

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1997

OR

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

for the transition period from to

For Quarter Ended Commission File Number

June 30, 1997 1-7183

TEJON RANCH CO.

(Exact name of Registrant as specified in its charter)

Delaware 77-0196136
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)P.O. Box 1000, Lebec, California 93243
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code.(805) 248-6774

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

Total Shares of Common Stock issued and outstanding on June 30, 1997, were 12,682,244.

TEJON RANCH CO.

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PART I FINANCIAL INFORMATION

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

	THREE MONTHS ENDED June 30		SIX MONTHS ENDED June 30	
	1997	1996	1997	1996
Revenues:				
Livestock	\$ 4,900	\$ 3,269	\$ 6,469	\$ 3,818
Farming	229	50	681	74
Oil & Minerals	356	338	658	619
Commercial and Land Use	417	336	794	672
Interest Income	349	319	672	647
	6,251	4,312	9,274	5,830
Cost and Expenses:				
Livestock	4,729	2,580	6,423	3,277
Farming	99	369	543	747
Oil & Minerals	70	40	115	83
Commercial and Land Use	660	588	1,177	1,068
General & Administrative Expense	524	586	1,233	1,062
Interest Expense	192	54	263	104
	6,274	4,217	9,754	6,341
Operating Income (Loss)	(23)	95	(480)	(511)
Income Tax Expense (Benefit)	(17)	38	(188)	(204)
Net Income (Loss)	\$ (6)	\$ 57	\$ (292)	\$ (307)
Earnings (Loss) Per Share	\$ 0.00	\$ 0.00	\$ (0.02)	\$(0.02)
Cash Dividends Paid Per Share	\$ 0.025	\$ 0.025	\$ 0.025	\$ 0.025

See Notes to Consolidated Condensed Financial Statement

TEJON RANCH CO. AND SUBSIDIARIES
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (In thousands)

	June 30, 1997 (Unaudited)	December 31, 1996*
ASSETS		
CURRENT ASSETS		
Cash & Cash Equivalents	\$ 89	\$ 693
Marketable Securities	17,654	20,127
Accounts & Notes Receivable	4,430	4,303
Inventories:		
Cattle	5,935	3,082
Farming	2,966	191
Other	483	157
Prepaid Expenses & Other	1,322	1,319
Total Current Assets	32,879	29,872
PROPERTY & EQUIPMENT-NET	20,842	16,270
OTHER ASSETS	1,162	1,227

TOTAL ASSETS	\$	54,883	\$	47,369
LIABILITIES & STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade Accounts Payable	\$	996	\$	488
Other Accrued Liabilities		68		569
Other Current Liabilities		9,596		4,129
Total Current Liabilities		10,660		5,186
LONG-TERM DEBT		4,300		1,800
DEFERRED CREDITS		2,713		2,651
Total Liabilities		17,673		9,637
STOCKHOLDERS' EQUITY				
Common Stock		6,341		6,341
Additional Paid-In Capital		387		387
Retained Earnings		30,643		31,253
Defined Benefit Plan-Funding Adjustment, net of taxes		(256)		(256)
Marketable Securities- Unrealized Gain, Net		95		7
Total Stockholders' Equity		37,210		37,732
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	54,883	\$	47,369

See Notes to Consolidated Condensed Financial Statements.

* The Balance Sheet at December 31, 1996 has been derived from the audited financial statements at that date.

TEJON RANCH CO. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOW
(In thousands)
(Unaudited)

	SIX MONTHS ENDED	
	1997	1996
June 30		
OPERATING ACTIVITIES		
Net Loss	\$ (292)	\$ (307)
Items Not Affecting Cash:		
Depreciation and Amortization	676	541
Deferred Income Taxes	0	134
Gain on Sale of Investments	(4)	0
Changes in Operating Assets and Liabilities		
Receivables, Inventories and Other Assets, Net	(5,686)	2,362
Current Liabilities, Net	(789)	(846)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(6,095)	1,884
INVESTING ACTIVITIES		
Acquisition of Champion Feeders	(3,874)	0
Maturities and Sales of Marketable Securities	4,085	5,484
Funds Invested in Marketable Securities	(1,460)	(5,503)
Property and Equipment Expenditures	(1,734)	(947)
Net Change in Breeding Herds	59	(60)
Other	(31)	3
NET CASH (USED IN) INVESTING ACTIVITIES	\$(2,955)	\$(1,023)
FINANCING ACTIVITIES		
Proceeds From Revolving Line of Credit	14,740	6,698
Payments of Revolving Line of Credit	(8,477)	(7,184)
Borrowing of Long-Term Debt	2,500	0
Cash Dividend Paid	(317)	(317)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,446	(803)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(604)	58
Cash and Cash Equivalents at Beginning of Year	693	44

See Notes to Consolidated Condensed Financial Statements.

TEJON RANCH CO. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 (Unaudited)

June 30, 1997

NOTE A - BASIS OF PRESENTATION

The summarized information furnished by Registrant pursuant to the instructions to Part I of Form 10-Q is unaudited and reflects all adjustments which are, in the opinion of Registrant's Management, necessary for a fair statement of the results for the interim period. All such adjustments are of a normal recurring nature.

The results of the period reported herein are not indicative of the results to be expected for the full year due to the seasonal nature of Registrant's agricultural activities. Historically, the largest percentage of revenues are recognized during the third and fourth quarters.

For further information, refer to the Consolidated Financial Statements and footnotes thereto included in Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.

NOTE B - CALCULATIONS OF EARNINGS PER SHARE

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Common shares outstanding for the three month and six month periods ended June 30, 1997 and 1996 were 12,682,244. Registrant has a Stock Option Plan providing for the granting of options to purchase a maximum of 230,000 shares of Registrant's Common Stock to employees, advisors and consultants of Registrant. At June 30, 1997, options to purchase 179,000 shares are outstanding at prices equal to the fair market value at date of grant (159,000 shares at \$16.00 per share, and 20,000 shares at \$15.00 per share). Stock options granted will be treated as common stock equivalents in accordance with the treasury method when such amounts would be dilutive. Fully diluted common shares outstanding for the three month period ended June 30, 1997 and 1996 were 12,698,081 and 12,685,361 respectively. Fully diluted common shares outstanding for the six month period ended June 30, 1997 and 1996 were 12,690,756 and 12,684,228, respectively. There is no change in earnings per share based on the fully diluted common shares outstanding.

NOTE C - MARKETABLE SECURITIES

Registrant has elected to classify its securities as available-for-sale per Statement of Financial Accounting Standard No. 115, Accounting for Certain Investments in Debt and Equity Securities, and therefore is required to adjust securities to fair value at each reporting date.

Marketable securities consist of the following at:

	June 30 1997 Estimated Fair		December 31 1996 Estimated Fair	
	Cost	Value	Cost	Value
Marketable securities: (in thousands)				
U.S. Treasury and agency notes	\$ 10,403\$	10,564 \$	13,156\$	13,158
Corporate notes	7,092	7,090	6,960	6,969
	\$ 17,495\$	17,654 \$	20,116\$	20,127

As of June 30, 1997, the cumulative fair value adjustment is a \$159,000 unrealized gain. The cumulative fair value adjustment to stockholders' equity, net of a deferred tax of \$64,000, is an

unrealized gain of \$95,000. Registrant's gross unrealized holding gains equal \$217,000, while gross unrealized holding losses equal \$58,000. On June 30, 1997, the average maturity of U.S. Treasury and agency securities was 1.2 years and corporate notes was 1.7 years. Currently, Registrant has no securities with a remaining term to maturity 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. Registrant's investments in Corporate notes are with companies with a credit rating of A or better.

NOTE D - COMMODITY DERIVATIVES USED TO HEDGE PRICE FLUCTUATIONS

Registrant uses commodity contracts to hedge its exposure to price fluctuations on its purchased stocker cattle and cattle feed costs. The objective is to protect or create a future price for stocker cattle that will provide a profit or minimize a loss once the cattle are sold and all costs are deducted and to protect Registrant against market declines. To help achieve this objective Registrant uses the cattle futures and cattle options markets to hedge the price of cattle. Registrant also hedges to protect against fluctuations in feed cost by using the corn futures and options markets. Feed costs are hedged in order to protect against large pricing increases in feed costs. Registrant continually monitors any open futures and options contracts to determine the appropriate hedge based on market movement of the underlying asset. The option 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 are scheduled to be sold. The risk associated with hedging is that hedging imposes a limit on the potential profits from the sale of cattle if cattle prices begin to increase dramatically. The costs of buying and selling options and futures contracts reduce profits. Any payments received and paid related to options contracts are deferred in and reflected as an asset on the balance sheet in prepaid expenses until contracts are closed or expire and were approximately \$56,000 at June 30, 1997. There were 180 outstanding option contracts at June 30, 1997. Cattle futures contracts are carried off-balance sheet until the contracts are settled. Realized losses associated with closed contracts equal to \$164,000 are currently included in cattle inventory and will be recognized in cost of sales when the cattle are sold during the third and fourth quarters of 1997.

The following table identifies the cattle futures contract amounts outstanding at June 30, 1997 (in thousands, except number of Contracts):

Cattle Hedging Activity Commodity Future/Option Description	No. Contracts	Contract Expiration Date	Original Contract (Bought) Sold	Estimated Fair Value At Settlement (Buy) Sell	Estimated Gain (Loss) at Settlement
Cattle futures	130	Aug. 97	\$ 3,343	\$(3,351)	\$(8)
sold 50,000					
lbs. per	37	Oct. 97	1,021	(1,005)	16
contract	34	Dec. 97	963	(964)	(1)
Cattle Options-	50	Aug. 97	12	(6)	6
Calls Sold,					
40,000 lbs.	40	Oct. 97	10	(4)	6
per contract					
Cattle Options-	50	Aug. 97	(30)	11	(19)
Puts bought,					
40,000 lbs.					
per contract	40	Oct. 97	(21)	14	7

Estimated fair value at settlement is based upon quoted market prices at June 30, 1997.

NOTE E - ACQUISITION OF ASSETS

On March 10, 1997, Registrant completed the purchase of certain assets from Champion Feeders, Inc., a cattle feedlot company in western Texas. The assets purchased include land, a feed mill, cattle pins, office and shop buildings, all rolling stock, inventory and intangibles. No debt or material liabilities of

Champion Feeders, Inc. were assumed in the purchase of these assets. The purchase price for these assets is \$3.5 million plus inventory value of \$358,000, as of February 28, 1997 and will be accounted for as a purchase. The purchase price of the assets was based upon a dollar value per head of capacity at the feedyard and the fair market value of assets purchased. The purchase price was allocated based on estimated fair value at date of acquisition. The excess of the purchase price over the fair market value of tangible assets acquired was immaterial.

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

The following unaudited pro forma information presents a summary of consolidated results of operations of Registrant as if the acquisition had occurred as of January 1, 1996.

	Six Months Ended June 30	
	(In thousands except per share amounts)	
	1997	1996
Total Revenue	\$ 11,977	\$ 14,416
Net Operating Income (Loss)	(151)	(304)
Net (Loss)	(40)	(183)
Net (Loss) Per Share	\$ 0.00	\$ 0.01

NOTE F - CONTINGENCIES

Registrant 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 and Lafarge Corporation (the successor to the previous operator) have been ordered to clean up and abate certain hazardous waste sites on the leased premises. Registrant has been named secondarily responsible and would be ordered to perform cleanup work if National and Lafarge fail to do so. Under existing lease agreements, National or Lafarge is required to indemnify Registrant for costs and liabilities incurred in connection with the cleanup order depending on when the release of hazardous waste occurred. Due to the financial strength of National and its parent company, which guaranteed National's obligations, and Lafarge, Registrant believes that it is remote there will be a material effect on Registrant.

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

For a further discussion refer to Registrant's 1996 Form 10-K, Part I, Item 3, - "Legal Proceedings". There have been no changes since the filing of the 1996 Form 10-K.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

Results of Operations

This Management's discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements that are subject to many uncertainties and may turn out not to be accurate. These forward looking statements are subject to factors beyond the control of Registrant (such as weather and market forces) and with respect to Registrant's future development of its land, the availability of financing and the ability to obtain various governmental entitlements. No assurance can be given that any such projections will turn out to be accurate.

Total revenues, including interest income, for the first six months of 1997 were \$9,274,000 compared to \$5,830,000 for the first six months of 1996. The growth in revenues during 1997 is primarily attributable to increases in livestock and farming operations revenues. The increase in livestock revenues is due primarily to the new cattle feedlot located near Hereford, Texas that was purchased on March 10, 1997. The revenues from the feedlot were approximately \$5,205,000 for the four months Registrant has owned the feedlot. Revenues at the feedlot are derived from the sale of grain and other types of feed rations to customers that are feeding cattle at the feedlot. This increase in revenues within the livestock division was partially offset by a decline in cattle sales revenues due to 6,321 fewer head of cattle being sold in 1997, which resulted in cattle sales revenues being \$2,603,000 less than 1996. The difference in the number of cattle sold in 1997 compared to 1996 is due to the timing of sales of cattle and to Registrant maintaining ownership of stocker cattle at feedlots for sale in August and September to take advantage of improving prices. Registrant continues to hedge the future sales price of cattle using commodity contracts. See Note D - Commodity Contracts Used to Hedge Price Fluctuations, for further information. Farming revenues increased due to the receipt of additional crop proceeds related to the 1996 grape, walnut, and pistachio crops. The receipt of these proceeds results from increases in crop prices that were reflected in the final settlement payments received during 1997.

Operating activities during the first six months of 1997 resulted in a net loss of \$292,000, or \$.02 per share, compared to a net loss of \$307,000, or \$.02 per share, for the same period in 1996.

The reduction in the net loss when compared to 1996 is due to the increase in revenues as described above which was partially offset by increased livestock and general and administrative expenses. The increase in livestock expense is due primarily to the operations of the new feedlot. Expenses at the feedlot for the period from acquisition through June 30, 1997 were approximately \$5,000,000. This increase in livestock expense was partially offset by a decrease in cost of sales on cattle (\$1,933,000) due to fewer head of cattle being sold as described above. General and administrative costs have increased when compared to 1996 due to higher staffing costs and professional service fees. Staffing costs increased in 1997 due to the timing of hiring a new chief executive officer.

Total revenues for the second quarter of 1997, including interest income, were \$6,251,000 compared to \$4,312,000 for the second quarter of 1996. The increase in second quarter revenues is due to additional revenue from the new feedlot which was partially offset by reduced cattle sales due to the timing of sales as described above.

During the second quarter of 1997 Registrant had a net loss of \$6,000, or \$.00 per share, compared to net income of \$57,000, or \$.00 per share for the same period of 1996. The decrease in net income compared to 1996 is due to reduced cattle sales revenues and to increased livestock expenses resulting from the purchase of the feedlot. The increase in livestock expense due to the feedlot was partially offset by lower cost of sales on cattle due to fewer head of cattle being sold.

Registrant believes that cattle prices should continue to improve throughout 1997 based on estimates of lower supplies during the latter part of 1997 and the continued increase in demand due to export growth.

Based on industry estimates it appears that the price per pound expected to be received by Registrant for its almonds will be less than that received in 1996 by an estimated \$.50 per pound. This lower price will reduce almond revenues when compared to 1996 almond

crop revenues. All of Registrant's crops appear to be doing very well with the exception of the walnut orchards, which are expected to have yields lower than 1996 levels, but walnut prices may be higher due to statewide production estimates being less than the previous year. Actual production numbers will not be known until harvest is completed. Harvest for Registrant's crops will begin during August.

Registrant has been advised that final approvals were received for the construction of a major crude oil pipeline through ranch lands. During December 1995 Registrant completed negotiations with respect to an easement agreement related to this pipeline. Construction of this pipeline has commenced on portions of the right of way. The pipeline company has informed Registrant that it expects to close the easement purchase transaction in August, which must occur before the pipeline company may commence construction on ranch lands.

Registrant continues to be involved in various environmental proceedings related to leased acreage. For a further discussion refer to Note E - Contingencies.

Prices received by Registrant for many of its products are dependent upon prevailing market conditions and commodity prices. Therefore, Registrant is unable to accurately predict revenue, just as it cannot pass on any cost increases caused by general inflation, except to the extent reflected in market conditions and commodity prices. The operations of the Registrant are seasonal and results of operations cannot be predicted based on quarterly results.

Liquidity and Capital Resources

Registrant's cash, cash equivalents and short-term investments totaled approximately \$17,743,000 at June 30, 1997, compared to \$20,820,000 on December 31, 1996, a decrease of 15%. Working capital as of June 30, 1997 was \$22,225,000 compared to \$24,686,000 as of December 31, 1996. Cash and short-term investments declined during 1997 due to increases in cattle and farming inventories because of the timing of sales and to the purchase of the cattle feedlot. Working capital uses during 1997 have been for property and equipment expenditures, the purchase of a cattle feedlot and dividend payments. The assets of the cattle feedlot were purchased on March 10, 1997 for \$3,500,000 plus an additional \$358,000 in beginning inventories. Registrant funded this purchase with cash and short-term lines of credit. During the second quarter Registrant refinanced the funding of the purchase of the feedlot with a \$2.5 million term loan, with an interest rate of 8.50%, secured by feedlot assets. This debt is expected to be paid out of cash flows generated at the feedlot.

Registrant has a revolving line of credit of \$6,000,000 that as of June 30, 1997 had an outstanding balance of \$3,108,000 at an interest rate of 8.50%. Registrant also has a short-term line of credit outstanding of \$5,900,000 from an investment banking firm at an interest rate of 6.05%. Registrant's short-term borrowing needs increased during the quarter due to the timing of cattle sales, which are expected to occur during the third quarter, and to the feedlot's financing of customer receivables. The lines of credit are expected to be paid down throughout the year from the proceeds of cattle and crop sales. The revolving lines of credit are used as a short-term cash management tool.

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

Registrant is currently evaluating the possibility of new farming developments, expansion of the cattle herd, and commercial development along the Interstate 5 corridor. These potential new projects would be funded from current cash resources and from additional borrowings.

Registrant has traditionally funded its growth and capital

additions from internally generated funds. Management believes that the combination of net earnings, short-term investments and borrowing capacity will be sufficient for its near term operations.

Item 8. Financial Statements and Supplementary Data.

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

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

Not applicable.

Impact of Accounting Change

None

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

In April 1997 the Board of Directors of the Company approved agreements with seven employees, including the six executive officers of the Company, providing for payment of certain benefits if their employment is terminated in connection with certain transactions relating to the control of the Company. This action was taken because of the announcement by The Times Mirror Company that it was considering disposition of all or a portion of its shares of Common Stock of the Company. The agreements entered into provide benefits if the employee's employment is terminated (subject to certain exceptions) in anticipation of, or within two years after, (1) a change in ownership of 28% or more of the outstanding shares of Common Stock of the Company accompanied or followed within one year by a change in a majority of the Board of Directors or (2) certain acquisitions of the business of the Company substantially as a whole. The principal benefits consist of payments equal to salary and bonus for up to two and one-half years after terminations of employment. In July 1997 the Company announced that The Times Mirror Company and the Times Mirror Foundation had sold their shares of Common Stock of the Company, representing approximately 31% of the total shares outstanding, to {Third Avenue Value Fund, Third Avenue Small Cap Fund, Carl Marks Strategic Investments LP and certain related purchasers.}

Also in anticipation of the sale of the shares by The Times Mirror Company, the Company amended options to purchase an aggregate of 79,000 shares outstanding under its 1992 Stock Option Plan to change the vesting of the options. Prior to the amendment the options were to become exercisable as to 100% of the shares nine years after the date of grant and were to expire ten years after the date of grant. The amendments provide for the options to become exercisable as to 10% of the shares on the first anniversary of the date of grant, 15% of the shares on each of the second and third anniversaries of the date of grant, and 30% of the shares on each of the fourth and fifth anniversaries of the date of the grant. As a result of these amendments options to purchase an aggregate of 67,000 shares became presently exercisable. Also, at the time of the amendments were adopted there were outstanding options to purchase an aggregate of 159,000 shares with exercise prices higher than the current trading prices of the Company's Common Stock, and the option amendments reduced the exercise price of those options to \$16 per

share, which was the closing price of the Common Stock on the American Stock Exchange on the date of the amendments.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -

- 10.4 Tejon Ranch Co. Amended Stock Option Agreement
- 10.5 Tejon Ranch Co. Officer Severance Agreement
- 27 Financial Data Schedule (Edgar)

(b) Reports - None

SIGNATURES

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

TEJON RANCH CO.
(Registrant)

Date BY /s/ ALLEN E. LYDA
Allen E. Lyda
Vice President, Finance
& Treasurer

EXHIBIT INDEX

Exhibit No.	Exhibit Description
10.4	Tejon Ranch Co. Amended Stock Agreement
10.5	Tejon Ranch Co. Officer Severance Agreement
27	Financial Data Schedule (Edgar)

6-MOS	DEC-31-1997	
	JUN-30-1997	89
		17,654
		4,430
		0
		9,384
	32,885	35,969
	(15,127)	
	54,883	
10,660		0
0		0
		6,341
		30,869
54,883		9,274
	9,274	8,258
		8,258
	1,233	
	0	
	263	
	(480)	
	(188)	
(292)		0
		0
		0
	(292)	
	(.02)	
	(.02)	

TEJON RANCH CO.
STOCK OPTION AGREEMENT
PURSUANT TO THE
1992 EMPLOYEE STOCK INCENTIVE PLAN

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

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

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

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

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

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

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

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

3. Acceleration and Termination of Option.

(a) Termination of Employment.

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

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

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

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

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

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

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

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

(iii) the dissolution or liquidation of the Company.

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

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

Event. In such event where the requirements of clauses (i), (ii) and (iii) of the preceding sentence are met, the Option shall expire immediately upon the occurrence of the Terminating Event.

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

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

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

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

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

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

6. Payment of Withholding Taxes.

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

(i) by the delivery to the Company of a certificate or certificates representing shares of Common Stock, duly endorsed or accompanied by a duly executed stock powers, which delivery effectively transfers to the Company good and valid title to such shares, free and clear of any pledge, commitment, lien, claim or other encumbrance (such shares to be valued on the

basis of the aggregate Fair Market Value thereof on the date of such exercise), provided that the Company is not then prohibited from purchasing or acquiring such shares of Common Stock; and/or

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

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

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

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

9. Restrictions on Transferability.

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

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

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

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

Shares in accordance with the provisions of this Agreement and the Option Shares have been issued.

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

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

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

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

TEJON RANCH CO.OPTIONEE

By: _____

Name:
Title:

Signature

Street Address

City, State and Zip Code

Social Security Number

SEVERANCE AGREEMENT

This Severance Agreement is entered into this 16th day of July, 1997 between Tejon Ranch Co., a Delaware corporation (the "Company") and EMPLOYEE NAME (the "Executive").

RECITALS

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

AGREEMENT

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

- a. the Executive's employment by the Company or the successor owner of its business is terminated by the Company or such successor without Cause (as defined in Section 4) during the two years after the occurrence of the Change of Control;
- b. the Executive terminates his or her employment with the Company or its successor for Good Reason (as defined in Section 5) during the two years after the occurrence of the Change of Control;
- c. the Executive's employment by the Company is terminated by the Company within three months prior to the Change in Control and such termination (i) was at the request of a third party who had taken steps to effect the Change in Control at the time of the request of (ii) otherwise arose in connection with or in anticipation of the Change in Control; or
- d. the Executive terminates his or her employment with the Company for Good Reason during the period commencing three months prior to the Change in Control and the event referred to in Section 5 (a), (b) or (c) constituting Good Reason (i) occurs at the request of a third party who had taken steps to effect the Change in Control at the time of the request or (ii) otherwise arose in connection with or in anticipation of the Change in Control.

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

2. Definition of Severance Benefits.

2.1 Amount of Benefits. Except as provided in Section 2.2, the Severance Benefits

- a. continuation of payments equal to the Executive's base salary (at the greater of the rate in effect immediately prior to the Change in Control or the rate in effect immediately prior to the termination of his or her employment) for a period of 30 full months after the effective date of termination of the Executive's employment as described in Section 1, such payments to be made on the same dates the Executive's salary would have been paid if his or her employment had not terminated;
- b. payments equal to the Executive's Three-Year Average Bonus (as defined in Section 6), for each of the two full fiscal years commencing after the effective date of the termination of his or her employment plus a payment equal to one-half of the Executive's Three-Year Average Bonus for the third full fiscal year commencing after such termination, such payments to be made on the dates the Executive's bonuses for those years would have been paid if his or her employment had not terminated;
- c. a payment equal to either (i) a prorated portion of the Executive's bonus for the year in which the effective date of termination of the Executive's employment occurs based upon the number of days in the year prior to such termination of employment as compared to the full year, but only if all performance and other criteria for earning the bonus have been satisfied as of the date of termination (other than the criterion that the Executive continue to be employed) or (ii) if such performance criteria have not been established or satisfied as of the effective date of termination, then such prorated portion of the Executive's Three-Year Bonus, such payment to be made in the case of either (i) or (ii) above on the date the Executive's bonus for the year of termination would have been paid if his or her employment had not terminated; continuation of the Company's contribution to health and life insurance benefits for the period from the effective date of termination of employment until the earlier of expiration of the period of salary continuation referred to in (a) above or the date the Executive becomes employed on a full-time basis by another employer and is covered by a medical plan provided by such employer with no remaining applicable exclusions for pre-existing conditions;
- e. if the Executive has the right to use a Company car or a country club membership at the expense of the Company, continuation of such use for a period of three months after the effective date of termination of the Executive's employment; and
- f. if the Executive's principal residence is a house owned and provided by the Company, continuation of the use of such residence rent-free for a period of three months after termination of Executive's employment, the right to rent such residence for an additional three months at a monthly rent of \$750 and the right to rent such residence for an additional two months at a monthly rental of \$1,500.

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

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

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

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

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

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

indicates that the Company did not withhold sufficient funds from the payment of Severance Benefits, the Executive shall promptly refund to the Company any amount which should have been withheld with interest determined as provided above.

3. Definition of Change of Control.

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

- a. except as provided in Section 3.3, the acquisition by any person or group of beneficial ownership of 28% or more of the outstanding shares of Common Stock of the Company or, if there are then outstanding any other voting securities of the Company, such acquisition of 28% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, but only if at the time of the acquisition or within one year thereafter the Board of Directors of the Company (if the Company continues to own its business), or the Board of Directors of any successor owner of its business consists of a majority of directors who are not Incumbent Directors;
- b. the Company sells all or substantially all of its assets (or consummates any transaction having a similar effect) or the Company merges or consolidates with another entity or completes a reorganization, except that:
 - i. no such transaction shall be deemed to constitute a Change of Control if the holders of the voting securities of the Company outstanding immediately prior to the transaction own immediately after the transaction in approximately the same proportions more than 72% of the combined voting power of the voting securities of the entity purchasing the assets or surviving the merger or consolidation or, in the case of a reorganization, more than 72% of the combined voting power of the voting securities of the Company; and
 - ii. no such transactions shall be deemed to constitute a Change of Control if:
 - A. the holders of the voting securities of the Company outstanding immediately prior to the transaction own immediately after the transaction in approximately the same proportions less than 72% but more than 50% of the combined voting power of the voting securities of the entity purchasing the assets or surviving the merger or consolidation or, in the case of a reorganization, less than 72% and more than 50% of the combined voting power of the voting securities of the Company unless
 - B. at the time of the acquisition or within one year thereafter the Board of Directors of the Company (if the Company continues to own its business), or the Board of Directors of any successor owner of its business consists of a majority of directors who are not Incumbent Directors;
- c. the Company is liquidated; or
- d. The Board of Directors of the Company (if the Company continues to own its business) or the board of directors or comparable governing body of any successor owner of its business (as a result of a transaction

which is not itself a Change of Control) consists of a majority of directors or members who are not Incumbent Directors.

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

3.2 Definition of Incumbent Directors. For purposes of Section 3.1 and subject to the last sentence of this Section 3.2, "Incumbent Directors" include only those persons who are:

- i. serving as directors of the Company on the date of this Agreement,
- ii. elected by a majority of the directors referred to in (i) or selected by a majority of such directors to be nominated for election by the stockholders and are elected or
- iii. elected by a majority of the directors referred to in (i) or (ii) or selected by a majority of such directors to be nominated for election by the stockholders and are elected.

Notwithstanding the foregoing, directors elected or selected as provided in (ii) or (iii) above after an event described in Section 3.1(a) or 3.1(b)(ii) shall not be Incumbent Directors unless they satisfy all of the following requirements:

A. they were elected to fill a vacancy resulting from the resignation of or the failure to re-nominate a director who is then 70 years of age or older or to replace a director who has died or ceases to be a director (by resignation, removal or otherwise) as a result of physical or mental disability;

B. they are not, officers, directors or employees of (or hold any comparable position with respect to), or have record or beneficial ownership of more than one percent (1%) of the outstanding shares or other equity interests of, any person or member of any group which acquires Common Stock or other voting securities of the Company as described in Section 3.1(a) or 3.1(b)(ii) or any affiliate of any such person or member, or a spouse or relative of any such officer, director, employee, record or beneficial owner, person, member of a group or affiliate;

C. during the five years prior to their becoming directors, they have not had any relationship with any person or member of any group which acquires Common Stock or other voting securities of the Company as described in Section 3.1(a) or 3.1(b)(ii) or any affiliate of any such person or member that would be required by Item 404(b) of Regulation S-K or any successor provision to be disclosed in proxy statement for such person, member or affiliate if such person, member or affiliate were subject to the rules of the Securities and Exchange Commission applicable to the solicitation of proxies and had solicited proxies for a fiscal year while, or the fiscal year immediately after, such relationship existed; and

D. they have not been suggested, designated or selected for nomination as a director by any officer, director, employee, record or beneficial owner, person, member of a group, affiliate, spouse or relative referred to in (B) above (except that merely participating as a director of the Company in a vote of the directors of the Company to elect, nominate or designate for nomination a candidate for a directorship shall not mean that the candidate was "suggested, designated or selected for nomination" by such director within the meaning of this Clause D).

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

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

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

- a. the death of the Executive;
- b. the Executive becoming unable to perform the essential duties of his or her position, even with reasonable accommodation, as a result of any physical or mental condition for a period of more than ninety (90) consecutive days or for ninety (90) nonconsecutive days in any three hundred sixty-five (365) day period; or
- c. the Executive's professional dishonesty; willful misconduct; breach of fiduciary duty involving self-dealing or personal profits; intentional failure to perform duties or abide by Company policies, in each case to the extent such duties or policies have been communicated to the Executive in writing or their existence is otherwise known to the Executive and the Executive has not cured such failure within a reasonable time after notice of such failure is given to him or her; conviction, entry of a plea of guilty or nolo contendere in connection with any alleged violation or an actual violation of any law, rule, regulation (other than traffic violations or similar offenses) or any cease-and-desist or other court order; involvement in any legal proceeding which, in the opinion of legal counsel to the Company, would be required to be disclosed pursuant to Item 401(d) of Regulation S-K of the Securities and Exchange Commission; any non-prescription use of any controlled substance or the use of alcohol or any other non-controlled substance which the Board of Directors of the Company reasonable determines renders the Executive unfit to serve in his or her capacity as an officer of the Company; or any act or omission which has a material adverse effect on the public image, reputation or integrity of the Company.

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

- a. a substantial reduction in the duties and responsibilities of the Executive below those he or she had in the position he or she held immediately prior to the Change in Control;
- b. the Company shall require the Executive to have as his or her principal location of work any location which is not within

75 miles of Lebec, California.

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

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

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

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

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

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

8. Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any Severance Benefit provided for in this Agreement be reduced by any compensation earned by Executive as a result of employment by another employer, except as provided in Section 2.1(d). Notwithstanding the foregoing, in the event that the Executive is entitled, by operation of any applicable law, to unemployment compensation benefits or benefits under the Worker Adjustment and Retraining Act of 1988 (known as the "WARN" Act) in

connection with the termination of his or her employment in addition to those required to be paid to him or her under this Agreement, then to the extent permitted by applicable statutory law governing severance payments or notice of termination of employment, the Company shall be entitled to offset the amounts payable hereunder by the amounts of any such statutorily mandated payments.

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

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

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

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

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

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

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

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

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

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

19. Counterparts. This Agreement may be executed in two

counterparts each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

TEJON RANCH CO.

By: /s/ Robert A. Stine

/s/ EMPLOYEE SIGNATURE

Employee Address