the Company shall have the power to do and perform all things Approved by the Members to be necessary, desirable or appropriate for, incident to or connected with or arising out of such activities.

1.5 Certificate of Formation; Filings. The Members have caused to be executed and filed a Certificate of Formation in the Office of the Delaware Secretary of State. The Members may execute and file any duly authorized amendments to the Certificate of Formation from time to time in a form prescribed by the Act. The Members shall also cause to be made, on behalf of the Company, such additional filings and recordings as it shall deem necessary or advisable.

1.6 Registered Office and Designated Agent for Service of Process. The Company shall continuously maintain a registered office and a designated and duly qualified agent for service of process for the Company in the State of Delaware. The address of the registered office in Delaware and of the registered agent for service of process as of the effective date of this Agreement is c/o The Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

1.7 Term. The Company commenced existence on the date that the Certificate was first properly filed with the Office of the Delaware Secretary of State, and shall continue perpetually until duly terminated.

ARTICLE 2
DEFINITIONS

Capitalized words and phrases used and not otherwise defined elsewhere in this Agreement shall have the following meanings:

2.1 "Act" is defined in the Preamble.

2.2 "Additional Members" means those Persons admitted as Members pursuant to Section 3.2.2(d).

2.3 "Adjusted Capital Account" means, with respect to any Member, the balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year, after: adding to such Capital Account the amount that such Member is deemed to be obligated to restore pursuant to Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and subtracting from such Capital Account such Member's share of the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

2.4 "Affiliate" means, with reference to a specified Person: (a) a Person that, directly or indirectly, controls, is controlled by, or is under common control with, the specified Person, (b) any Person that is an officer, director, general partner, manager or managing member, or trustee of, or serves in a similar capacity with respect to, the specified Person, or for which the specified Person is an officer, director, general partner, manager or managing member, or trustee, or serves in a similar capacity, or (c) any member of the Immediate Family of the specified Person.

2.5 "Agreement" is defined in the Preamble.

2.6 "Approved by the Members" and "Approval of the Members" mean, as to the subject matter thereof and as the context may require or permit, an express approval, consent, ratification or determination contained in a written statement, in minutes or a consent action signed by a Majority in Interest of the Members.

2.7 "Assignee" means any Person (a) to whom a Member (or Assignee thereof) Transfers all or any part of its Interest, and (b) which has not been admitted as a Substitute Member pursuant to Section 7.6.

2.8 "Builder Development Covenants"is defined in Section 1.4.

2.9 "Business Plan" is defined in Section 1.4.

2.10 "Buy Out Notice"is defined in Section 7.10.

2.11 "Buy Out Option" is defined in Section 7.10.

2.12 "Capital Account" means Capital Account maintained for each Member in accordance with the following provisions:

2.12.1 To each Member's Capital Account there shall be added (a) such Member's Capital Contributions and (b) such Member's allocable share of Net Profits and any items in the nature of income or gain that are specially allocated to such Member pursuant to Article 5 hereof or other provisions of this Agreement.

2.12.2 From each Member's Capital Account there shall be subtracted (a) the amount of (i) cash and (ii) the Gross Asset Value of any Company Property distributed to such Member pursuant to any provision of this Agreement (net of liabilities encumbering the distributed Company Property that such Member is considered to assume or take subject to under Code Section 752), (b) such Member's allocable share of Net Losses and any other items in the nature of expenses or losses that are specially allocated to such Member pursuant to Article 5 hereof and (c) liabilities of such Member assumed by the Company or which are secured by any property contributed by such Member to the company, calculated by reference to Code Section 752. With respect to distributions of Company Property, Capital Accounts shall first be adjusted to reflect the manner in which the unrealized income, gain, loss and deduction inherent in such property (that has not been previously reflected in Capital Accounts) would be allocated, pursuant to Article 5 hereof, to the Members if there were a taxable disposition of such property for its fair market value (taking Code Section 7701(g) into account) on the date of distribution.

2.12.3 The Members may cause an increase or decrease in the Capital Accounts of the Members to reflect a revaluation of Company Property on the Company's books and records. Any such adjustments shall be made in accordance with Regulations Section 1.704-1(b)(2)(iv)(g).

2.12.4 Additional adjustments shall be made to the Members' Capital Accounts as required by Regulations Sections 1.704-1(b) and 1.704-2 or, as permitted but not required, Approved by the Members. Adjustments to Capital Accounts in respect to Company income, gain, loss, deduction and non-deductible expenditures (or any item thereof) shall be made with reference to the federal tax treatment of such items (and, in the case of book items, with reference to federal tax treatment of the corresponding tax items) at the Company level, without regard to any requisite or elective tax treatment of such items at the Member level.

2.12.5 The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Sections 1.704-1(b) and 1.704-2 and shall be interpreted and applied in a manner consistent with such Regulations.

2.13 "Capital Call" is defined in Section 3.2.1.

2.14 "Capital Contributions" means, with respect to any Member, the total amount of money and the fair market value of property (other than money) contributed to the capital of the Company by such Member, less the amount of liabilities to which any contributed property is subject, whether contributed as an initial Capital Contribution or as an additional Capital Contribution.

2.15 "Cash Available for Distribution" means, with respect to any fiscal year, all Company cash receipts (excluding Refinancing Proceeds, Sales Proceeds and the proceeds from any Terminating Capital Transaction), after deducting payments for Operating Cash Expenses, payments required to be made in connection with any loan to the Company or any other loan secured by a lien on any Company Assets, capital expenditures, and any other amounts set aside for the restoration, increase, or creation of Reserves.

2.16 "Class A Members" means the persons identified as such on Exhibit "A" to this Agreement, as such may be amended from time to time.

2.17 "Class B Interests" is defined in Section 3.2.2(d).

2.18 "Class B Members" means the person(s), if any, who are granted Class B Interests pursuant to Section 3.2.2(d) and who are identified as Class B Members on Exhibit "A" to this Agreement, as such may be amended from time to time.

2.19 "Code" means the Internal Revenue Code of 1986, as amended from time to time (or corresponding provisions of succeeding law).

2.20 "Community Facilities District" is defined in Section 3.1.1.

2.21 "Company" is defined in the Preamble.

2.22 "Company Assets" means all direct and indirect interests in real and personal property owned by the Company, including both tangible and intangible property (including cash).

2.23 "Company Minimum Gain" has the meaning set forth in Regulations Sections 1.704-2(b)(2) and 1.704-2(d)(1) for the phrase "partnership minimum gain."

2.24 "Contribution Date" is defined in Section 3.2.2(c).

2.25 "CPI" means the Consumer Price Index (all items) for all urban consumers in the Los Angeles Region published by the United States Department of Labor Statistics.

2.26 "Covered Person" means each Member, an officer of the Company or of a Member, a Person to whom management responsibilities are delegated, an Affiliate of a Member, or an employee or agent of the Company or of a Covered Person.

2.27 "Defaulting Member" is defined in Section 7.10.

2.28 "Depreciation" means, for each fiscal year, an amount equal to the federal income tax depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that (a) with respect to any asset the Gross Asset Value of which differs from its adjusted tax basis for federal income tax purposes, which difference is being eliminated by use of the "remedial method" pursuant to Section 1.704-3(d) of the Regulations, Depreciation for such fiscal year shall be the amount of book basis recovered for such fiscal year under the rules prescribed by Section 1.704-3(d)(2) of the Regulations, and (b) with respect to any other asset the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year, Depreciation shall be an amount that bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any method Approved by the Members.

2.29 "Economic Interest" means a Person's right to share in the Net Profits, Net Losses, or similar items of, and to receive distributions from, the Company, but does not include any other rights of a Member including, without limitation, the right to vote or to participate in the management of the Company, or, except as specifically provided in this Agreement or required under the Act, any right to information concerning the business and affairs of the Company.

2.30 "Effective Date" is defined in the Preamble.

2.31 "Gross Asset Value" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

2.31.1 The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as provided herein or as Approved by the Members.

2.31.2 The Gross Asset Values of all Company assets immediately prior to the occurrence of any event described in subsection (a), subsection (b), subsection (c) or subsection (d) hereof shall be adjusted to equal their respective gross fair market values, as Approved by the Members, as of the following times:

(a) the acquisition of an additional interest in the Company (other than in connection with the execution of this Agreement) by a new or existing Member in exchange for more than a de minimis Capital Contribution;

(b) the distribution by the Company to a Member of more than a de minimis amount of Company property as consideration for an interest in the Company;

(c) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); and

(d) at such other times as the Members may determine as necessary or advisable in order to comply with Regulations Sections 1.704-1(b) and 1.704-2.

2.31.3 The Gross Asset Value of any Company asset distributed to a Member shall be the gross fair market value of such asset on the date of distribution, as Approved by the Members.

2.31.4 The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m).

2.31.5 If the Gross Asset Value of a Company asset has been determined or adjusted pursuant to Section 2.31.1, Section 2.31.2 or Section 2.31.4 above, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Net Income and Net Losses.

2.32 "Immediate Family" means, and is limited to, an individual Member's current spouse, parents, parents-in-law, grandparents, children, siblings, and grandchildren, or a trust, estate, or other estate-planning vehicle, all of the beneficiaries of which consist of such Member or members of such Member's Immediate Family.

2.33 "Improvement Budget" is defined in Section 6.1.2.

2.34 "Improvement Plan" is defined in Section 6.1.2.

2.35 "Incapacity" means the entry of an order of incompetence or of insanity, or the death, dissolution, an event of bankruptcy (as defined in the Act), or termination (other than by merger or consolidation) of any Person.

2.36 "Industrial Park" is defined in Section 3.1.1.

2.37 "Leasing Budget" is defined in Section 6.1.2.

2.38 "Leasing Program"is defined in Section 6.1.2.

2.39 "Majority in Interest" means Members entitled to vote (or any specified subset thereof) holding, in the aggregate, a majority of the Percentage Interests entitled to vote held by all Members entitled to vote (or by such specified subset).

2.40 "Marketing Budget" is defined in Section 6.1.2.

2.41 "Marketing Fund" is defined in Section 3.1.1.

2.42 "Marketing Program" is defined in Section 6.1.2.

2.43 "Master Plan" is defined in Section 6.1.2.

2.44 "Members" means the Persons owning Membership Interests, including any Additional Members, and any Substitute Members, with each Member being referred to, individually, as a "Member."

2.45 "Member Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i) with respect to "partner minimum gain."

2.46 "Member Nonrecourse Debt" has the meaning set forth in Regulations Section 1.704-2(b)(4) for the phrase "partner nonrecourse debt."

2.47 "Member Nonrecourse Deductions" has the meaning set forth in Regulations Section 1.704-2(i) for the phrase "partner nonrecourse deductions."

2.48 "Membership Interest" or "Interest" means the entire ownership interest of a Member in the Company at any particular time, including without limitation, the Member's Economic Interest, any and all rights to vote and otherwise participate in the Company's affairs, and the rights to any and all benefits to which a Member may be entitled as provided in this Agreement, together with the obligations of such Member to comply with all of the terms and provisions of this Agreement.

2.49 "Net Profits" or "Net Losses" means, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

2.49.1 Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this Section 2.49 shall be added to such taxable income or loss;

2.49.2 Any expenditure of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Net Profits or Net Losses pursuant to this Section 2.49, shall be subtracted from such taxable income or loss;

2.49.3 Gain or loss resulting from any disposition of Company Property where such gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the Company Property disposed of, notwithstanding that the adjusted tax basis of such Company Property differs from its Gross Asset Value;

2.49.4 To the extent an adjustment to the adjusted tax basis of any asset included in Company Property pursuant to Code Section 734(b) or Code Section 743(b) is required pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining capital accounts as a result of a distribution other than in liquidation of a Member's Membership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for the purposes of computing Net Profits and Net Losses.

2.49.5 If the Gross Asset Value of any Company asset is adjusted in accordance with the terms of this Agreement, the amount of such adjustment shall be taken into account in the taxable year of such adjustment as gain or loss from the disposition of such asset for purposes of computing Net Profits or Net Losses;

2.49.6 Notwithstanding any other provision of this Section 2.49, any items that are specially allocated pursuant to Section 5.2 hereof shall not be taken into account in computing Net Profits or Net Losses.

2.50 "Non-Defaulting Member" is defined in Section 7.10.

2.51 "Nonrecourse Deductions" has the meaning set forth in Regulations Sections 1.704-2(b)(1) and 1.704-2(c).

2.52 "Nonrecourse Liability" has the meaning set forth in Regulations Sections 1.704-2(b)(3) and 1.752-1(a)(2).

2.53 "Notice Period" is defined in Section 7.10.

2.54 "Offeree Member" is defined in Section 7.9.

2.55 "Offering Notice" is defined in Section 7.9.

2.56 "Offeror Member" is defined in Section 7.9.

2.57 "Operating Cash Expenses" means, with respect to any fiscal period, the amount of cash disbursed in the ordinary course of business during the period, including without limitation, all cash expenditures (including capital expenditures) for advertising, promotion, property acquisition, development, construction, operation and management, insurance premiums, taxes, utilities, repair, maintenance, legal, accounting, bookkeeping, computing, equipment use, travel on Company business, telephone expenses, and salaries, and direct expenses of Company employees (if any) and agents while engaged in Company business. Operating Cash Expenses shall include fees paid by the Company to any Affiliate permitted by this Agreement, and the actual cost of goods, materials and administrative services used for or by the Company, whether incurred by the Affiliate or any non-Affiliate in performing functions set forth in this Agreement reasonably requiring the use of such goods, materials, or administrative services. Operating Cash Expenses shall not include expenditures paid from Reserves.

2.58 "Operating Budget" is defined in Section 6.1.2.

2.59 "Operating Program" is defined in Section 6.1.2.

2.60 "Option Interest" is defined in Section 7.10.

2.60A "Original LLC Agreement" is defined in the recitals hereto.

2.61 "Percentage Interest" means, with respect to each Member, the percentage set forth opposite such Member's name on Exhibit "A", attached hereto and, as it may be amended, modified or supplemented from time to time, incorporated herein.

2.62 "Person" means and includes an individual, a corporation, a partnership, a limited liability company or partnership, a trust, an unincorporated organization, a government, or any department or agency thereof, or any other juridical entity.

2.63 "Pre-Contribution Improvement Costs" is defined in Section 6.2.1.

2.64 "Property" is defined in Section 1.4.

2.65 "Property Contribution" is defined in Section 3.1.1.

2.66 "Prime Rate" means the highest prime or reference rate as quoted from time to time by The Wall Street Journal, which shall be a variable rate. Interest rates and quasi-rates of return set forth in this Agreement that are determined with reference to the Prime Rate shall similarly be variable rates and shall change immediately effective upon a change in the Prime Rate.

2.67 "Proportionate" and "Proportionately" means, when used with respect to the Members (or a group of them), the proportion that each such Member's Percentage Interest bears to the total outstanding Percentage Interests of all Members to whom reference is made.

2.68 "Recourse Liability" has the meaning set forth in Regulations Section 1.752-1(a)(1).

2.69 "Refinancing Proceeds" means all net cash proceeds which directly or indirectly result from the refinancing or restructuring of debt of the Company, including debts secured by the Company Property or any portion thereof, less any addition to Reserves.

2.70 "Regulations" means Treasury Regulations promulgated under the Code and in effect, as such Regulations may be amended and succeeded from time to time.

2.71 "Regulatory Allocations" is defined in Section 5.2.9.

2.72 "Reserves" means funds set aside or amounts allocated to reserves that shall be maintained in amounts Approved by the Members for working capital (including amounts to make necessary or desirable capital improvements and to provide a fund for deferred maintenance), to pay taxes, insurance, debt service, and other costs or expenses and liabilities (actual and contingent) incident to the conduct of business by the Company or the liquidation of its assets and termination of its existence.

2.73 "Responsible Party" is defined in Section 6.6.

2.74 "Sales Proceeds" means all proceeds (other than Refinancing Proceeds) arising from the sale or other transfer of less than all of the Company's interest in the Property, less the following: (a) proceeds necessary for the payment of all debts and obligations of the Company, to the extent then due but excluding debts assumed by the transferee; and (b) any addition to Reserves.

2.75 "Selling Member" is defined in Section 7.2.

2.76 "Specified Amount" is defined in Section 7.9.

2.77 "Stabilization" means the first date on which (a) at least ninety-five percent (95%) of the rentable square footage of the improvements constructed by the Company on the Property has been leased pursuant to the Leasing Program and (b) the Company's permanent or "take out" financing has funded and the Company's construction financing has been paid in full.

2.78 "Substitute Member" means any Person (a) to whom a Member (or Assignee thereof) Transfers all or any part of its Interest, and (b) which has been admitted to the Company as a Substitute Member pursuant to Section 7.6.

2.79 "Target Final Balances" is defined in Section 5.2.10.

2.80 "Terminating Capital Transaction" means any sale or other disposition of all or substantially all of the assets of the Company or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the assets of the Company.

2.81 "Termination Payment" is defined in Section 7.6.

2.82 "Title Policy" is defined in Section 3.1.1.

2.83 "Total Amount" is defined in Section 3.2.2(c).

2.84 "Transfer" means, with respect to any Interest, a sale, conveyance, exchange, assignment, pledge, encumbrance, gift, bequest, hypothecation, or other transfer or disposition by any other means, whether for value or not and whether voluntary or involuntary (including, without limitation, by operation of law), or an agreement to do any of the foregoing. Used as a verb, the term shall mean effecting any of the foregoing.

2.85 "Unreturned Capital" means, with respect to each Member, the cumulative Capital Contributions by such Member less the distributions to such Member with respect to his Unreturned Capital.

2.86 "Voluntary Capital Call" is defined in Section 3.2.2(c).

2.87 "Water Districts" is defined in Section 6.1.2(i).

ARTICLE 3
CAPITALIZATION

3.1 Initial Capitalization of Members.

3.1.1 Tejon previously make a Capital Contribution of all of its right, title and interest to the Property, in its condition on the date of such Capital Contribution and on an "as is" basis without representation or warranty (the "Property Contribution"). Although previously made by Tejon, for simplicity's sake the Members agree to account for Tejon's contribution of the Property as a part of its initial Capital Contribution pursuant to this Section.

Contemporaneously with the Property Contribution, the Company obtained a title insurance policy from Chicago Title Company, the material terms, conditions and exceptions of which have been reviewed by the Members and which are hereby Approved by the Members (the "Title Policy"). The Company owns the Property subject to all encumbrances set forth in the Title Policy, including liens securing property taxes and other assessments not yet due and payable. The Members acknowledge that the Property is located in a community facilities district (the "Community Facilities District"), and the Company shall be responsible for paying all assessments imposed by the Community Facilities District or any successor or similar district with respect to the Property. Tejon shall be responsible for causing utilities (i.e., water, gas, electricity and communications) and public roads to be available to the Property and for making (or causing to be made) all off-site improvements (other than tenant-specific off-site improvements and other off-site improvements to be made by the Company which are Approved by the Members) necessary to develop and improve the Property as provided herein, any or all of which may be done through the Community Facilities District.

On the Effective Date, Tejon shall contribute fifty thousand dollars ($50,000), to be set aside in a separate fund to used as a fund for marketing of the Property and the Industrial Park pursuant to a marketing program Approved by the Members (the "Marketing Fund").

3.1.2 As its initial Capital Contribution, which shall be made on the Effective Date, Dermody shall contribute one million four hundred seventy-eight thousand eight hundred sixty-two dollars ($1,478,862), plus fifty thousand dollars ($50,000) to the Marketing Fund.

3.1.3 The names, addresses, initial Capital Contributions and Percentage Interests of the Members shall be set forth on Exhibit "A", which shall be amended from time to time as Dermody contributes additional amounts pursuant to Section 3.1.2 hereof. All Members acknowledge and agree that the initial Capital Contributions set forth in Exhibit "A" represent the amount of cash and the fair market value of property other than cash initially contributed by the Members.

3.2 Additional Capital Contributions by Members.

3.2.1 If either Tejon or Dermody reasonably determines that the Company requires or would benefit from additional funds, such funds may be solicited via written notice from either Tejon or Dermody to the other Members (a "Capital Call") specifying the total amount of capital to be obtained via Capital Contributions pursuant to this Section 3.2.1 and the use(s) therefor.

3.2.2 If a Majority in Interest of the Members determines that the Company requires or would benefit from additional funds not provided pursuant to Section 3.1, either Tejon or Dermody, on behalf of the Company, may, but he shall not be obligated to, do any of the following:

(a) Obtain the funds via third-party debt financing from one or more sources and on commercially reasonable terms and conditions Approved by the Members (which may include, for example, (i) the granting of a lien or liens on certain or all of the Company's assets to secure repayment or (ii) the granting of a Membership or Economic Interest and/or the right to subsequently convert all or a portion of the loan funds provided into a Membership or Economic Interest).

(b) To the extent not obtained pursuant to Section 3.2.2(a), obtain the funds via voluntary Member loans to the Company, on terms and conditions Approved by the Members (which may include, for example, the granting of an additional Percentage Interest in the Company and/or the right to convert all or a portion of the loan funds provided into an additional Percentage Interest), of all or a portion of the total funds required. Such loans shall be considered permitted Member loans. The Members acknowledge and agree that it shall be reasonable for any Member to withhold its approval to a loan with an interest rate or other terms which would not, in such Member's sole and absolute opinion, justify the risk associated with the loan or which loan or any term thereof would violate applicable law. If multiple Members are interested in making loans to the Company on terms and conditions Approved by the Members, and the aggregate amount that such Members wish to loan exceeds the total amount of required funds, each interested Member may loan its Proportionate share of the required funds. If any Member does not wish to loan its entire Proportionate share of the required funds, such share may be lent by the other interested Members on a Proportionate basis. This process shall be repeated until all required funds have been received, but in no event longer than fifteen (15) days after Tejon or Dermody has sent out written notice to all Members soliciting loans pursuant to this Section.

(c) To the extent not obtained pursuant to Sections 3.2.2(a) and (b), obtain the funds via voluntary Member Capital Contributions, which shall be solicited via written notice from Tejon or Dermody (a "Voluntary Capital Call") to all Members specifying the total amount of capital to be obtained via Capital Contributions pursuant to the Capital Call ("Total Amount"), the use(s) therefor, each Member's Proportionate share of the Total Amount and the date by which Capital Contributions in response to the Capital Call are to be made (the "Contribution Date"). Each Member shall be entitled to elect to make a Capital Contribution in response to the Capital Call, equal to its Proportionate share of the Total Amount specified therein, by making a Capital Contribution of all or any portion of such amount by the Contribution Date. If any Member does not contribute its entire Proportionate share of the Total Amount by the Contribution Date, the shortfall may be contributed by the other Members who have elected to make Capital Contributions of their entire Proportionate shares of the Total Amount by the Contribution Date, and this process shall be repeated until all required funds have been received or until no Member has any additional interest in making further Capital Contributions (but in no event longer than fifteen (15) days after the Contribution Date).

(d) To the extent not obtained pursuant to Sections 3.2.2(a), (b) and (c), obtain the funds via one or more issuances of a separate class of Membership Interests ("Class B Interests"), the terms and conditions of each issuance of which, and the rights, preferences, privileges and obligations associated with the ownership of which, are Approved by the Members. Prior to issuing any Class B Interests to outside persons in exchange for funds, such interests shall first be offered to existing Members on a Proportionate basis, and if an existing Member does not purchase his entire Proportionate share of the Class B Interests being offered to it, such share may be purchased by the other Members on a Proportionate basis. This process shall be repeated until all of the Class B Interests have been purchased by the existing Members or until no existing Member has any further interest in purchasing the Class B Interests, but in no event longer than fifteen (15) days after Tejon or Dermody has sent out a written notice to all Members soliciting the purchase of the Class B Interests and setting forth the material terms and conditions pertinent thereto. If existing Members do not purchase all of the Class B Interests, the unpurchased Class B Interests shall then be offered to outside investors (including any interested Affiliates of one or more of the Members) on the same terms and conditions offered to the Members. Upon issuance of one or more Class B Interests pursuant hereto, the Percentage Interests of all other Members shall be diluted as appropriate to reflect the issuance of the Class B Interests, and Exhibit "A" shall be revised appropriately and distribute the revised version to all of the Members.

However, no person may loan funds pursuant to (b) above, make a contribution pursuant to (c) above or make an investment (or additional investment) in the Company pursuant to (d) above unless such person is, at the time his money is to be lent, invested or contributed, an "accredited investor" as that term is defined in Regulation D to the Securities Act of 1933 (as such may be amended from time to time).

3.2.3 If any Member makes more than its Proportionate share of Capital Contributions in response to a Voluntary Capital Call pursuant to Section 3.2.2(c), the Percentage Interest of such Member would be increased by one hundred fifty percent (150%) times that percent determined by dividing the amount so contributed by the sum of all Capital Contributions to the Company. To the extent that a Member's Percentage Interest is increased pursuant hereto, the other Members' Percentage Interests would be correspondingly and Proportionately decreased.

3.2.4 Except as provided above, no Member shall be permitted or required to make any additional Capital Contributions to the Company.

3.2.5 The Company shall endeavor to obtain construction financing on terms and conditions Approved by the Members, for the purpose of improving the Property consistent with the Business Plan and making any required off-site improvements which are not made by the Community Facilities District and which are Approved by the Members. As soon as possible after all such improvements have been completed, the Company shall endeavor to obtain permanent financing on terms and conditions Approved by the Members. Each Member shall provide, or cause to be provided, without fee or other compensation, any guarantees required to obtain approved financing. Any amount paid by a Member or any Affiliate thereof pursuant to a guarantee of Company debt or the debt of any project or entity in which the Company has an interest shall be accounted for, at the option of the person making the payment pursuant to the guaranty (exercised via written notice to the other Members within ninety (90) days after the date such payment was made), as either (a) a permitted Member loan to the Company bearing interest at the Prime Rate, plus two percent (2%), per annum, but not to exceed the maximum permissible rate under applicable usury laws or (b) a voluntary Capital Contribution pursuant to Section 3.2.2(c) by the Member who gave the guaranty or whose Affiliate gave the guaranty (as the case may be).

3.3 Capital Accounts. A Capital Account shall be established and maintained for each Member.

3.4 Member Capital. Except as otherwise provided in this Agreement or with the Approval of the Members: (a) no Member shall demand or be entitled to receive a return of or interest on its Capital Contributions or Capital Account; and (b) no Member shall withdraw any portion of its Capital Contributions or receive any distributions from the Company as a return of capital on account of such Capital Contributions; and (c) the Company shall not redeem or repurchase the Interest of any Member.

3.5 Member Loans. No Member shall be required or permitted to make any loans or otherwise lend any funds to the Company, except as otherwise provided in this Agreement or the Business Plan or as otherwise Approved by the Members. Except as otherwise permitted or provided in this Agreement, no loans made by any Member to the Company shall have any effect on such Member's Percentage Interest or Capital Account. Each Member loan shall represent a debt of the Company payable or collectible solely from the assets of the Company in accordance with the terms and conditions upon which such loan was made. All permitted Member loans shall be repaid in accordance with any documents and instruments evidencing such loans or, absent any such documents or instruments, shall be repaid prior to making any distributions to the Members.

3.6 Liability of Members. Except as otherwise required by any non-waivable provision of the Act or other applicable law, or as provided in any guaranty by one or more Members of one or more Company obligations: (a) no Member shall be personally liable for any debt, liability, or other obligation of the Company; and (b) no Member shall have any liability to any Person in excess of (i) the amount of its Capital Contributions, and (ii) without duplication, its share of any assets and undistributed profits of the Company.

ARTICLE 4
DISTRIBUTIONS

4.1 Timing and Amount of Distributions.Except as otherwise provided in Article 9 hereof, all Cash Available for Distribution, Refinancing Proceeds, Sales Proceeds and net proceeds from any Terminating Capital Transaction shall be distributed to the Members at such times and in such amounts Approved by the Members.

4.2 Order of Distributions.

4.2.1 Subject to Article 9 hereof, any Cash Available for Distribution shall be distributed as follows:

(a) first, to the Members in the proportion and to the extent necessary to cause their respective Unreturned Capital amounts to be proportionate to their respective Percentage Interests; and

(b) thereafter, to the Members in proportion to their respective Percentage.

4.2.2 Subject to Article 9 hereof, any Refinancing Proceeds and any Sales Proceeds shall be distributed as follows:

(a) first, to the Members in the proportion and to the extent necessary to cause their respective Unreturned Capital amounts to be proportionate to their respective Percentage Interests;

(b) second, to the Members in proportion to and to the extent of their respective amounts of Unreturned Capital;

(c) third, to the Members with positive Adjusted Capital Accounts, in proportion to and to the extent of their respective positive Adjusted Capital Accounts; and

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

4.2.3 Distributions made in conjunction with the final liquidation of the Company, including, without limitation, the net proceeds of a Terminating Capital Transaction, shall be applied or distributed as provided in Article 9 hereof.

4.3 Distributions in Kind. No Member shall have a right to receive property other than cash as provided in this Agreement. No other distribution of property or an interest or interest therein may be made without the Approval of the Members. Any distribution of Company property shall be distributed in such a fashion as to ensure that the fair market value thereof is distributed and allocated in accordance with this Article 4 and Articles 5 and 9 hereof.

4.4 Withholding. The Company may withhold distributions or portions thereof if it is required to do so by any applicable rule, regulation, or law, and each

Member hereby authorizes the Company to withhold from or pay on behalf of or with respect to such Member any amount of federal, state, local or foreign taxes that the Company's accountants determine that the Company is required to withhold or pay with respect to any amount distributable or allocable to such Member pursuant to this Agreement. Any amounts so paid or withheld with respect to a Member pursuant to this Section 4.4 shall be treated as having been distributed to such Member and shall reduce any amounts otherwise distributable to such Member (either currently or in the future) pursuant to Section 4.2 or Article 9.

ARTICLE 5
ALLOCATIONS OF NET PROFITS AND NET LOSSES

5.1 Allocation of Net Profits and Losses. Subject to Sections 5.2 and 5.3 hereof, Net Profits, Net Losses and any other items of income, gain, loss and deduction for any fiscal year shall be allocated, for purposes of adjusting the Capital Accounts of the Members, as provided in this Section 5.1:

5.1.1 The Net Losses of the Company shall be allocated as follows:

(a) first, to the Members with positive Adjusted Capital Account Balances, in proportion to and to the extent thereof;

(b) second, to the Members who are allocated a share of the Company's indebtedness pursuant to Code Section 752, in proportion to and to the extent of each such Member's share of the indebtedness that funded the Net Losses being allocated pursuant to this Section 5.1.1(b) (determined by assuming that, once no Member's Adjusted Capital Account is positive, the Net Losses of the Company are funded in inverse order of, and to the extent of, the Company's creditors' claims to the assets of the Company); and

(c) thereafter, to the Members in proportion to their Percentage Interests.

5.1.2 The Net Profits shall be allocated as follows:

(a) first, to the Members in proportion to and to the extent of the Net Losses allocated to them pursuant to Section 5.1.1(c);

(b) second, to the Members in the proportion and to the extent of the Net Losses allocated to them pursuant to Section 5.1.1(b);

(c) third, to the Members in the proportion and to the extent of the Net Losses allocated to them pursuant to Section 5.1.1(a);

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

5.2 Additional Special Allocations. Notwithstanding the foregoing provisions of this Article 5:

5.2.1 Tax items with respect to Company Property that is contributed to the Company with a Gross Asset Value that varies from its basis in the hands of the contributing Member immediately preceding the date of contribution shall be allocated among the Members for income tax purposes pursuant to Regulations promulgated under Code Section 704(c) so as to take into account such variation. The Company shall account for such variation under the so-called "remedial method" pursuant to Regulation Section 1.704-3(b). If the Gross Asset Value of any Company asset is adjusted pursuant to Section 2.31.2 hereof, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations promulgated thereunder. Allocations pursuant to this Section 5.2.1 are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Net Profits, Net Losses and any other items or distributions pursuant to any provision of this Agreement.

5.2.2 The Nonrecourse Deductions for each taxable year of the Company shall be allocated to the Members in proportion to their Percentage Interests.

5.2.3 If there is a net decrease in Company Minimum Gain during a Company taxable year, then each Member shall be allocated items of Company income and gain for such taxable year (and, if necessary, for subsequent years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Regulations Section 1.704-2(g)(2). This Section 5.2.3 is intended to comply with the minimum gain chargeback requirement of Regulations Section 1.704-2(f) and shall be interpreted consistently therewith. The allocation otherwise required pursuant to this Section 5.2.3 shall, however, not apply to a Member to the extent that the minimum gain chargeback rules are inapplicable in a particular circumstance as specified in or under the Regulations.

5.2.4 The Member Nonrecourse Deductions shall be allocated each year to the Member that bears the economic risk of loss (within the meaning of Regulations Section 1.752-2) for the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable.

5.2.5 If there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company taxable year, each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such taxable year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in a manner consistent with the provisions of Regulations Section 1.704-2(g)(2). This Section 5.2.5 is intended to comply with the partner nonrecourse debt minimum gain chargeback requirement of Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

5.2.6 If any Member unexpectedly receives an adjustment, allocation or distribution of the type contemplated by Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) that causes or increases a deficit Adjusted Capital Account, items of income and gain shall be allocated to all such Members (in proportion to the amounts of their respective deficit Adjusted Capital Accounts) in an amount and manner sufficient to eliminate the deficit balances in such Members' Adjusted Capital Accounts as quickly as possible as of the end of the Company's taxable year to which adjustment, allocation or distribution relates. It is intended that this Section 5.2.6 qualify and be construed as a "qualified income offset" within the meaning of Regulations Section 1.704-1(b)(2)(ii)(d).

5.2.7 If the allocation of Net Loss to a Member as provided in Section 5.1.1 hereof (other than 5.1.1(b)) would create or increase a deficit Adjusted Capital Account, there shall be allocated to such Member only that amount of Net Loss as will not create or increase a deficit Adjusted Capital Account. The Net Loss that would, absent the application of the preceding sentence, otherwise be allocated to such Member shall be allocated to the other Members Proportionately.

5.2.8 To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of such Member's Membership Interest in the Company, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Members in accordance with their interests in the Company in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Members to whom such distribution was made in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

5.2.9 The allocations set forth in Sections 5.2.2, 5.2.3, 5.2.4, 5.2.5, 5.2.6, 5.2.7 and 5.2.8 hereof (the "Regulatory Allocations") are intended to comply with certain requirements of Regulations Sections 1.704-1(b) and 1.704-2(i). The Regulatory Allocations may not be consistent with the manner in which the Members intend to distribute the cash of the Company or allocate Company income or loss. Accordingly, the Members shall cause the allocation of Net Profits, Net Losses and other items of income, gains, loss and deductions to the Members so as to prevent the Regulatory Allocations from distorting the manner in which Company distributions will be divided among the Members. In general, the Members anticipate that this will be accomplished by specially allocating other Net Profits, Net Losses and other items of income, gain, loss and deduction to the Members so that, to the extent possible, the net amount of such allocations of other Net Profits, Net Losses and other items and the Regulatory Allocations to the Members shall be equal to the net amount that would have been allocated among the Members if the Regulatory Allocations had not occurred.

5.2.10 The tax allocation provisions of this Agreement are intended to produce final Capital Account balances that are at levels ("Target Final Balances") which permit liquidating distributions that are made pursuant to Section

9.5.1(b) to equal the distributions that would occur if all proceeds of a Terminating Capital Transaction were to be distributed pursuant to Section 4.2.2. To the extent that the tax allocation provisions of this Agreement would not produce the Target Final Balances, the Members shall take such actions as are necessary to amend such provisions to produce such Target Final Balances. Allocations of Company gross income, gain, deductions and losses shall be made prospectively as necessary to produce the Target Final Balances and, to the extent prospective allocations do not produce such Target Final Balances, the prior tax returns of the Company shall be amended to reallocate Company gross income, gains, deductions and losses to produce such Target Final Balances.

5.2.11 For purposes of determining the Net Profits, Net Losses and any other items of income, gain, loss and deduction allocable to any period, Net Profits, Net Losses and any such other items shall be determined on a daily, monthly or other basis permissible method under Code Section 706 and the Regulations thereunder which is Approved by the Members.

5.3 Other Provisions.

5.3.1 For any fiscal year during which any part of a Membership Interest or Economic Interest is transferred between the Members or to another Person, the portion of the Net Profits, Net Losses and other items of income, gain, loss, deduction and credit that are allocable with respect to such part of a Membership Interest or Economic Interest shall be apportioned between the transferor and the transferee based on an interim closing of the Company's books, except as otherwise mandated by the Code and the applicable Regulations.

5.3.2 Except as provided in Section 5.2.1 hereof, for income tax purposes under the Code and the Regulations each Company item of income, gain, loss and deduction shall be allocated among the Members as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to this Article 5.

5.3.3 In the event that the Code or any Regulations require allocations of items of income, gain, loss, deduction or credit different from those set forth in this Article 5, the Members shall make new or different allocations in reliance on the Code and such Regulations, as determined by Company counsel.

5.3.4 For purposes of determining a Member's proportional share of the Company's "excess nonrecourse liabilities" within the meaning of Regulations Section 1.752-3(a)(3), each Member's interest in Company profits shall be such Member's Percentage Interest.

ARTICLE 6
GOVERNANCE AND OPERATIONS

6.1 Management.

6.1.1 Subject to delegation of responsibilities set forth in Section 6.1.2, the restrictions on authority set forth in Sections 6.1.3 and 6.1.5, the other provisions of this Agreement and the Business Plan, each of Tejon and Dermody shall have full, exclusive and complete discretion to manage and control the business and affairs of the Company, to make all decisions affecting the business and affairs of the Company and to do or cause to be done any and all acts, at the expense of the Company, as it deems necessary, appropriate or desirable to accomplish the purposes and direct the affairs of the Company.

6.1.2 Subject to the restrictions on authority set forth in Sections 6.1.3 and 6.1.5, the other provisions of this Agreement and the Business Plan, Tejon and Dermody agree as follows:

(a) Tejon shall have the right and authority to develop, amend and implement the master plan for the Industrial Park (the "Master Plan"), but Dermody may review and comment to Tejon regarding the Master Plan.

(b) Tejon shall have the right and responsibility to develop an improvement plan for the Property and all related off-site improvements that are to be constructed by Company (the "Improvement Plan"), which, once Approved by the Members, shall become a part of the Business Plan. The Improvement Plan may be amended from time to time, with the Approval of the Members, and the Improvement Plan as so amended shall become a part of the Business Plan and replace all prior Improvement Plans on a prospective basis.

(c) Dermody shall have the right and responsibility to develop an improvement budget with respect to the improvements to be constructed by the Company on or with respect to the Property (the "Improvement Budget"), which, once Approved by the Members, shall become a part of the Business Plan. The Improvement Budget may be amended from time to time with the Approval of the Members, and the Improvement Budget as so amended shall become a part of the Business Plan and replace all prior Improvement Budgets on a prospective basis.

(d) The engagement of any professional on behalf of the Company, including architects, engineers, lawyers and accountants, shall require the Approval of the Members. The engagement of any general contractor on behalf of the Company shall also require the Approval of the Members. Dermody shall have the right and responsibility to supervise each architect, engineer and general contractor engaged by the Company, subject to the Business Plan and provided that Tejon shall have the right, but not the responsibility, to coordinate the construction of all off-site improvements to be constructed by the Company with the improvements to be constructed by the Community Facilities District and to ensure, in Tejon's sole and absolute discretion, that Tejon's other property holdings are not adversely affected.

(e) Tejon shall have the right and responsibility for developing a program for Marketing the Property and the Industrial Park (the "Marketing Program") and the related budget to implement the Marketing

Program with funds in the Marketing Fund (the "Marketing Budget"), which, once Approved by the Members, shall become a part of the Business Plan. The Marketing Program and the Marketing Budget may be amended from time to time with the Approval of the Members, and the Marketing Program or Marketing Budget (as the case may be) as so amended shall become a part of the Business Plan and replace all prior Marketing Programs or Marketing Budgets (as the case may be) on a prospective basis. Dermody shall assist in implementing the Marketing Program, as reasonably requested from time to time by Tejon.

(f) Dermody shall have the right and responsibility for developing a leasing program (the "Leasing Program") and a related budget for implementing the Leasing Program (the "Leasing Budget"), which, once Approved by the Members, shall become a part of the Business Plan. The Leasing Program and the Leasing Budget may be amended from time to time with the Approval of the Members, and the Leasing Program or Leasing Budget (as the case may be) as so amended shall become a part of the Business Plan and replace all prior Leasing Programs or Leasing Budgets (as the case may be) on a prospective basis. Dermody shall be responsible for supervising all leasing activity with respect to the Property, subject to the Business Plan. Tejon shall assist Dermody in the supervision of leasing activity, as reasonably requested from time to time by Dermody.

(g) Dermody shall have the right and responsibility for developing an annual program for operating the improvements on the Property once such improvements have been completed (the "Operating Program") and for developing a budget for implementing each such Operating Program (the "Operating Budget"). Once Approved by the Members, the Operating Program and Operating Budget shall become a part of the Business Plan. The Operating Program and the Operating Budget may be amended or revised from time to time with the Approval of the Members, and the Operating Program or Operating Budget (as the case may be) as so amended or revised shall become a part of the Business Plan and replace all prior Operating Programs or Operating Budgets (as the case may be) on a prospective basis. If an amended or revised Operating Budget is presented to but not Approved by the Members, the last Operating Budget Approved by the Members shall be revised by increasing each line item thereof by any increase to the CPI since such budget was approved, and such shall be deemed an approved amendment of the Business Plan. Dermody shall be responsible for implementing the Operating Program and Operating Budget.

(h) Dermody or another Person Approved by the Members shall be the property manager for the Company. The terms and conditions of the property management agreement (and any amendment thereto) must be Approved by the Members.

(i) Tejon shall have the right and authority to make all decisions, vote the Company's votes, and execute any and all consents, approvals, land use applications, annexations, encumbrances, and other documents respecting any matter presented by or relating to the Wheeler Ridge-Maricopa

Water Storage District or theTejon-Castac Water District (collectively, the "Water Districts"); provided, however, if Tejon grants any right and authority with respect to any matter presented by or relating to the Water Districts to a Person similarly situated to Dermody, Dermody shall have rights equal to such similarly situated Person with respect to the Water Districts. Without limiting the foregoing, Tejon's exclusive right and authority provided under this Section 6.1.2(i) shall extend to and include all matters relating to the assessment of liens, taxes and assessments in relation to the Water Districts, including, without limitation, the timing of commencement, amount, spreading and use of such assessments and special taxes.

6.1.3 In addition to any other matters requiring the Approval of the Members pursuant to provisions set forth elsewhere in this Agreement, each of the following matters shall require the Approval of the Members:

(i) any amendment of the certificate of formation or, except as otherwise provided herein, this Agreement;

(ii) agreement to merge the Company with any other entity or entities;

(iii) incurring any cost or expense on behalf of the Company other than in the ordinary course of business, except as required or permitted elsewhere in this Agreement or as contemplated by the Business Plan;

(iv) possessing, assigning or using Company funds or other assets of the Company for other than a Company purpose;

(v) obtaining equity or debt financing on behalf of the Company or cause a refinancing of Company indebtedness, except as required or permitted elsewhere in this Agreement or as contemplated by the Business Plan;

(vi) repaying any secured debt of the Company other than in accordance with terms and conditions of the documents and instruments evidencing the debt and the security therefor;

(vii) causing the Company to sell, exchange or otherwise transfer the Property or a material interest or interests therein, or any other material asset of the Company, except as required or permitted elsewhere in this Agreement or as contemplated by the Business Plan;

(viii) taking any other action inconsistent in any material respect with the Business Plan, the Builder Development Covenants or with this Agreement, including without limitation entering into or terminating material agreements;

(ix) confessing a judgment against the Company; and

(x) instituting or settling a lawsuit or other litigation proceeding, other than pursuant to Section 10.20 hereof.

Notwithstanding the foregoing, Tejon shall have the right and power to act pursuant to Section 6.1.2(i) without the consent or approval of any other Person.

6.1.4 Notwithstanding anything in Section 6.1.2 or Section 6.1.3 to the contrary, Tejon and Dermody is each empowered to act alone on behalf of the Company, without the approval or consent of any person, if the acting Member believes in good faith that its actions are necessary to prevent material harm or damage to the Property, the improvements thereon or the Company and, after exerting commercially reasonable efforts to contact the other Members, the other Members cannot be reached prior to the time such action is necessary. If Tejon or Dermody has acted under authority of this Section, it shall provide written notice to the other Members as soon as reasonably possible after such action, which notice shall specify the action(s) taken and the total costs and expenses incurred pursuant thereto. If Tejon or Dermody has acted permissibly pursuant to this Section, it shall be immediately reimbursed for any costs and expenses incurred by it in so doing.

6.1.5 A voluntary case on behalf of, or an involuntary case against, the Company under a chapter of Title 11 U.S.C. by the filing of a "petition" (as defined in 11 U.S.C. 101(42)) with the United States Bankruptcy Court may only be commenced with the Approval of the Members. Any such petition filed by a Member without the Approval of the Members shall be deemed an unauthorized and bad faith filing and all parties to this Agreement shall use their best efforts to cause such petition to be dismissed.

6.2 Compensation and Reimbursement of Members and Member Affiliates.

6.2.1 Subject to the Business Plan, each Member shall be entitled to reimbursement on a monthly basis from the Company for all out-of-pocket costs and expenses incurred by it, in its reasonable discretion, for or on behalf of the Company. Without limiting the forgoing, the Company shall be responsible for paying directly (or reimbursing the Members) for all costs and expenses incurred by them with respect to the Property through the time of the Property Contribution, which are Approved by the Members (the "Pre-Contribution Improvement Costs").

6.2.2 The Members acknowledge and agree that, in exchange for their respective responsibilities set forth herein, Tejon and Dermody shall share equally (a) a development fee in the total amount of four percent (4%) of the "Hard Costs of Construction" (as set forth in the Improvement Budget), to be paid as such costs are incurred, and (b) the following leasing fees, paid upon occupancy by the tenant(s): (i) if one or more outside brokers are involved, one and a half percent (1.5%) of gross rents for years one (1) through ten (10) inclusive; and if no outside broker is involved, five percent (5%) of gross rent for years one (1) through five (5) inclusive, and two and a half percent (2.5%) of gross rents for years six (6) through ten (10) inclusive. The development fee shall be paid to Tejon and Dermody, as and when Approved by the Members.

6.3 Officers. With the Approval of the Members, a Member may, from time to time, designate officers of the Company and delegate to such officers such authority and duties of such Member and may assign titles (including, without limitation, chief executive officer, president, vice-president, secretary and/or treasurer) to any such officer. Any number of titles may be held by the same officer. Any officer to whom a delegation is made pursuant to the foregoing shall serve in the capacity delegated unless and until such delegation is revoked by the Member who appointed the officer, for any reason or no reason whatsoever, with or without cause, or such officer resigns.

6.4 Records and Reports.

6.4.1 Dermody shall keep or cause to be kept, at the principal place of business of the Company, full and proper ledgers, other books of account, and records of all receipts and disbursements, other financial activities, and the internal affairs of the Company for at least the current and past four fiscal years.

6.4.2 Dermody shall cause to be sent to each Member of the Company, the following:

(a) within ninety (90) days following the end of each fiscal year of the Company, a report that shall include all necessary information required by each of the Members for preparation of its federal, state, and local income or franchise tax or information returns, including each Member's pro rata share of Net Profits, Net Losses, and any other items of income, gain, loss, and deduction for such fiscal year;

(b) a copy of the Company's federal, state, and local income tax or information returns for each fiscal year, concurrent with the filing of such returns;

(c) within ten (10) days after the end of each calendar month, a report in the form attached hereto as Exhibit "E"; and

(d) as soon as reasonably possible after being requested to do so, information about the Company and its affairs requested by Tejon or its auditors.

6.4.3 The Members (personally or through an authorized representative) may, for purposes reasonably related to their Interests, examine and copy (at their own cost and expense) the books and records of the Company at all reasonable business hours.

6.4.4 Tejon and Dermody shall cooperate in all reasonable respects with the other and the other's auditors with respect to any audits of the Company's financial statements, reports and books and records or the review thereof in connection with an audit of the Member or as necessary or desirable to comply with public or private reporting obligations of the Member or any of its Affiliates. The cost of any audit of the Company, or the review of its financial statements, reports and books and records, on behalf of a Member (as opposed to the Company) shall be borne by such Member, unless otherwise Approved by the Members.

6.5 Meetings of Members. At any time, and from time to time, Tejon or Dermody or any other Member with greater than a ten percent (10%) Percentage Interest may call a meeting of the Members. No other Member may call a meeting. No meeting is required to be called or held. Written notice of a meeting, stating the place, date and hour of the meeting and the purpose(s) for which the meeting is called, shall be given by the Member calling the meeting to each Member entitled to vote at such meeting not less than 7 nor more than 30 days in advance. The presence of Tejon and Dermody and a Majority in Interest of any other Members shall constitute a quorum at all meetings of the Members. No minutes of the meetings shall be required to be taken, but a Member may, in its sole and absolute discretion, take minutes of one or more meetings. Unless otherwise provided in this Agreement, any action required or permitted to be taken at a meeting of the Members may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action to be so taken, shall be signed by the holders of Percentage Interests having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all Members entitled to vote thereon were present and voted. Prompt notice of the taking of any such action without a meeting by less than unanimous consent shall be given to those Members that have not consented in writing.

6.6 Standards of Conduct. To the extent that a Member, or any Affiliate or subsidiary, or any officer, director, employee or agent of the Company or any of the foregoing (each, a "Responsible Party") has, at law or in equity, duties (including, without limitation, fiduciary duties) to the Company, any Member or other Person bound by the terms of this Agreement, such Responsible Parties acting in accordance with this Agreement shall not be liable to the Company, any Member, or any such other Person for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict the duties of a Responsible Party otherwise existing at law or in equity, are agreed by all parties hereto to replace such other duties to the greatest extent permitted under applicable law.

6.7 Other Activities. The Members may engage or invest in, and devote their time to, any other business venture or activity of any nature and description (independently or with others), whether or not such other activity may be deemed or construed to be in competition with the Company. Neither the Company nor any other Member shall have any right by virtue of this Agreement or the relationship created hereby in or to such other venture or activity of any Member (or to the income or proceeds derived therefrom), and the pursuit thereof, even if competitive with the business of the Company, shall not be deemed wrongful or improper. Notwithstanding the foregoing, from the date of this Agreement until Stabilization, each Member agrees that neither it nor any of its Affiliates shall, whether directly or indirectly, solicit or seek to hire or offer employment to any employee of any other Member or any employee of any Affiliate of such other Member, unless such other Member gives its written consent to such employment or offer of employment.

ARTICLE 7
INTERESTS AND TRANSFERS OF INTERESTS

7.1 Transfers of Membership Interests.

7.1.1 A Member may make or permit a Transfer, directly or indirectly, by operation of law or otherwise, voluntarily or involuntarily, of all or any portion of its Membership Interest, including all or any portion of its Economic Interest, only as follows:

(a) By Transfer to the Company or to any other Member during lifetime or at death;

(b) By Transfer to an Affiliate of the Member, provided (i) such Transfer and such Affiliate are approved in advance by a Majority in Interest of the other Members, or (ii) the Member executes a written instrument (in a form satisfactory to legal counsel to the Company) that (1) such Transfer shall not release the Member from its obligations hereunder and (2) in the event such Affiliate does not comply with any of the provisions of this Agreement, the Member shall comply with such provisions, and (3) the Member, either directly or indirectly through one or more intermediaries, has the exclusive right and power to control, is controlled by, or is under common control with, such Affiliate;

(c) By lifetime gift, subject to the provisions of Section 7.6;

(d) At death by disposition by will, by trust or by the laws of succession, subject to the provisions of Section 7.6;

(e) By Transfer other than at death to any Person other than a Member, subject to (i) the right of first refusal of certain of the other Members as set forth in Section 7.2 hereof and (ii) the provisions of Section 7.6; or

(f) By Transfer to a revocable trust as provided below.

It is understood that no direct or indirect transfer of an interest in Tejon's parent company or any company or companies directly or indirectly in control thereof will be considered a violation of any transfer restrictions set forth in this Agreement.

7.1.2 Except as provided in Section 7.9, any other purported Transfer of a Membership Interest or Economic Interest shall be null and void ab initio. A Substitute Member may Transfer the transferred Membership Interest or Economic Interest in the same manner as an original or the transferring Member.

7.1.3 Notwithstanding the above or any contrary provision in this Agreement, unless expressly Approved by the Members in writing, any otherwise permitted Transfer shall be null and void ab initio if:

(a) such Transfer would cause a termination of the Company for federal, state, or local, if applicable, income tax purposes;

(b) such Transfer would, in the opinion of counsel to the Company, cause the Company to cease to be classified as a partnership for federal or state income tax purposes;

(c) such Transfer requires the registration of such transferred Interest pursuant to any applicable federal or state securities laws;

(d) such Transfer causes the Company to become a "Publicly Traded Partnership," as such term is defined in Section 7704 of the Code;

(e) such Transfer subjects the Company to regulation under the Investment Company Act of 1940, the Investment Advisers Act of 1940 or the Employee Retirement Income Security Act of 1974, each as amended;

(f) such Transfer results in a violation of applicable laws;

(g) such Transfer is made to any Person who lacks the legal right, power, or capacity to own such Interest; or

(h) the Company does not receive written instruments (including, without limitation, copies of any instruments of Transfer and such Assignee's consent to be bound by this Agreement as an Assignee) that are in a form satisfactory to counsel to the Company.

7.2 Sale or Transfer of a Member's Interest. Except as otherwise provided herein and in Section 7.1 hereof, no Member nor such Member's heirs, personal representatives, successors or assigns (a "Selling Member") shall have the right to Transfer all or any portion of his Membership Interest or Economic Interest unless such Selling Member shall first deliver a notice in writing to the other Members, stating the price, terms and conditions of such proposed Transfer and the identity of the proposed transferee. For a period of thirty (30) days after issuance of such notice, the other Members shall have the right to elect via written notice to the other Members to purchase all of the interest so proposed to be transferred upon the same terms and conditions. If the other Members or a portion of them collectively elect to purchase more than the entire interest, then each such Member shall be entitled to purchase its Proportionate share of the interest plus its Proportionate share of the interest which remains available for purchase pursuant to this Section 7.2. If the Members do not timely elect pursuant hereto to the purchase the entire interest proposed to be transferred by the Selling Member, the Selling Member may within ninety (90) days thereafter complete the sale or Transfer upon the terms originally proposed. In the event that the Selling Member does not complete the sale or transfer of its Membership Interest or Economic Interest within such ninety (90) day period, then the rights of the Members under this Section 7.2 shall be reinstated and apply to any subsequent sale or Transfer of such interest proposed by the Selling Member.

7.3 Rights of Assignees. Until such time, if any, as a transferee of any permitted Transfer pursuant to this Article 7 is admitted to the Company as a Substitute Member pursuant to Section 7.6: (i) such transferee shall be an Assignee only, and only shall receive, to the extent Transferred, the distributions and allocations of income, gain, loss, deduction, credit, or similar item to which the Member which Transferred its Interest would be entitled; and (ii) such Assignee shall not be entitled or enabled to exercise any other rights or powers of a Member, such other rights remaining with the transferring Member. In such a case, subject to

Section 7.9 hereof, the transferring Member shall remain a Member even if he has transferred his entire Economic Interest in the Company to one or more Assignees. In the event any Assignee desires to make a further assignment of any Economic Interest in the Company, such Assignee shall be subject to all of the provisions of this Agreement to the same extent and in the same manner as any Member desiring to make such an assignment.

7.4 Admissions, Withdrawals, and Removals. No Person shall be admitted to the Company as a Member except pursuant to Section 3.2.2 (in the case of Persons obtaining an interest in the Company directly from the Company) or Section 7.6 (in the case of transferees of a permitted Transfer of an interest in the Company from another Person). Except as otherwise specifically set forth in Section 7.7, no Member shall be entitled to retire or withdraw from being a Member of the Company without the written consent of the other Members. No Member shall be subject to removal except for good cause, as determined by the vote of Members holding at least seventy-five percent (75%) of the Percentage Interests. No admission, withdrawal, or removal of a Member shall cause the dissolution of the Company. Any purported admission, withdrawal, or removal that is not in accordance with this Agreement shall be null and void.

7.5 Payment Upon Withdrawal or Removal of Member. If any Member withdraws from the Company with the consent of the other Members (other than pursuant to Section 7.7), or if any Member is removed pursuant to Section 7.4, then such Member shall be entitled to receive from the Company a payment equal to (a) the lesser of (i) the Member's Unreturned Capital as adjusted as of the effective date of the written election of withdrawal or the date of removal or (ii) the amount the Member would be paid assuming exercise of the Buy Out Option pursuant to Section 7.10 with respect to such Member's Membership Interest (on the date of the withdrawal or removal of the Member) and the subsequent closing of the purchase and sale transaction contemplated therein, or (b) such other amount as may be agreed upon by such Member and a Majority in Interest of the other Members (in either event, the "Termination Payment"). The Termination Payment shall be paid within six months after the effective date of the removal or written election of withdrawal, or on such other date as may be agreed upon by the removed or withdrawing Member and a Majority in Interest of the other Members. If any Member attempts to withdraw from the Company (other than pursuant to Section 7.7) without the consent of the other Members, then, notwithstanding the last sentence of Section 7.4, the other Members may, by vote of a Majority in Interest thereof, permit such withdrawal (without waiving, in any manner, any other rights available to it or the Company at law or in equity and in addition to, and not in lieu of, any other remedies to which it or the Company may be entitled), provided that such withdrawing Member shall not be entitled to any Termination Payment or any other compensation whatsoever in consideration for its terminated Membership Interest.

7.6 Admission of Assignees as Substitute Members.

7.6.1 An Assignee shall become a Substitute Member only if and when each of the following conditions are satisfied:

(a) the assignor of the Interest transferred sends written notice to the other Members requesting the admission of the Assignee as a

Substitute Member and setting forth the name and address of the Assignee, the Percentage Interest transferred, and the effective date of the Transfer;

(b) a Majority in Interest of the other Members consent in writing to such admission; and

(c) the Company receives from the Assignee (i) such information concerning the Assignee's financial capacities and investment experience as may be requested by legal counsel to the Company, and (ii) written instruments (including, without limitation, copies of any instruments of Transfer and such Assignee's consent to be bound by this Agreement as a Substitute Member) that are in a form satisfactory to legal counsel to the Company.

7.6.2 Upon the admission of any Substitute Member, Exhibit "A" shall be amended to reflect the name, address, and Percentage Interest of such Substitute Member and to eliminate or adjust, if necessary, the name, address, and Percentage Interest of the predecessor of such Substitute Member.

7.7 Withdrawal of Members. If a Member has transferred all of its Membership Interest to one or more Assignees, then such Member shall withdraw from the Company if and when all such Assignees have been admitted as Substitute Members in accordance with this Agreement.

7.8 Conversion of Membership Interest. Upon the Incapacity of a Member, such Incapacitated Member's Membership Interest shall automatically be converted to an Economic Interest only, and such Incapacitated Member (or its executor, administrator, trustee, or receiver, as applicable) shall thereafter be deemed an Assignee for all purposes hereunder, with the same Economic Interest as was held by such Incapacitated Member prior to its Incapacity, but without any other rights of a Member unless the holder of such Economic Interest is admitted as a Substitute Member pursuant to Section 7.6.

7.9 Buy/Sell. Each Member (the "Offeror Member") shall have the right at any time to purchase the entire Membership Interest of another Member (the "Offeree Member") or to sell the entire Membership Interest of the Offeror Member in the Company to the Offeree Member in the manner set forth in this Section 7.9. The purchaser under this Section 7.9 shall indemnify in a commercially reasonable manner the selling Member and its Affiliates for any exposure from all liabilities connected with the assets of the Company relating to events and circumstances which occur or come into existence after the closing of the purchase and sale transaction contemplated hereby. Additionally, the purchaser shall obtain releases of any guaranty or guaranties issued by the selling Member or any of its Affiliates, which releases shall be effective contemporaneously with closing of the transaction contemplated hereby.

(a) The Offeror Member may serve upon the Offeree Member a notice (the "Offering Notice") which shall contain the following terms:

(i) a statement of intent to rely on this Section 7.9;

(ii) the aggregate dollar amount (the "Specified Amount") which the Offeror Member would be willing to pay for the assets of the Company as of a date certain.

(b) The Offeree Member shall have the election to either:

(i) sell its full Membership Interest in the Company to the Offeror Member for an amount equal to the amount the Offeree Member would have been entitled to receive if the Company had sold its assets for the Specified Amount on a no-commissions basis on the date of closing and the Company had immediately paid all Company liabilities and distributed the net proceeds to each Member in accordance with Section 9.5.1; or

(ii) purchase the full Membership Interest of the Offeror Member for an amount equal to the amount the Offeror Member would have been entitled to receive if the Company had sold its assets for the Specified Amount on a no-commissions basis on the date of closing and the Company had immediately paid all Company liabilities and distributed the net proceeds to each Member in accordance with Section 9.5.1.

(c) The Offeree Member shall have thirty (30) days from the date of delivery of the Offering Notice to notify the Offeror Member of its unconditional and unqualified election to either sell its full Membership Interest, as provided under Section 7.9(b)(i), or to purchase the full interest of the Offeror Member, as provided under Section 7.9(b)(ii). If the Offeree Member fails to notify the Offeror Member of its unconditional and unqualified election within said thirty (30) day period, the Offeree Member shall be conclusively deemed to have elected to sell its full Membership Interest in the Company to the Offeror Member at the price provided in Section 7.9(b)(i) and to have waived its exclusive right to purchase hereunder.

(d) Closing of such sale or purchase between the Offeror Members and the Offeree Member shall occur within ninety (90) days from and after the date the Offeree Member delivers notice (or is deemed to deliver notice) of its election pursuant to subsection (c) above. The parties hereby acknowledge and agree that time is of the essence. The amount to be paid by the Purchasing Member pursuant to this Section 7.9 shall be paid in cash.

IF THE PURCHASER UNDER THIS SECTION FAILS TO CONSUMMATE THE PURCHASE PURSUANT TO THE PROVISIONS OF THIS SECTION, THE SELLER UNDER THIS SECTION SHALL HAVE THE RIGHT TO THE IMMEDIATE PAYMENT OF LIQUIDATED DAMAGES FROM SUCH PURCHASER IN THE AMOUNT OF FIVE PERCENT (5%) OF THE AMOUNT WHICH THE SELLER WOULD HAVE RECEIVED UNDER SUCH SALE. THE MEMBERS HEREBY ACKNOWLEDGE AND AGREE THAT

THE AMOUNT OF SELLER'S DAMAGES RESULTING FROM SUCH A BREACH OF THIS SECTION 7.9(d) BY PURCHASER WOULD BE DIFFICULT OR IMPOSSIBLE TO ACCURATELY ASCERTAIN AND THAT SELLER'S DAMAGES WOULD, IN ANY EVENT, BE SUBSTANTIAL. THE MEMBERS HEREBY AGREE, WHICH AGREEMENT IS CONFIRMED BY THEIR INITIALS AT THE END OF THIS SECTION, THAT IN THE EVENT OF PURCHASER'S DEFAULT (AS DESCRIBED IN THE FIRST SENTENCE ABOVE) (1) THE AMOUNT INDICATED ABOVE SHALL BE DEEMED TO CONSTITUTE A REASONABLE ESTIMATE OF SELLER'S DAMAGES, (2) SUCH LIQUIDATED DAMAGES SHALL BE SELLER'S SOLE AND EXCLUSIVE REMEDY FOR THAT PARTICULAR DEFAULT, WHETHER AT LAW OR EQUITY, NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT (EXCEPT THAT SELLER SHALL ALSO HAVE THE OPTION MENTIONED IN SECTION 7.9(e)) AND (3) UPON PAYMENT OF SUCH LIQUIDATED DAMAGES TO SELLER, PURCHASER SHALL BE RELEASED FROM ANY FURTHER LIABILITY TO SELLER PURSUANT TO THIS SECTION 7.9(d) FOR THAT PARTICULAR DEFAULT ONLY (EXCEPT THAT SELLER SHALL ALSO HAVE THE OPTION MENTIONED IN SECTION 7.9(e)). ATTORNEYS FEES AND COSTS PURSUANT TO THIS AGREEMENT SHALL BE AVAILABLE IF INCURRED BECAUSE OF A FAILURE OF THE PURCHASER TO PAY OVER SUCH LIQUIDATED DAMAGES WHEN REQUIRED BY THIS SECTION.

Initials	Initials
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(e) If, following an election by the Offeree Member to purchase under Section 7.9(b)(ii), the Offeree Member shall fail to consummate the purchase of the Offeror Member's Membership Interest in accordance with this Section 7.9, then the Offeree Member shall, at the Offeror Member's option (which option shall be in addition to the Offeror's remedy under Section 7.9(d)), to be exercised within ten (10) days after the Offeree Member's failure to consummate such purchase in accordance with this Section 7.9, sell its Membership Interest to the Offeror Member within sixty (60) days as if the Offeree Member had initially elected to sell under Section 7.9(b)(i). In the event of such election, the failure of the Offeror Member to consummate the purchase shall trigger the same remedy set forth in Section 7.9(d).

(f) The provisions of this Section 7.9 shall control over and override all of the provisions relating to transfer restrictions and/or withdrawal rights set forth in this Agreement, except that, in the event the Buy Out Option is exercised, any exercise of the option provided for in this Section that has not previously resulted in a closed purchase and sale transaction pursuant to this Section, or any attempt to exercise the option provided for in this Section after the Buy Out Option has been exercised and prior to the closing of a purchase and sale transaction pursuant thereto or the lapse of the Buy Out Option pursuant to Section 7.10, shall be null and void. If an Offering Notice has been given pursuant to this Section 7.9, no notice pursuant to Section 7.2 may be given until all of the time periods triggered by the Offering Notice have expired without consummation of the purchase and sale pursuant to this Section 7.9.

7.10 Option to Purchase Defaulting Member's Interest. At any time within one hundred twenty (120) days (the "Notice Period") after:

(i) a Capital Call has been made; and

(ii) Tejon or Dermody has timely made its entire Proportionate share of a loan pursuant to Section 3.2.2(b) and/or a Capital Contribution pursuant to Section 3.2.2(c) in response to the Capital Call ("Non-Defaulting Member") and the other Member ("Defaulting Member") has failed to do so:

an option ("Buy Out Option") shall arise in the Non-Defaulting Member to acquire the Defaulting Member's entire Membership Interest (the "Option Interest"). The Buy Out Option may be exercised by the Non-Defaulting Member by providing written notice thereof ("Buy Out Notice") to the Defaulting Member within the Notice Period.

If the Buy Out Option is exercised, the purchase price for the Option Interest shall be equal to the amount the Defaulting Member would have been entitled to receive pursuant to Section 9.5.1 on the date of exercise of the Buy Out Option had all of the Company Assets been sold on such date for their fair market value, net of presumed closing costs of seven and one-half percent (7.5%) thereof, and the net proceeds thereof immediately distributed pursuant to Section 9.5.1. The purchase price shall be paid in cash. If the Non-Defaulting Member elects to purchase the Option Interest, the closing shall occur (i) within thirty (30) days after the lapse of the Notice Period and the purchase price for the Option Interest is agreed upon or otherwise determined pursuant to this Section or (ii) within a time period otherwise agreed to in writing by the Non-Defaulting Member and the Defaulting Member. It being understood that the Non-Defaulting Member shall be under no obligation to purchase the Option Interest, and if it does not elect to do so by delivering a Buy Out Notice within the Notice Period, the particular exercise of the Buy Out Option shall lapse without obligation or liability of the Non-Defaulting Member and without affecting a subsequent exercise of the Buy Out Option by a Member entitled pursuant to this Section to do so.

In the event the Non-Defaulting Member exercises its Buy Out Option pursuant to this Section 7.10, all guarantees made by the Defaulting Member or any Affiliate of the Defaulting Member which guarantee any Company indebtedness will not be released and will remain in full force and effect until the earlier to occur of (i) the refinancing of such Company indebtedness on terms and conditions not requiring the guarantee of any Member or the guarantee of any Member's Affiliate, or (ii) the satisfaction by the Company of the indebtedness guaranteed by the Defaulting Member or the Defaulting Member's Affiliate. Notwithstanding the foregoing and in the event a Non-Defaulting Member has exercised its Buy Out Option pursuant to this Section 7.10 and the Defaulting Member or an Affiliate of the Defaulting Member has guaranteed any Company indebtedness, the Members shall exercise reasonable efforts to secure substitute financing not requiring the guarantee of the Defaulting Member or any Affiliate of the Defaulting Member. In no event, however, will any guarantee of the Defaulting Member or the Affiliate of the Defaulting Member be released if the obligations of the Non-Defaulting Member or any of its Affiliates will, or potentially will, be increased by such a release. If the subject guarantee is part of an arrangement pursuant to which both the Non-Defaulting Member and the Defaulting Member, or their respective Affiliates, have guaranteed Company indebtedness on a joint and several basis, the

Defaulting Member's or its Affiliate's guarantee shall not be released hereunder unless the amount guaranteed by such joint and several guarantee of the Members under the terms of the substitute financing is reduced to fifty percent (50%) or less of the guaranteed amount prior to the release.

For purposes of this Section 7.10, the fair market value of the Company Assets shall be determined via agreement by the Defaulting Member and the Non-Defaulting Member or, if they cannot agree within thirty (30) days after either of them provides written notice to the other of the need to do so, by an appraiser agreed upon by the Defaulting Member and the Non-Defaulting Member. In the event that the fair market value of the Company Assets is to be determined by an appraiser, the Defaulting Member and the Non-Defaulting Member shall attempt in good faith to agree on a single appraiser. If they are unable to agree on a single appraiser within thirty (30) days after either requests the other to do so, each shall select a qualified appraiser with experience in valuing real estate comparable to the Property, and the two appraisers so selected shall select a third similarly qualified appraiser. Such third appraiser shall then determine the fair market value of the Company Assets pursuant to this Section 7.10. If either the Defaulting Member or the Non-Defaulting Member fails for any reason to select an appraiser within fifteen (15) days after being requested to do so by the other, the appraiser selected by the other shall render the appraisal.

The provisions of this Section 7.10 shall control over and override all of the provisions relating to transfer restrictions and/or withdrawal rights set forth in this Agreement If a Buy Out Notice has been given pursuant to this Section 7.10, no notice pursuant to Section 7.2 or Section 7.9 may be given until consummation of the purchase and sale pursuant to this Section 7.10 or the lapse of the particular exercise of the Buy Out Option as provided above.

ARTICLE 8
LIABILITY, EXCULPATION, AND INDEMNIFICATION

8.1 Liability. Except as otherwise provided by the Act, 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 or any proper delegate shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member or a delegate.

8.2 Exculpation.

(i) No Covered Person shall be liable to the Company or any other Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, except that a Covered Person shall be liable for any such loss, damage or claim incurred by reason of such Covered Person's gross negligence or willful misconduct.

(ii) A Covered Person shall be fully protected in relying in good faith upon the records of the Company 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 and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, Profits, Losses or net cash flow or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

8.3 Indemnification. To the fullest extent permitted by applicable law, a Covered Person shall be entitled to indemnification from the Company for any loss, damage, or claim incurred by such Covered Person by reason of any act or omission performed or omitted by such Covered Person (including alleged breaches of fiduciary duty) in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of authority conferred on such Covered Person by this Agreement, except that no Covered Person shall be entitled to be indemnified in respect of any loss, damage, or claim incurred by such Covered Person by reason of gross negligence or willful misconduct with respect to such acts or omissions; provided, however, that any indemnity under this Section 8.3 shall be provided out of and to the extent of Company assets only, and no Member shall have any personal liability with respect to such indemnity.

8.4 Expenses. To the fullest extent permitted by applicable law, expenses (including legal fees) incurred by a Covered Person in defending any claim, demand, action, suit, or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit, or proceeding upon receipt by the Company of an undertaking by or on behalf of the Covered Person to repay such amount if it shall be determined that the Covered Person is not entitled to be indemnified as authorized in Section 8.3 hereof.

8.5 Insurance. The Company may purchase and maintain insurance, to the extent and in such amounts Approved by the Members, on behalf of Covered Persons and such other Persons Approved by the Members, against any liability 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 Approved by the Members and adopt written procedures pursuant to which arrangements are made for the advancement of expenses and the funding of obligations under Section 8.4 hereof and containing such other procedures regarding indemnification Approved by the Members.

ARTICLE 9
DISSOLUTION, LIQUIDATION, AND TERMINATION OF THE COMPANY

9.1 Limitations. The Company may be dissolved, liquidated, and terminated only pursuant to the provisions of this Article 9, and the parties hereto do hereby irrevocably waive any and all other rights they may have to cause a dissolution of the Company or a sale or partition of any or all of the Company Assets.

9.2 Exclusive Causes. Notwithstanding the Act, the following and only the following events shall cause the Company to be dissolved, liquidated, and terminated:

(a) The occurrence of a Terminating Capital Transaction; or

(b) The Approval of the Members.

Any dissolution of the Company other than as provided in this Section 9.2 shall be a dissolution in contravention of this Agreement.

9.3 Effect of Dissolution. The dissolution of the Company shall be effective on the day on which the event occurs giving rise to the dissolution, but the Company shall not terminate until it has been wound up and its assets have been distributed as provided in Section 9.5 of this Agreement. Notwithstanding the dissolution of the Company, prior to the termination of the Company, the business of the Company and the affairs of the Members, as such, shall continue to be governed by this Agreement.

9.4 No Capital Contribution Upon Dissolution. Each Member shall look solely to the assets of the Company for all distributions with respect to the Company, its Capital Contribution thereto, its Capital Account, and its share of Net Profits or Net Losses, and shall have no recourse therefor (upon dissolution or otherwise) against any other Member. Accordingly, if any Member has a deficit balance in its Capital Account (after giving effect to all contributions, distributions, and allocations for all taxable years, including the year during which the liquidation occurs), then such Member shall have no obligation to make any Capital Contribution with respect to such deficit, and such deficit shall not be considered a debt owed to the Company or to any other person for any purpose whatsoever.

9.5 Liquidation.

9.5.1 Upon dissolution of the Company, the Person designated by a Majority in Interest of the Members shall act as Liquidator. The Liquidator shall liquidate the assets of the Company, and after allocating (pursuant to Article 5 of this Agreement) all income, gain, loss and deductions resulting therefrom, shall apply and distribute the proceeds thereof as follows:

(a) first, to the payment of the obligations of the Company, to the expenses of liquidation, and to the setting up of Reserves; and

(b) thereafter, to the Members in proportion to the positive balances in the Members' respective Capital Accounts, determined after taking into account all Capital Account adjustments for the Company taxable year during which such liquidation occurs (other than those made as a result of the distributions set forth in this Section 9.5.1(b) of this Agreement), by the end of the taxable year in which such liquidation occurs or, if later, within 90 days after the date of the liquidation.

9.5.2 Notwithstanding Section 9.5.1 of this Agreement, in the event that the Liquidator reasonably determines that an immediate sale of all or any portion of the Company Assets would cause undue loss to the Members, the Liquidator, in order to avoid such loss to the extent not then prohibited by the Act, may either defer liquidation of and withhold from distribution for a reasonable time any Company Assets except those necessary to satisfy the Company's debts and obligations, or distribute the Company Assets to the Members in kind.

ARTICLE 10
MISCELLANEOUS

10.1 Amendments.

10.1.1 Each Additional Member and Substitute Member shall become a signatory hereto by signing such number of counterpart signature pages to this Agreement and such other instruments, in such manner, as legal counsel to the Company shall determine. By so signing, each Additional Member and Substitute Member, as the case may be, shall be deemed to have adopted and to have agreed to be bound by all of the provisions of this Agreement.

10.1.2 This Agreement may be amended at any time and from time to time by execution of a written agreement executed by at least a Majority in Interest of the Members.

10.1.3 In making any amendments, the Members shall prepare and file (or cause to be prepared and filed) such documents and certificates as may be required under the Act and under the laws of any other jurisdiction applicable to the Company.

10.2 Accounting and Fiscal Year. Subject to Code Section 448, the books of the Company shall be kept on such method of accounting for tax and financial reporting purposes require by the Code or the Regulations or as otherwise Approved by the Members. The fiscal year of the Company shall end on December 31 of each year, or on such other date required by the Code or the Regulations (or permitted under the Code or Regulations and Approved by the Members).

10.3 Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof and fully supersedes any and all prior or contemporaneous agreements or understandings between the parties hereto pertaining to the subject matter hereof.

10.4 Further Assurances. Each of the parties hereto does hereby covenant and agree on behalf of itself, its successors, and its assigns, without further consideration, to prepare, execute, acknowledge, file, record, publish, and deliver such other instruments, documents and statements, and to take such other action as may be required by law or reasonably necessary to effectively carry out the purposes of this Agreement.

10.5 Notices. Any notice, consent, payment, demand, or communication required or permitted to be given by any provision of this Agreement shall be in writing and shall be (a) delivered personally to the Person or to an officer of the Person to whom the same is directed, or (b) sent by facsimile or registered or certified mail, return receipt requested, postage prepaid, addressed as follows: if to the Company, to the Company at the address set forth in Section 1.3 hereof, or to such other address as the Company may from time to time specify by notice to the Members; if to a Member, to such Member at the address set forth in Exhibit "A", or to such other address as such Member may from time to time specify by notice to the Company. Any such notice shall be deemed to be delivered, given and received for all purposes as of: (i) the date so delivered, if delivered personally, (ii) upon receipt, if sent by facsimile, or (iii) on the date of receipt or refusal indicated on the return receipt, if sent by registered or certified mail, return receipt requested, postage and charges prepaid and properly addressed.

10.6 Tax Matters.

10.6.1 Tejon shall be designated and shall operate as "Tax Matters Partner" (as defined in Code Section 6231), to oversee or handle matters relating to the taxation of the Company.

10.6.2 The Tax Matters Partner may make all elections for federal income and all other tax purposes (including, without limitation, pursuant to Section 754 of the Code), with the Approval of the Members.

10.6.3 Income tax returns of the Company shall be prepared by such certified public accountant(s) as the Members shall retain at the expense of the Company.

10.7 Governing Law; Certain Waivers. This Agreement, including its existence, validity, construction, and operating effect, and the rights of each of the parties hereto, shall be governed by and construed in accordance with the laws of the State of Delaware without regard to otherwise governing principles of conflicts of law. The Members waive any and all rights they may have to a jury trial, and any and all rights they may have to punitive, special, exemplary, or consequential damages, in respect of any dispute based on this Agreement.

10.8 Construction. This Agreement shall be construed as if all parties prepared this Agreement.

10.9 Captions - Pronouns. Any titles or captions contained in this Agreement are for convenience only and shall not be deemed part of the text of this Agreement. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular, or plural as appropriate.

10.10 Binding Effect. Except as otherwise expressly provided herein, this Agreement shall be binding on and inure to the benefit of the Members, their heirs, executors, administrators, successors, and all other Persons hereafter holding, having, or receiving an interest in the Company, whether as Assignees, Substitute Members, or otherwise.

10.11 Confidentiality. Each party hereto agrees that the provisions of this Agreement, all understandings, agreements, and other arrangements between and among the parties, and all other non-public information received from or otherwise relating to, the Company shall be confidential, and, except as otherwise required by law, shall not be disclosed or otherwise released to any other Person (other than to such party's legal counsel or another party hereto), without the written consent of the other Members (which shall not be unreasonably withheld or delayed). The obligations of the parties hereunder shall not apply to the extent that the disclosure of information otherwise determined to be confidential is required by applicable law, provided that, prior to disclosing such confidential information, a party shall notify the Company thereof, which notice shall include the basis upon which such party believes the information is required to be disclosed.

10.12 Member Representations. Each Member acknowledges, agrees and represents to the Company and each other Member that (a) it is an "accredited investor," as that term is defined in Regulation D to the Securities Act of 1933, (b) it either (i) has a preexisting business relationship with the Company or any of its partners, officers, directors or controlling persons or (ii) by reason of its business or financial experience or the business or financial experience of its professional advisors who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent of the Company, directly or indirectly, has the capacity to protect its own interests in connection with an investment in the Company, (c) it has been furnished with all documents and additional information requested by it for the purpose of evaluating whether an investment in the Company is suitable for the Member, (d) in evaluating an investment in the Company, the Member has consulted with its own investment, legal and tax advisors and has independently concluded that an investment by the Member in the Company is appropriate in light of its overall investment objectives and financial situation, (e) the Member has adequate means of providing for current needs and contingencies, has no need for liquidity with respect to its investment in the Company and is able to bear the economic risk of a loss of the Member's entire investment in the Company, (f) the Member is purchasing its interest for the Member's own account for investment and not with a view to or for resale in connection with any distribution of such security, and (g) the Member understands there are no guarantees or assurances of any economic or other benefits that may accrue by virtue of holding an interest in the Company. Each Member further acknowledges, agrees and represents that it is not relying on legal counsel of any other Member in reviewing this Agreement and in deciding whether to invest as a Member. In this connection, the Members acknowledge and agree that Latham & Watkins has represented solely Tejon in putting together this Agreement and that, although Latham & Watkins will continue to represent Tejon and certain of its Affiliates on various matters from time to time, all Members consent to the representation by Latham & Watkins of the Company from time to time. All Members further acknowledge and agree that Latham & Watkins may rely upon the statements made to it, and the instructions given it, by Tejon, Dermody or any of their respective agents or representatives without any duty of inquiry as to the Person's authority to do. The Members further acknowledge and agree that Lionel Sawyer & Collins has represented solely Dermody in putting together this Agreement and that, although Lionel Sawyer & Collins will continue to represent Dermody and certain of its Affiliates on various matters from time to time, all Members consent to the representation by Lionel Sawyer & Collins of the Company from time to time. All Members further acknowledge and agree that Lionel Sawyer & Collins may rely upon the statements made to it, and the instructions given it, by Tejon, Dermody or any of their respective agents or representatives without any duty of inquiry as to the Person's authority to do.

10.13 Counterparts. This Agreement may be executed in any number of multiple counterparts, each of which shall be deemed to be an original copy and all of which shall constitute one agreement, binding on all parties hereto.

10.14 Attorney Fees. In case any proceeding, whether at law, in equity or in arbitration, shall be brought by any Member or by or on behalf of the Company to enforce the terms of this Agreement or with respect to any breach hereof, the prevailing party in each such proceeding, as determined by the court or arbitrator, shall be entitled to the payment of reasonable attorneys' fees and costs from the non-prevailing party or parties (as determined by the court or arbitrator).

10.15 Titles. Article and Section titles are for descriptive purposes only and shall not control or alter the meaning of this Agreement as set forth in the text.

10.16 Successors. This Agreement shall bind and inure to the benefit of the Members' respective successors and assigns.

10.17 Computation of Time Periods. All periods of time referred to in this Agreement shall include Saturdays, Sundays and state or national holidays, provided that if the date or last date to perform any act or give any notice or approval shall fall on a Saturday, Sunday or state or national holiday, such act or notice may be timely performed or given on the next succeeding day which is not a Saturday, Sunday or state or national holiday.

10.18 Severability. Should any one or more of the provisions of this Agreement or of any agreement entered into pursuant to this Agreement be determined to be illegal or unenforceable, then such illegal or unenforceable provision shall be modified by the proper court or arbitrator to the minimum extent necessary and possible to make such provision enforceable, and such modified provision and all other provisions of this Agreement and of each other agreement entered into pursuant to this Agreement shall be given effect separately from the provision or portion thereof determined to be illegal or unenforceable and shall not be affected thereby.

10.19 Signatory Authority. By signing this Agreement, the individual or individuals signing this Agreement on behalf of each Member represents to the other Members that he or she has full authority to do so, has received all required consents, and that his or her signature (together with the signature or signatures of any other individual signing below on behalf of such Member) is (are) the only signatures required to bind the Member on whose behalf he or she is signing this Agreement.

10.20 Arbitration. Any disputes which arise involving all or any of the Members under this Agreement shall be subject to final, binding arbitration upon written request by any Member involved in the dispute in accordance with this Section. The dispute shall be submitted before JAMS/Endispute ("JAMS") within thirty (30) days after the requesting notice in accordance with the then existing JAMS Arbitration Rules as modified by this Section; a decision shall be issued within thirty (30) days after the close of the record; and judgment upon the award may be entered in any court having jurisdiction over the judgment. Within thirty (30) days after selection of the arbitrator as provided herein, each party to the dispute shall submit to each other and the arbitrator their respective proposals for resolution of the dispute, and the arbitration shall be limited to the sole question of determining which written proposal is to be accepted. The arbitrator shall have no authority to compromise between the proposals. If a party to a dispute fails to appear at any properly noticed arbitration proceeding, an award may be entered against such party notwithstanding such failure to appear. If the parties disagree on the choice for an arbitrator, the parties shall jointly request JAMS to furnish a list of five available arbitrators. After receipt of such list and an opportunity to consider the names, each party may designate in writing to JAMS not more than two names to be eliminated from the selection process. If more than one name remains after such eliminations are made, the selection of the arbitrator shall be made by lot from the remaining names. If either party makes demand upon the other for arbitration, the arbitration shall be conducted in Bakersfield, California at the location designated by the arbitrator. The parties may mutually agree to another location. Subject to Section 10.14, the expenses, wages and other compensation of any witnesses called before the arbitrator shall be borne by the party calling the witnesses. Subject to Section 10.14, other expenses incurred, including wages of participants and experts shall be borne separately by the respective parties. Subject to Section 10.14, the fee for the arbitration, the arbitrator's fees and expenses, the cost of any hearing room, and the cost of a shorthand or similar reporter and the original transcript shall all be borne by the Company.

10.21 Approvals. Except as otherwise explicitly provided herein to the contrary, whenever a Member's approval or consent is required, such approval or consent shall not be unreasonably withheld or delayed. If a Member provides written notice to another Member requesting that such other Member approve or consent to an action or proposal, which action or proposal is specified in the written notice, the Member's approval or consent (as the case may be) shall be deemed given unless the Member provides written notice to the Member giving the notice within the time period specified to obtain such approval or, if no time frame is specified, thirty (30) days thereafter that the Member does not approve or consent to the action or proposal.

10.22 Interpretations. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against any party hereto, whether under any rule of construction or otherwise. No party to this Agreement shall be considered the draftsman. On the contrary, this Agreement has been reviewed, negotiated and accepted by all parties and their attorneys and shall be construed and interpreted according to the ordinary meaning of the words used so as fairly to accomplish the purposes and intentions of all parties hereof.

10.23 No Third-Party Beneficiaries. Nothing in this Agreement is intended to confer any rights or remedies on any Person other than the parties to this Agreement and their respective successors-in-interest and permitted assigns.

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MEMBER SIGNATURE PAGE

THE MEMBER INTERESTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED UNLESS (A) COVERED BY AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND QUALIFICATION ORDERS UNDER SUCH LAWS OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SUCH ACT AND QUALIFICATION ORDERS UNDER SUCH LAWS, THE AVAILABILITY OF WHICH IS ESTABLISHED TO THE SATISFACTION OF LEGAL COUNSEL TO THE COMPANY.

Tejon Industrial Corp.,
a California corporation,

By: /s/ Robert A. Stine

Robert A. Stine, President

Dated: March 20, 2001

MEMBER SIGNATURE PAGE

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By: /s/ Robert A. Stein

Name: Robert A. Stein

Title: President

By: /s/ Aaron Paris

Name: Aaron Paris

Title: President

Dated: March 20, 2001

EXHIBIT "A"

MEMBERS, CAPITAL CONTRIBUTIONS,
AND PERCENTAGE INTERESTS

Name and Address of Members	Class of Membership Interest	Cash Contribution	Agreed Value of Contributed Property	Percentage Interest
Tejon Industrial Corp. 4436 Lebec Road Lebec, California 93243	Class A	$ 50,000	$1,478,862	50%
Dermody Properties 1200 Financial Blvd. Reno, Nevada 89502	Class A	$1,528,862	$ 0	50%

EXHIBIT 21

(21) Subsidiaries of Registrant

A. Registrant: Tejon Ranch Co.

B. Subsidiaries of Registrant

   a. Tejon Ranchcorp.
   b. Laval Farms Corporation, formerly Tejon Agricultural Corporation.
   c. Laval Agricultural Company, formerly Tejon Farming Company.
   d. Tejon Marketing Company.
   e. Tejon Ranch Feedlot, Inc.
   f. White Wolf Corporation.
   g. Tejon Development Corporation.
   h. Tejon Industrial Corp.
   i. Champion Feedlot Trading Corp., a Texas corporation, 100% of whose Common Stock is owned by Tejon Ranch Feedlot, Inc.
   j. Liebre East Texas, Inc., a Texas corporation, 100% of whose Common Stock is owned by Tejon Ranch Feedlot, Inc.
   k. Tejon Almond Growers, LLC, a Delaware limited liability company.
   l. Pastoria Power Project LLC, a California limited liability company, 99% of whose membership interest is owned by Tejon Ranchcorp and 1% of whose membership interest is owned by Registrant.
   m. Eastquads 3820 LLC, a Delaware limited liability company.
   n. Eastquads 3826 LLC, a Delaware limited liability company.
   o. Eastquads 3832 LLC, a Delaware limited liability company.
   p. RSF 6051 LLC, a Delaware limited liability company.
   q. Tejon Cattle Feeders L.L.C., a Texas limited liability company.

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

D. Each of the aforesaid subsidiaries (a) is a corporation unless otherwise stated, (b) was organized and incorporated or filed under the laws of the State of California unless otherwise stated, and (c) has 100% of its Common Stock (if a corporation) or membership interest (if a limited liability company) owned by Tejon Ranchcorp unless otherwise stated.

E. Each of the aforesaid subsidiaries does business under its name, as shown. Registrant also does business under the name Tejon Ranch Company. Tejon Ranchcorp also does business under the names Tejon Ranch Company, Tejon Ranch, Fireside Oak Co., and Grapevine Center. Tejon Ranch Feedlot, Inc. and Champion Feedlot Trading Corp. did business under the name Champion Feeders until the Texas feedlot was sold in July 2001. Tejon Almond Growers, LLC does business under the name Pacific Almond Co.

EXHIBIT 23

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-33491) pertaining to the Tejon Ranch Co. 1992 Stock Option Plan, the Registration Statement (Form S-8 No. 333-68869) pertaining to the Tejon Ranch Co. 1998 Stock Incentive Plan and Non-Employee Director Stock Incentive Plan and the Registration Statement (Form S-8 No. 333-70128) pertaining to the Tejon Ranch Co. 1998 Stock Incentive Plan of our report dated February 20, 2002, with respect to the consolidated financial statements of Tejon Ranch Co. and subsidiaries included in the Form 10-K for the year ended December 31, 2001.

ERNST & YOUNG LLP

Los Angeles, California
March 26, 2002