

DUDLEY RIDGE WATER DISTRICT

DIRECTORS

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GARY W. SAWYERS

September 24, 2013



Dennis Atkinson
Tejon Ranch Company
PO Box 1000
Lebec, CA 93243

Dennis,

Related to the permanent transfer of SWP Table A amounts from Dudley Ridge Water District ("DRWD"). DRWD to AVEK on behalf of Tejon Ranch Corporation, a copy of the following fully executed document is enclosed for your files.

- Agreement Affecting Water Supply – DRWD – Tejon
- Letter Agreement Affecting Water Supply
- Agreement Affecting Water Supply – DRWD - Tejon - Utica

Please contact me if you have any questions.

Thank you for your cooperation in this transfer.

Respectfully,



Dale K. Melville, Manager – Engineer

cc: Gary Sawyers (w/encl.)

AGREEMENT AFFECTING WATER SUPPLY

THIS AGREEMENT is made effective as of July 22, 2013 by and between (i) the Dudley Ridge Water District, a California water district (the "District") and (ii) Tejon Ranchcorp, a California corporation ("Tejon") with reference to the following facts:

A. The District holds a long-term Water Supply Contract with the California Department of Water Resources ("DWR") pursuant to which it is entitled to receive certain quantities of State Water Project ("SWP") water, including without limitation water referred to as the District's "Table A" amount. The Table A amount is allocated on a per-acre basis to the lands in the District eligible to receive SWP water supplies, absent any contrary District-approved arrangements.

B. On April 8, 2009, the District adopted that certain "Policy for the Permanent Transfer of SWP Table A Water Outside of Dudley Ridge Water District" relating to the permanent transfer by its landowners of Table A amounts associated with lands within the District (the "Transfer Policy"), which is incorporated herein by this reference as if fully set forth.

C. Tejon has acquired the right to 1,993 acre feet of Table A amount (the "Allocation"), which was formerly allocated to the real property in the District described on the attached Exhibit A (the "Property"). In accordance with the Transfer Policy, Tejon wishes to transfer the Allocation, which is all of the Table A amount formerly associated with the Property, to the Antelope Valley-East Kern Water Agency ("AVEK"). The foregoing transfer is referred to below as the "Transfer."

D. Tejon and AVEK have executed that certain "Agreement Between Antelope Valley-East Kern Water Agency and Tejon Ranchcorp Providing for Importation of Additional SWP Table A Amounts" dated October 25, 2012 (the "Tejon-AVEK Agreement") providing for the permanent transfer of the Allocation to AVEK principally for the benefit of Tejon.

E. The District has determined that the Transfer is consistent with the Transfer Policy and has therefore agreed to facilitate the Transfer. In connection therewith, AVEK (as the lead agency) prepared an initial study as required by the California Environmental Policy Act. On December 11, 2012 AVEK adopted certain findings and adopted a negative declaration for the Transfer and associated actions. AVEK thereafter filed a notice of determination. The District, as a responsible agency, concurred in AVEK's findings on December 18, 2012.

F. In connection with the Transfer, the District and AVEK have entered into that certain Agreement for Assignment of Table A Amount dated as of July 22, 2013 (the "Assignment Agreement"), and the District has executed and delivered to DWR Amendment No. 27 to its Water Supply Contract with DWR ("Amendment No. 27"). The parties have agreed with DWR that Amendment No. 27 will not become effective until the Transfer is effected and the other transactions contemplated by this Agreement have occurred.

G. In accordance with the Transfer Policy, the parties now desire to provide for the implementation of the Transfer Policy relative to the Transfer, for Tejon's payment of the District's costs associated with the Transfer, for indemnification of the District against any claims arising from the Transfer, and for related matters, all of which are intended by the parties to be binding both on Tejon and its successors and assigns.

THEREFORE, in consideration of the mutual terms, conditions and covenants set forth below, the parties agree as follows:

1. Recitals. The parties agree that the foregoing recitals are true and correct.
2. Transfer Documents. Subject to the other provisions of this Agreement, conditioned upon (i) the execution and acknowledgement of this Agreement by the parties hereto, (ii) the execution by AVEK of the Assignment Agreement, and (iii) Tejon's payment to the District of the sums required under Section 3 of this Agreement, the District shall execute and deliver the Assignment Agreement to AVEK and notify DWR that Amendment No. 27 is effective in order to effect the Transfer. Thereafter, the District shall take such other actions as are reasonably required to give effect to the Transfer; provided, that the District shall not be required to take any action that requires the District to incur any unreimbursed expense. At all times, the Transfer shall be subject to the Transfer Policy, Amendment No. 27, and the environmental findings and documents adopted by AVEK and the District in connection with the Transfer.
3. Payment to the District. Upon execution of this Agreement, and in accordance with the Transfer Policy, Tejon shall pay to the District the sum of \$156,389.50, consisting of:
 - (a) A lump sum representing the amount agreed upon by the District and Tejon as being payable under Section 3(a) of the Transfer Policy, determined as of January 1, 2013 to be \$134,389.50.
 - (b) The District's estimated unreimbursed costs payable under Section 5 of this Agreement, that being \$22,000 as of May 1, 2013.
4. Account for Transfer Expenses. The portion of the payment received by the District pursuant to Section 3 of this Agreement that reflects the amount described in Section 3(a) shall be placed in an interest bearing restricted account, with annual withdrawals made to offset the costs to remaining District landowners and the District itself incurred because of the Transfer. The District shall be entitled to withdraw such funds to pay or reimburse such expenses without further action by Tejon.
5. Reimbursement of the District Expenses. To the extent the amount payable pursuant to Section 3(b) of this Agreement is insufficient to cover the District's incurred costs, upon demand Tejon shall pay or reimburse the District for all expenses and costs incurred by the District in connection with activities undertaken by the District in connection with the Transfer, whether at Tejon's request, as required by law or District policy, or as otherwise determined to be appropriate by the District's Manager. The expenses to be paid or reimbursed by Tejon

include without limitation (i) actual out-of-pocket expenses incurred by the District, (ii) the actual amount of engineering fees, legal fees, consulting fees and similar third-party charges incurred by the District for the benefit of Tejon in connection with the Transfer, including without limitation the costs incurred by the District in connection with preparing any environmental documentation, plus a reasonable amount of District overhead for processing those amounts, (iii) all costs of litigation (including without limitation attorneys' fees) actually incurred by the District in defending any action brought as the result of or challenging the District's actions on behalf of Tejon in connection with the Transfer, and (iv) damages or other amounts actually paid or payable by the District relating to any activities the District undertakes on behalf of on for the benefit of Tejon in connection with the Transfer. The District shall provide Tejon with copies of invoices for such costs to be reimbursed by Tejon. Notwithstanding the foregoing, nothing in this Agreement shall require the District to defend any judicial or other challenge to the Transfer or any aspect thereof, and any such defense shall be assumed by Tejon.

6. Indemnification. Tejon shall indemnify, defend and hold the District and its directors, officers, employees, agents, attorneys and consultants free and harmless from and against any and all loss, cost, litigation, expense or claims, including without limitation attorneys' fees and costs (collectively, "Claims") incurred by any of them directly or indirectly resulting from any actions undertaken by or on behalf of the District in connection with this Agreement, the Assignment Agreement, the Tejon-AVEK Agreement, the environmental findings and documents adopted by the District and AVEK in connection with the Transfer, or otherwise relating in any way to the Transfer, except to the extent such Claims were the direct result of the willful misconduct of the party that would otherwise be indemnified. Without limiting the generality of the foregoing in any way, the obligations of Tejon under this Section 6 shall cover Claims asserted by DWR under Section 8 of Amendment No. 27. The obligations of Tejon under this Section 6 are joint and several with the obligations of AVEK to indemnify, defend and hold the District and its directors, officers, employees, agents, attorneys and consultants free and harmless contained in other agreements, and any party may exercise its indemnity, defense and hold harmless rights solely against Tejon, solely against AVEK, or simultaneously against any or all of them.

7. Binding on Successors. This Agreement shall be binding upon assigns, successors, lessees, operators, purchasers of Tejon.

8. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof. This Agreement supersedes all prior negotiations, discussions, contracts, agreements or understandings between the parties hereto, and no evidence of any prior or contemporaneous oral agreement or understanding shall be admissible to vary its terms. This Agreement shall not be amended or modified in any way except by a written instrument which is executed by each party hereto.

9. Further Assurances. Each party shall, as often as reasonably requested, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such further documents and instruments as may be necessary to carry out the intent and purpose of this Agreement.

10. Interpretation. It is agreed and acknowledged by the parties that this Agreement has been arrived at through negotiation involving their respective counsel, and that each party has had a full and fair opportunity to revise the terms of this Agreement. Consequently, the normal rule of construction that any ambiguities are to be resolved against the drafting party shall not apply in construing or interpreting this Agreement.

11. Effect of Headings. The subject headings of the paragraphs and subparagraphs of this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of any of its provisions.

12. Cumulative Rights; Waiver. No failure by either party to exercise, and no delay in exercising any rights, shall be construed or deemed to be a waiver thereof, nor shall any single or partial exercise by either party preclude any other or future exercise thereof or the exercise of any other right. Any waiver of any provision or of any breach of any provision of this Agreement must be in writing, and any waiver by either party of any breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of that provision or of any breach of any other provision of this Agreement.

13. Attorneys' Fees. Should any litigation be commenced between any of the parties concerning this Agreement, or the rights and duties of any of them in relation thereto, the party prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to recover its attorneys' fees and other costs of litigation as determined by the court or in a separate action brought for that purpose.

14. Choice of Laws; Venue. This Agreement and all aspects of the Transfer shall be governed by the laws of the State of California and any question arising hereunder shall be construed or determined according to such law. Venue for any action brought for the purpose of enforcing any provision of this Agreement or the Transfer shall be brought only in Kings County, California.

15. Severability. In the event any of the terms or provisions of this Agreement shall be held to be invalid, then any such invalidity shall not affect any other term of provision contained herein, which terms and provisions shall remain in full force and effect, and the invalid terms or provisions shall be deemed reformed to be valid to the maximum extent permitted by law.

16. Counterparts. This Agreement may be executed in counterparts.

17. Parties in Interest. Nothing in this Agreement, whether expressed or implied, is intended to confer any rights or remedies on any persons other than the parties hereto and their respective successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third person to any party to this Agreement, nor shall any provision give any third person any right of subrogation or action over and against any party to this Agreement.

18. Survival. Each of the terms, provisions, representations, warranties, and covenants of the parties shall be continuous and shall survive the consummation of the transactions contemplated in this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

DUDLEY RIDGE WATER DISTRICT

TEJON RANCHCORP

By 
Dale K. Melville, Manager-Engineer


By 
Dennis Atkinson, Senior VP, Agriculture

EXHIBIT A

The Property

<u>Section, T/R</u>	<u>APN</u>	<u>DRWD#</u>	<u>Acres</u>	<u>Table A</u>
26, 23/19	048-210-05	465	20.18	40
26, 23/19	048-210-08	468	7.57	15
26, 23/19	048-210-10	470	141.64	278
26, 23/19	048-210-16	497	15.21	30
9, 24/20	048-260-05	523-2S	480.00	944
9, 23/19	042-340-37	409	348.67 (of 364.18)	686
				<hr/> 1,993