



**EMINENT DOMAIN SETTLEMENT AGREEMENT AMONG
CASTAIC LAKE WATER AGENCY, THE NEWHALL LAND AND FARMING
COMPANY, AND VALENCIA WATER COMPANY**

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This SETTLEMENT AGREEMENT (the “**Agreement**”) is made as of December 12, 2012, by and among THE NEWHALL LAND AND FARMING COMPANY, a California limited partnership (“**Newhall**”), CASTAIC LAKE WATER AGENCY, a public agency duly organized and existing under and by virtue of the laws of the State of California (“**Agency**”), and VALENCIA WATER COMPANY, a California corporation (the “**Company**”). Newhall, Agency, and Company are sometimes collectively referred to herein as the “**Parties**.”

RECITALS

A. The Company’s authorized common stock consists of fifty thousand (50,000) shares of common stock, One Hundred Dollar (\$100) par value, of which fifteen thousand three hundred sixty-five (15,365) shares are issued, outstanding, and owned by Newhall (the “**Shares**”).

B. The Company is a California corporation and an investor-owned public utility regulated by the California Public Utilities Commission (“**PUC**”), which sells water to residential, industrial, and commercial customers (the “**Business**”).

C. Agency has filed a condemnation action against Newhall, as the Company’s sole shareholder (*Castaic Lake Water Agency v. The Newhall Land and Farming Company*, Los Angeles County Superior Court Case No. BC497322), a copy of which is attached hereto as Exhibit A (the “**Condemnation Action**”).

D. To resolve the Condemnation Action, Agency, Newhall, and Company have entered into a settlement, which is memorialized through this Agreement and the stipulation for judgment in the Condemnation Action. A copy of the form of judgment is attached hereto as Exhibit B (the “**Stipulated Judgment**”).

E. Through this Agreement, Agency agrees to purchase, and Newhall agrees to sell and transfer to Agency, all of the Shares pursuant to the stock purchase provisions set forth herein. Further, as additional consideration for the settlement, the Parties have agreed to the terms and conditions upon which (i) Newhall will transfer to Agency certain water supply related rights now owned by Newhall and (ii) Agency and Company will carry out certain water service obligations related to properties owned by Newhall and affiliates of Newhall, including Stevenson Ranch Venture, LLC, a Delaware Limited Liability Company (“**SRV**”) within or immediately adjacent to Agency’s service area.

NOW THEREFORE, in settlement of the Condemnation Action, and in consideration of the mutual covenants, terms, and conditions set forth in this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

ARTICLE I **SHARE PURCHASE**

1.1 Purchase and Sale of Shares. Upon the terms and subject to the conditions set forth in this Agreement, and pursuant to the Stipulated Judgment, Agency hereby agrees to purchase from Newhall and Newhall agrees to sell, transfer, assign, convey, and deliver the Shares to Agency, on the Closing Date (as defined below), free and clear of any and all liens, encumbrances, security interests, pledges, options, charges, and restrictions (collectively, “**Liens**”).

1.2 Closing. The delivery of the Shares and the payment therefore (the “**Closing**”) shall take place at the Newhall office, 25124 Springfield Ct, Suite 300, Valencia, CA 91355, on a date and at a time after entry of the Stipulated Judgment in the Condemnation Action agreed to by Agency and Newhall, which date and time shall be no later than three (3) business days after the date said judgment is entered unless a later time is agreed to in writing by all parties. The date on which the Closing occurs is hereinafter referred to as the “**Closing Date**.”

ARTICLE II **PURCHASE PRICE AND DELIVERY OF SHARES**

2.1 Purchase Price. Subject to any adjustments set forth in this Agreement, Agency shall pay to Newhall for the Shares a purchase price in the total amount of Seventy Three Million Eight Hundred Thousand Dollars (\$73,800,000) (“**Purchase Price**”).

2.2 Payment of Purchase Price and Delivery of Shares.

2.2.1 Closing Date Payment. The Purchase Price shall be paid in full to Newhall at the Closing by depositing the Purchase Price by a confirmed wire transfer of readily available federal funds pursuant to instruction provided by Newhall prior to the Closing Date.

2.2.2 Adjustments to the Purchase Price. Attached hereto as Exhibit C is an unaudited pro forma balance sheet (“**Proforma Balance Sheet**”) dated as of November 30, 2012 (the “**Balance Sheet Date**”) prepared internally by the Company consistent with generally accepted accounting principles, which is an updated version of the Balance Sheet dated December 31, 2011, audited by Deloitte in conjunction with the audit for the year ended December 31, 2011. A copy of the Company’s December 31, 2011, audit report which was previously delivered by Newhall to Agency includes the December 31, 2011, audited balance sheet (the “**Prior Balance Sheet**”). The following adjustments shall be made to the Purchase Price based upon the amounts included in the Proforma Balance Sheet as of the Balance Sheet Date:

(a) On the Closing Date, the Purchase Price will be increased by Certain Assets of the Company determined as of the Balance Sheet Date. The term “**Certain Assets**” means the sum of the following assets of the Company only (and shall not include any other known or unknown assets of the Company): (i) all cash and cash equivalents (reduced by

the cash necessary to make the Preferred Share Payment pursuant to Section 2.3), and (ii) the Accounts Receivable categorized on the Proforma Balance Sheet as "Metered Trade Accounts Receivable" and "Unbilled Receivables."

(b) On the Closing Date, the Purchase Price will be decreased by Certain Liabilities of the Company determined as of the Balance Sheet Date. The term "**Certain Liabilities**" means the sum of the following liabilities of the Company only (and shall not include any other known or unknown liabilities of the Company): (i) the Accounts Payable categorized on the Proforma Balance Sheet as "Trade Accounts Payable" and "Accrued Trade Payables," and (ii) the outstanding balance of the Notes Payable issued by the Company pursuant to that certain Note Purchase Agreement dated as of June 1, 2010, (the "**Note Purchase Agreement**") in the outstanding principal balance of Twenty-Four Million Dollars (\$24,000,000), together with any and all accrued, unpaid interest thereon calculated in accordance with the Note Purchase Agreement (which shall be a continuing obligation of the Company following the Closing Date).

(c) Within ninety (90) days following the Closing Date, representatives of Newhall and the Agency shall meet at the principal office of Newhall to determine whether it is necessary to make an adjustment to the Purchase Price (the "**Purchase Price Adjustment**") solely to reflect the actual differences between (i) the Certain Assets and Certain Liabilities of the Company used to determine the Purchase Price as of the Balance Sheet Date, and (ii) the Certain Assets and Certain Liabilities of the Company determined as of the Closing Date. If the Purchase Price Adjustment exceeds One Hundred Thousand Dollars (\$100,000.00) (the "**Adjustment Threshold**"), then the amount of such Purchase Price Adjustment in excess of the Adjustment Threshold (the "**Additional Payment**") shall be required to be paid by one Party to the other Party (in the manner described below) within ten (10) business days after the date the Purchase Price Adjustment is determined. If an Additional Payment is required to be made and the Purchase Price Adjustment is negative, then Newhall shall be obligated to pay the Additional Payment to the Agency. If an Additional Payment is required to be made and the Purchase Price Adjustment is positive, then the Agency shall be obligated to pay the Additional Payment to Newhall. If the Purchase Price Adjustment is less than or equal to the Adjustment Threshold, then no Purchase Price Adjustment shall be made and neither Party shall be obligated to make any payment to the other Party pursuant to this Section 2.2.2(c). For avoidance of doubt, the Parties agree that the Additional Payment is only required to be made if the Purchase Price Adjustment exceeds the Adjustment Threshold and the amount of the Additional Payment is limited solely to the amount of such excess (and does not include the \$100,000.00 Adjustment Threshold amount).

2.2.3 No Other Adjustments to the Purchase Price. Except to the extent set forth in Sections 2.2.2 and 5.6.1, there will be no other adjustments to the Purchase Price. Without limiting the generality of the preceding sentence, there will be no adjustments for (i) any changes in the following items categorized on the Proforma Balance Sheet as "Other Receivables," "Inventories," "Prepaid Expenses," "Property and Equipment," "Other Assets," "other Accounts Payable," "Accrued Liabilities," "Income Taxes Receivable/Payable," "Deferred Tax Assets," "Deferred Tax Liabilities," "Advances for Construction," "Other Deferred Credits," or "Contributions in Aid of Construction," (ii) any other items included in the Proforma Balance Sheet other than the Certain Assets and the Certain Liabilities, (iii) any of the services or other

responsibilities of Newhall and the Company in Sections 6.2.3 and 6.2.4, (iv) any continuing obligations to provide reimbursements under the existing main line extension agreements and to provide other advances for construction described in the agreements listed on Schedule 2.2.3 attached hereto, (v) any differences in any amounts that are ultimately actually collected for the accounts receivable items described in Section 2.2.2(a)(ii) (or for any other Company accounts receivable) and/or actually paid for the payables described in Sections 2.2.2(b)(i) and 2.2.2(b)(ii) (or for any other Company payables), or (vi) any known or unknown liabilities not reflected in the Balance Sheet, regardless of whether any such known or unknown liabilities would otherwise be categorized under Section 2.2.2.(b)(i).

2.3 Delivery of Shares. Newhall, at the Closing, upon confirmation that (i) the Purchase Price, as adjusted, has been deposited as required by section 2.2.1 hereof, and (ii) the final order of condemnation in the Condemnation Action has been filed, shall deliver to the Agency an Assignment Separate From Certificate attached to the original stock certificate(s) for the Shares duly executed by Newhall in favor of the Agency.

2.4 Preferred Shares. The Company is authorized to issue fifty thousand (50,000) shares of nine and 5/10ths percent (9.5%) preferred stock of which two thousand four hundred (2,400) shares have been issued to Newhall and are outstanding (collectively, the “**Preferred Shares**”). The Preferred Shares were issued with a Five Hundred Dollars (\$500) par value for a total of One Million Two Hundred Thousand Dollars (\$1,200,000). Cumulative dividends for the Preferred Shares have been paid through September 30, 2012. On or before the Closing Date, Newhall shall tender and the Company shall fully redeem for One Million Two Hundred Thousand Dollars (\$1,200,000) cash all of the issued and outstanding Preferred Shares, plus the cumulative unpaid dividends calculated at the rate of Three Hundred Twelve and 33/100ths Dollars (\$312.33) per day for the period commencing on October 1, 2012 and continuing through the date the Preferred Shares are redeemed by the Company. The foregoing payment is referred to as the “Preferred Share Payment.”

2.5 Settlement Amount. The Parties acknowledge that the Purchase Price agreed to by Newhall was in settlement of the Condemnation Action and does not evidence Newhall’s agreement as to the value of the Company or the Shares in any other contested, adversarial, or other proceeding, whether in eminent domain or otherwise.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF NEWHALL

3.1 Representations and Warranties. Newhall represents and warrants to the Agency, as of the date hereof and as of the Closing Date, as follows:

3.1.1 Authorization. Newhall, as the Company’s sole shareholder of record, has the full legal right and capacity to own, sell, and transfer the Shares.

3.1.2 Powers. Newhall, as the Company’s sole shareholder of record, has the full legal right, power and authority: (i) to enter into this Agreement; (ii) to carry out its obligations hereunder; and (iii) to carry out and consummate all other transactions contemplated by this Agreement. Newhall has all requisite power and authority to carry on its activities as

now conducted and has met all statutory and other prerequisites for selling the Shares in settlement of the Condemnation Action and taking the other actions described in this Agreement.

3.1.3 Authorization; Necessary Actions; Binding Effect. Newhall, through its authorized representatives, has authorized Newhall to execute and deliver and to perform its obligations under this Agreement and any other documents and agreements required to be executed, delivered, and performed hereunder and to consummate the transactions contemplated hereby and thereby. This Agreement constitutes valid obligations of Newhall and is legally binding on and enforceable against Newhall in accordance with its terms except as such enforceability may be limited by bankruptcy, insolvency, moratorium, or other similar laws affecting creditors' rights.

3.1.4 Capitalization. The Company's authorized common stock consists solely of fifty thousand (50,000) shares of common stock of one-hundred dollar (\$100) par value, of which fifteen thousand three hundred sixty-five (15,365) shares are issued and outstanding. No shares of stock of the Company are reserved for issuance upon exercise of any warrants, options, or other rights to purchase, or upon conversion of any securities convertible into shares of common stock. Except for the Preferred Shares, no shares of any other class of capital stock, and no instrument that is convertible or exercisable into or exchangeable for any share of capital stock of any class, has been authorized or issued by the Company. All of the Shares have been duly authorized and are validly issued, fully paid, and non-assessable. No Shares have been issued in violation of contravention of any applicable federal or state securities laws or regulations and no Shares have been issued in violation of any preemptive rights of any shareholder or other agreement to which the Company or any shareholder of the Company are or were a party. Except for the Preferred Shares, there is no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, agreements, arrangements, or commitments to issue or sell any Shares or other securities of the Company or any securities or obligation convertible or exchangeable into or exercisable for, or giving any person a right to subscribe for or acquire any securities of the Company, and no securities or obligation evidencing such rights are authorized, issued, or outstanding.

3.1.5 Stock Ownership. Newhall is the owner, beneficially and of record, of all of the Shares, issued free and clear of all Liens, other than restrictions imposed by federal or applicable state securities laws which do not constitute an impediment to the transfer described in this Agreement. All of the Shares are located at the Newhall headquarters, 25124 Springfield Court, Suite 300, Valencia CA 91355, which is located within the boundaries of the Agency and within the service area of the Company. A legal description of the Newhall headquarters is attached to this Agreement as Exhibit D. Upon delivery of the certificates representing the Shares at the Closing and recording of the final order of condemnation in the Condemnation Action, Newhall shall transfer to Agency and Agency shall acquire from Newhall, good and valid title to the Shares, free and clear of all Liens. The Shares constitute, and on consummation of the sale and transfer of the Shares to Agency shall constitute, one hundred percent (100%) of the issued and outstanding shares of common stock of the Company.

3.1.6 No Conflicts or Violations. The execution, delivery, and performance of this Agreement by Newhall or the Company, as applicable, will not result in any of the

following, the occurrence of which would have a material adverse effect on the ability of Newhall or the Company to perform their obligations under this Agreement:

(a) A violation of, or conflict with, the Articles of Incorporation, Bylaws or other governing documents of Newhall or the Company;

(b) A default, breach, or violation, or an event that, with notice or lapse of time, or both, would be a default, breach, or violation, or result in the termination of or accelerate the performance required by the Company of any material lease, license, franchise, promissory note, conditional sales contract, indenture, mortgage, deed of trust, security or pledge agreement, shareholders or subscription agreement, instrument or other agreement, written or oral to which the Company is a party or is subject to or by which its assets are bound;

(c) The termination of any material contract or the acceleration of the maturity of any indebtedness or other material obligation of the Company;

(d) The creation or imposition of any Lien on any assets of the Company; or

(e) A violation or breach of any writ, injunction, or decree of any court or governmental instrumentality to which Newhall or the Company is a party or by which their assets are bound or any laws or regulations applicable to Newhall, the Company, or their businesses.

3.1.7 Financial Statements. The Prior Balance Sheet, Statement of Income, Statement of Changes in Stockholder's Equity and Statement of Cash Flows (collectively, the "**Financial Statements**") have been audited by Deloitte, whose opinion thereon is included in the Financial Statements. The Proforma Balance Sheet is unaudited and, to the Actual Knowledge of Newhall, has been prepared and is consistent with generally accepted accounting principles used in the preparation of audited financials for the Company. The Financial Statements and, to the Actual Knowledge of Newhall, the Proforma Balance Sheet, fairly present the assets, liabilities and financial position of the Company as of the date thereof in all material respects.

3.1.8 Liabilities. To Newhall's Actual Knowledge, the Company has no material liabilities, obligations or commitments, except for (i) liabilities reflected or provided for in the Financial Statements and the Proforma Balance Sheet, (ii) liabilities incurred in the ordinary course of business and consistent with the Company's past practice, and (iii) the liabilities disclosed on Schedule 3.1.8.

3.1.9 Employees. Schedule 3.1.9 containing a current list of Company employees and salaries has been provided to the Agency under separate cover. The Company made available for review by Agency, on a confidential basis, all salary, benefit, and accrued vacation information for such employees. All the information provided is complete and accurate in all material respects.

3.1.10 Collective Bargaining. The Company is not a party to or bound by any collective bargaining agreement.

3.1.11 Employee Benefits. Schedule 3.1.11 lists each “employee benefit plan” as defined in the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), that the Company maintains or participates in with Newhall or which the Company contributes or to which the Company has any obligation to contribute toward (collectively, the “Plans”).

(a) Each Plan (and each related trust, insurance contract, or fund) has been maintained, funded and administered in all material respects with the terms of such Plan and the terms of any applicable collective bargaining agreement and complies in form and in operation in all material respects with the applicable requirements of ERISA, the Internal Revenue Code of 1986, as amended (the “Code”), and other applicable laws.

(b) To Newhall's Actual Knowledge, all required reports and descriptions (including Form 5500 annual reports, summary annual reports, and summary plan descriptions) have been timely filed and/or distributed in accordance with the applicable requirements of ERISA and the Code with respect to each Plan. To Newhall's Actual Knowledge, the requirements of Part 6 of Subtitle B of Title I of ERISA and Code §4980B (“COBRA”) have been met with respect to each Plan and each employee benefit plan maintained by any entity that is treated as a single employer with the Company for purposes of Code §414 that is an “employee welfare benefit plan” as defined in ERISA §3(1) subject to COBRA.

(c) To Newhall's Actual Knowledge, all contributions (including all employer contributions and employee salary reduction contributions) that are due have been made within the time periods prescribed by ERISA and the Code to each Plan that is an “employee pension benefit plan” as defined in ERISA §3(2) and all contributions for any period ending on or before the Closing Date that are not yet due have been made to each Plan or accrued in accordance with the past custom and practice of the Company. To Newhall's Actual Knowledge, all premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each Plan that is an employee welfare benefit plan.

(d) Each Plan that is intended to meet the requirements of a “qualified plan” under Code §401(a) has received a determination from the Internal Revenue Service that such Plan is so qualified, and nothing has occurred since the date of such determination that could adversely affect the qualified status of any such Plan.

(e) To Newhall's Actual Knowledge, there have been no “prohibited transactions” as defined in ERISA §406 and Code §4975 with respect to any Plan or any employee benefit plan maintained by an entity that is treated as a single employer with the Company for purposes of Code §414. To Newhall's Actual Knowledge, no “fiduciary” as defined in ERISA §3(21) has any liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any such Plan. To Newhall's Actual Knowledge, no action, suit, proceeding, hearing, or investigation with respect to the administration or the investment of the assets of any such Plan (other than routine claims for benefits) is pending or threatened in writing.

(f) Except as otherwise disclosed on Schedule 3.1.11(f), to Newhall's Actual Knowledge, no such Plan that is an employee pension benefit plan has been completely or partially terminated or been the subject of a “reportable event” as defined in ERISA §4043. To

Newhall's Actual Knowledge, no proceeding by the Pension Benefit Guaranty Corporation to terminate any such Plan has been instituted or threatened in writing. To Newhall's Actual Knowledge, all required employer matching contributions to such Plan have been made and are up to date. To Newhall's Actual Knowledge, no Plan is considered to be in "at-risk" status under Code §430.

(g) The Company has not incurred, and to Newhall's Actual Knowledge, there is no reason to reasonably expect that the Company will incur, any liability to the Pension Benefit Guaranty Corporation (other than with respect to Pension Benefit Guaranty Corporation premium payments not yet due) or otherwise under Title IV of ERISA or under the Code with respect to any such Plan that is an employee pension benefit plan.

(h) Neither the Company nor any entity that is treated as a single employer with the Company for purposes of Code §414 contributes to, has any obligation to contribute to, or has any liability (including withdrawal liability as defined in ERISA §4201) under or with respect to any "multiemployer plan" as defined in ERISA §3(37).

(i) The Company does not maintain, contribute to or have an obligation to contribute to, or have any liability with respect to, any employee welfare benefit plan or other arrangement providing health or life insurance or other welfare-type benefits for current or future retired or terminated directors, officers or employees (or any spouse or other dependent thereof) of the Company or of any other person other than in accordance with COBRA.

(j) To Newhall's Actual Knowledge, each agreement, contract, plan, or other arrangement, whether or not written and whether or not an employee benefit plan, to which the Company is a party that is a "nonqualified deferred compensation plan" subject to Code §409A complies with the requirements of Code §409A(a)(2), (3), and (4) and any Internal Revenue Service guidance issued thereunder, and no amounts under any such agreement, contract, plan, or other arrangement is or has been subject to the interest and additional tax set forth under Code §409A(a)(1)(B). To Newhall's Actual Knowledge, the Company does not have any actual or potential obligation to reimburse or otherwise "gross-up" any person for the interest or additional tax set forth under Code §409A(a)(1)(B).

3.1.12 Leases. To Newhall's Actual Knowledge, Schedule 3.1.12 contains a list of personal property leases entered into by the Company that will be binding upon the Company following the Closing Date that is complete and accurate in all material respects.

3.1.13 Inventory. To Newhall's Actual Knowledge, Schedule 3.1.13 contains a list of Company inventory carried at historical cost as of the Balance Sheet Date that is complete and accurate in all material respects.

3.1.14 Property and Equipment. To Newhall's Actual Knowledge, Schedule 3.1.14 contains a list easement interests, real and personal property, and equipment owned by Company as of the Balance Sheet Date that is complete and accurate in all material respects.

3.1.15 Litigation. Except as set forth on Schedule 3.1.15, as of the Balance Sheet Date, there are no pending and served or, to the Actual Knowledge of Newhall, threatened litigation actions or proceedings against the Company.

3.1.16 Status of Newhall. Neither Newhall nor any of its partners is a “foreign person” as defined in Section 1445(f)(3) of the Code.

3.1.17 No Brokers or Finders. Newhall has not incurred any obligation or liability for any brokerage or finders’ fees or commissions in connection with this Agreement or the transactions contemplated hereby.

3.1.18 Consents and Approvals. Execution and delivery of this Agreement by Newhall, and consummation of the transactions contemplated hereby, by Newhall, do not and will not require, as of the Closing Date, any authorization, registration, or filing with, or consent or approval that has not been obtained of any person, including, without limitation: (i) any federal, state, or other governmental authority or regulatory body other than filing under applicable securities laws; and (ii) any party to a contract whereby, pursuant to the terms of such contract, whether or not such party has waived such right, the consent of such party is required, the failure of which to obtain would have a material adverse effect on the ability of Newhall to perform its obligations under this Agreement.

3.1.19 Hazardous Substances. Except as set forth on Schedule 3.1.19, to Newhall’s present knowledge, without any duty of investigation or inquiry, there are no Hazardous Substances (as defined in Section 4.2 below) in, on or under the Company Assets in violation of applicable Environmental Laws (as defined in Section 4.2 below) in effect as of the date hereof.

3.1.20 Nickel Water. Newhall owns the right to certain water supplies (the “**Nickel Water**”) pursuant to that certain Option and Water Purchase Agreement, dated October 15, 2002, with Nickel Family, LLC (“**Nickel Agreement**”). Pursuant to the Nickel Agreement, Newhall acquired an option to purchase the use of 1,607 acre feet (“af”) of transferable “Exchange Water” made available to Nickel Family, LLC pursuant to that certain Contract to Transfer the Kern River Lower River Water Rights between Nickel Family, LLC, the Olcese Water District, and the Kern County Water Agency dated January 23, 2001. Newhall subsequently exercised its option and now receives the Nickel Water annually under the Nickel Agreement.

3.1.21 Taxes.

(a) For all taxable years of the Company ending on or after December 31, 2005, the Company has filed, or has received a valid extension of time in which to file, all federal, state, and local tax returns relating to Taxes (as defined below), including any schedule or attachment thereto, and including any amendment thereof (collectively, “**Tax Returns**”) that were required to be filed under applicable federal, state, and local laws and regulations on or prior to the Closing Date (the “**Pre-Closing Tax Period**”). To the Actual Knowledge of Newhall, all such Tax Returns were correct and complete in all material respects and to the Actual Knowledge of Newhall were prepared based on tax positions with substantial authority as determined under Treasury Regulation Section 1.6662-4(d). All material Taxes due

and owing by the Company (whether or not shown on any Tax Return) for the Pre-Closing Tax Period have been paid or are reflected in the Pro Forma Balance Sheet. The Company is not the beneficiary of any extension of time within which to file any Tax Return required to have been filed for the Pre-Closing Tax Period. To the Actual Knowledge of Newhall, there are no Liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of the Company. “Tax” or “Taxes” means any Company federal, state or local income, gross receipts, license, payroll, employment, severance, franchise, withholding, social security (or similar), unemployment, disability, real property, personal property or estimated tax, including any interest, penalty, or addition thereto, whether disputed or not. For all purposes of this Agreement, (i) subject to Section 5.6.1, Taxes shall be calculated under the law of the applicable taxing authority as of the Closing Date, and (ii) Taxes do not include any deferred tax liabilities of the Company.

(b) To the Actual Knowledge of Newhall, the Company has withheld and paid all material Taxes required to have been withheld and paid on or before the date hereof (or any such Taxes are properly accrued and reflected in the Pro Forma Balance Sheet) in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder, or other third party.

(c) No federal, state or local tax audits or administrative or judicial Tax proceedings are pending or being conducted with respect to the Company.

(d) The Company is not party to any agreement, contract, arrangement or plan that has resulted or could result, separately or in the aggregate, in the payment of any “excess parachute payment” within the meaning of Code §280G (or any corresponding provision of state or local Tax law). To the Actual Knowledge of Newhall and based upon the facts and applicable law in effect at the time of filing such Tax Returns, the Company has disclosed on its federal income Tax Returns all positions taken therein that could give rise to a substantial understatement of federal income Tax within the meaning of Code §6662 for the Pre-Closing Tax Period. The Company is not a party to or bound by any Tax allocation or sharing agreement. During the Pre-Closing Tax Period, the Company (i) has not been a member of an “affiliated group” as defined in Code §1504(a) or any similar group defined under a similar provision of state or local law filing a consolidated federal income Tax Return, and (ii) has no liability for the Taxes of any person other than the Company under Treasury Regulation Section 1.1502-6 (or any similar provision of state or local law), as a transferee or successor, by contract, or otherwise.

(e) Since the date of the Pro Forma Balance Sheet, the Company has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in generally accepted accounting principles, outside the ordinary course of business consistent with past custom and practice.

(f) Except as set forth on Schedule 3.1.21(f), the Company is not required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (i) change in method of accounting for a taxable period ending on or prior to the Closing Date; (ii) “closing agreement” as defined in Code §7121 (or any corresponding or similar provision of state or local income Tax law) executed on or prior to the Closing Date;

(iii) intercompany transaction or excess loss account described in Treasury Regulations under Code §1502 (or any corresponding or similar provision of state or local income Tax law);
(iv) installment sale or open transaction disposition made on or prior to the Closing Date; or
(v) election under Code §108(i).

(g) During the Pre-Closing Tax Period, the Company has not distributed stock of another person, or has had its stock distributed by another person, in a transaction that was purported or intended to be governed in whole or in part by Code §355 or Code §361.

(h) To the Actual Knowledge of Newhall, for the Pre-Closing Tax Period, the Company is not and has not been a party to any “reportable transaction,” as defined in Code §6707A(c)(1) and Reg. §1.6011-4(b).

(i) The Company has not received any private letter rulings from the Internal Revenue Service, California Board of Equalization or California Franchise Tax Board (or any comparable ruling from any other taxing authority) that relate to the Pre-Closing Tax Period.

3.2 Due Diligence. Newhall has provided to Agency, or has caused Company to provide to Agency, the Financial Statements, the Proforma Balance Sheet, the Note Purchase Agreement, the other documents, materials, returns, reports and other information set forth on Schedule 3.2 attached hereto, and all other documents requested by Agency (collectively, the “**Due Diligence Materials**”) to allow Agency to complete its due diligence investigations of the Company and the Shares. The Due Diligence Materials shall not include (i) any materials subject to the attorney-client and/or work-product privilege, or (ii) confidential materials of Newhall, its attorneys, accountants, agents and other representatives associated with the analysis and negotiation of the transaction contemplated herein.

3.3 Definition of Actual Knowledge. The term “**Actual Knowledge**” means, with respect to Newhall, the actual present knowledge after reasonable inquiry (as distinguished from implied, imputed or constructive) of Donald L. Kimball, Steve Zimmer, and Greg Milleman (collectively, the “**NLF Parties**”). The Agency acknowledges that the NLF Parties are named solely for the purpose of defining and narrowing the scope of the knowledge of Newhall and not for the purpose of imposing any liability on or creating any duties running from the NLF Parties to the Agency (and the NLF Parties shall not have any liability to the Agency). The Agency hereby covenants that it will not bring any action of any nature against the NLF Parties related to or arising out of any representations or warranties set forth in this Agreement. The foregoing representations and warranties of Newhall are hereby qualified by any information contained in the Due Diligence Materials provided to the Agency in accordance with this Agreement or otherwise known to Dan Masnada, General Manager of the Agency, and Valerie Pryor, Administrative Services Manager of the Agency, and Newhall shall not have any liability to the Agency for any inaccurate representation or warranty of Newhall to the extent any such representation or warranty is so qualified. In addition, Newhall shall not be deemed to be in breach of its representations and warranties under this Article III by reason of the failure of Newhall to disclose to the Agency any condition, fact or other matter actually known by Dan Masnada or Valerie Pryor.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF AGENCY

4.1 Representations and Warranties. Agency represents and warrants to Newhall, as of the date hereof and as of the Closing Date, as follows:

4.1.1 Authorization. Agency, as a public agency duly organized and validly existing under and pursuant to the laws of the State of California, has the full legal right and capacity to purchase and own the Shares.

4.1.2 Powers. Agency has the full legal right, power, and authority: (i) to enter into this Agreement; (ii) to carry out its obligations hereunder; and (iii) to carry out and consummate all other actions contemplated by this Agreement. The Agency has all requisite power and authority to carry on its activities as now conducted and has met all statutory and other prerequisites for obtaining title to the Shares through settlement of the Condemnation Action, holding the Shares, and taking the other actions described in this Agreement.

4.1.3 Authorization; Necessary Actions; Binding Effect. The Agency, through its Board of Directors at a duly noticed and properly held meeting, has authorized the Agency to execute and deliver and to perform its obligations under this Agreement and any other documents and agreements required to be executed, delivered, and performed hereunder and to consummate the transactions contemplated hereby and thereby. This Agreement constitutes a valid obligation of the Agency and is legally binding on and enforceable against the Agency in accordance with its terms except as such enforceability may be limited by bankruptcy, insolvency, moratorium, or other similar laws affecting creditors' rights.

4.1.4 No Conflict or Violation. The execution, delivery, and performance of this Agreement by the Agency will not result in any of the following, the occurrence of which would have a material adverse effect on the ability of the Agency to perform its obligations under this Agreement:

(a) A violation of, or conflict with, the Agency's enabling act, California Stats. 1962, 1st Ex. Sess., ch. 28, p. 208 (West's California Water Code Appendix, Chapter 103);

(b) A default, breach, or violation, or an event that, with notice or lapse of time, or both, would be a default, breach, or violation, or result in the termination of or accelerate the performance required by Agency or the Company of any material lease, license, franchise, promissory note, conditional sales contract, indenture, mortgage, deed of trust, security or pledge agreement, shareholders or subscription agreement, instrument or other agreement, written or oral to which the Agency or the Company is a party or is subject to or by which its assets are bound;

(c) The termination of any material contract or the acceleration of the maturity of any indebtedness or other material obligation of the Agency or the Company;

(d) The creation or imposition of any Lien on any assets of the Agency or the Company; or

(e) A violation or breach of any writ, injunction, or decree of any court or governmental instrumentality to which the Agency is a party or by which its assets are bound or any laws or regulations applicable to the Agency or its business.

4.1.5 No Brokers or Finders. The Agency has not incurred any obligation or liability for any brokerage or finders' fees or commissions in connection with this Agreement or the transactions contemplated hereby.

4.1.6 Due Diligence. Agency has completed its due diligence investigation of the Company and has made its own independent determination of the value of the Company and the Shares. The Agency has examined all real property and all personal property (tangible or intangible) owned, leased, or otherwise held by the Company and has agreed that, by accepting title to and ownership of the Shares, it (i) is accepting all such property in its as is and where is condition; (ii) recognizes that, except as expressly set forth in this Agreement, neither Newhall nor the Company has made representations or warranties of any kind or nature with respect to the Company, the Shares, the Business, or such real or personal property; and (iii) has agreed that, except in the event of a breach by Newhall of Section 3.1.8 of this Agreement, is assuming all liabilities, known and unknown, related to the Company, the Shares, the Business, and the property, both real and personal, held by the Company (collectively, the **"Company Liabilities"**).

4.1.7 Consents and Approvals. Execution and delivery of this Agreement by the Agency and consummation of the transactions contemplated hereby by the Agency, do not and will not require, as of the Closing Date, any authorization, registration, or filing with, or consent or approval that has not been obtained of any person, including, without limitation: (i) any federal, state, or other governmental authority or regulatory body other than filing under applicable securities laws; and (ii) any party to a contract whereby, pursuant to the terms of such contract, whether or not such party has waived such right, the consent of such party is required, the failure of which to obtain would have a material adverse effect on the ability of the Agency to perform its obligations under this Agreement.

4.1.8 No Other Representations/As-Is Purchase. In furtherance of the provisions of Section 4.1.6, the Agency acknowledges that it is acquiring the Shares, the Company and the Business on an "AS-IS/WHERE-IS" and "WITH ALL FAULTS AND DEFECTS" basis without any representation or warranty of Newhall (or any direct and/or indirect officer, director, shareholder, partner, manager, member, trustee, agent, affiliate or representative of Newhall or the Company (collectively, along with Newhall and the Company, the **"Newhall-Related Parties"**)), express, implied or statutory, as to the Shares, the Company, the Business, the assets of the Company (collectively, the **"Company Assets"**) and the Company Liabilities. The Agency hereby represents that the Agency is a knowledgeable and sophisticated buyer, that the Agency is relying solely upon, and has conducted, its own, independent inspection, investigation and analysis of the Due Diligence Materials (and each document and item of information referred to therein), the Shares, the Company, the Business, the Company Assets and the Company Liabilities, as the Agency deems necessary and/or appropriate in so acquiring the Shares, and the suitability of the Shares, the Company and the Business for the Agency's intended purposes, and is not relying upon the Due Diligence Materials or any other agreements, reports, documents or other information provided to the Agency by Newhall or any of the other

Newhall-Related Parties. As to any Due Diligence Materials prepared by third parties, the Agency specifically acknowledges that the Agency has no privity with such third parties and the Agency acknowledges and agrees that no warranty or representation, express or implied, has been made, nor shall any be deemed to have been made, to the Agency with respect thereto, either by the Newhall-Related Parties, the Company or by any third parties that prepared the same.

4.2 Hazardous Substances. Except as expressly set forth in Section 3.1 hereof, none of the Newhall Parties has made any representations or warranties regarding the compliance of Company Assets with Governmental Regulations and the existence or absence of Hazardous Substances or, about, under or in the vicinity of any of the Company Assets. The Agency agrees that any clean-up, removal or remediation of Hazardous Substances or other environmental conditions regarding the Company Assets will not be the responsibility of, and will be performed at no cost to, Newhall, and the Agency hereby indemnifies, defends (with counsel selected by Newhall), and holds the Newhall-Related Parties harmless from any and all costs, loss, damages or expenses of any kind or nature arising out of or resulting from any clean-up, removal or remediation of Hazardous Substances or other environmental conditions on the Company Assets. The term "Governmental Regulations" means any laws (including Environmental Laws), ordinances, rules, requirements, resolutions, policy statements and regulations (including, without limitation, those relating to land use, subdivision, zoning, Hazardous Substances, occupational health and safety, handicapped access, water, earthquake hazard reduction, and building and fire codes) of any governmental or quasi-governmental body or agency claiming jurisdiction over the Company Assets. The term "Environmental Laws" means all federal, state and local laws, ordinances, rules and regulations now or hereafter in force, whether statutory or common law, as amended from time to time, and all federal and state court decisions, consent decrees and orders interpreting or enforcing any of the foregoing, in any way relating to or regulating human health or safety, or industrial hygiene or environmental conditions, or protection of the environment, or pollution or contamination of the air, soil, surface water or groundwater, and includes, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601 *et seq.*, the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*, and the Clean Water Act, 33 U.S.C. § 1251 *et seq.* The term "Hazardous Substances" means any substance or material that is described as a toxic or hazardous substance, waste or material or a pollutant or contaminant, or words of similar import, in any of the Environmental Laws, and includes asbestos, petroleum (including crude oil or any fraction thereof, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel, or any mixture thereof), petroleum-based products and petroleum additives and derived substances, lead-based paint, mold, fungi or bacterial matter, polychlorinated biphenyls, urea formaldehyde, radon gas, radioactive matter, medical waste, and chemicals which may cause cancer or reproductive toxicity.

4.3 Release of Claims.

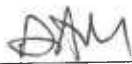
4.3.1 Release. Except for all of Newhall's covenants, obligations, undertakings, representations and warranties set forth in this Agreement which survive the Closing Date, the Agency, on its own behalf, and on behalf of its respective direct and indirect officers, directors, shareholders, partners, managers, members, trustees, affiliates, agents and representatives and its successors and assigns (collectively, the "**Agency-Related Parties**"), hereby fully and forever

waive, release and discharge Newhall and the other Newhall-Related Parties (collectively, the “**Releasees**”) from and against any and all manner of action or actions, cause or causes of action, at law or in equity, suits, debts, liens, contracts, agreements, rights, promises, liabilities, claims, obligations, demands, damages, losses, costs, penalties, fees (including, without limitation, attorney’s and expert witness fees and costs), and/or expenses, of any kind or nature whatsoever, known or unknown, existing as of the date hereof or hereinafter arising, suspected or unsuspected, concealed or hidden, fixed or contingent (collectively, the “**Released Claims**”) that arise out of or relate to events occurring prior to the Closing Date, which the Agency or any of the other Agency-Related Parties (collectively, the “**Releasors**”) now has, ever had, or may hereafter have against any one (1) or more of the Releasees, by reason of any matter, cause, or thing whatsoever arising out of, or related in any way (i) to the Shares, the Company, the Business, the Company Assets and the Company Liabilities, and (ii) any and all responsibilities and liabilities, including, without limitation, liabilities under the Environmental Laws, regarding the condition (including the presence in the soil, air, structures and surface and subsurface waters), of any Hazardous Materials, or other materials or substances that have been or may in the future be determined to be toxic, hazardous, undesirable or subject to regulation and that may need to be specifically treated, handled and/or removed from the Company Assets under current or future federal, state and local laws, regulations or guidelines).

4.3.2 Complete Release. Each Releasor intends, through the releases provided for in this Section 4.3 above, to fully, and finally, and forever settle, release, and extinguish (as a full and final accord and satisfaction) all Released Claims that such Releasor may now or hereinafter have against such Releasor’s respective Releasees and referenced in this Section 4.3. In furtherance of such intention, the releases herein given shall be and remain in effect as full and complete releases of the relevant Released Claims released notwithstanding the discovery of the existence of any additional Released Claims or facts related thereto. Accordingly, as a condition of this Agreement, each Releasor hereby acknowledges that any and all releases made by such Releasor pursuant to this Section 4.3 shall extend to any and all Released Claims which such Releasor does not know or suspect to exist in such Releasor’s favor at the time this Agreement is fully executed and delivered, even if the knowledge of such Released Claims on the part of such Releasor would have materially affected such Releasor’s settlement with such Releasor’s respective Releasees.

4.3.3 Waiver of Civil Code Section 1542. The Agency, on behalf of itself and the Releasors, hereby expressly waives and relinquishes all rights and benefits the Agency and the Releasors may have under Section 1542 of the Civil Code of the State of California with respect to the Released Claims that are the subject of the limited releases set forth in this Section 4.3. Civil Code Section 1542 reads as follows:

“§1542 A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”


AGENCY'S INITIALS

4.3.4 Restatement of Release. The releases set forth in this Section 4.3 shall be deemed to be remade as of the Closing Date and shall survive the Closing Date.

ARTICLE V

COVENANTS OF COMPANY, AGENCY, AND NEWHALL

5.1 Conduct of Business. During the period commencing on the execution and delivery of this Agreement and ending on the Closing Date, the Company shall continue to conduct the Company's Business and affairs in the ordinary and normal course, including commercially reasonable efforts to maintain relationships with the Company's customers, distributors, suppliers, vendors, employees, agents, regulators and others. Except as otherwise provided herein, and except for those obligations incurred in connection with the subject transaction, subsequent to the date of this Agreement, the Company shall not without first obtaining the Agency's prior written consent, which shall not be unreasonably withheld, conditioned, or delayed: (i) enter into, modify or terminate any contract or transaction which is material to the Business or the Company's financial condition, operating results or prospects; (ii) incur any liabilities (other than liabilities in the ordinary course of business); (iii) make any capital expenditure other than in the ordinary course of business; (iv) issue any additional shares of stock; or (v) make or change any federal or state tax, election, change an annual accounting period, adopt or change any accounting method, file any amended Tax Return (other than claims for carry-backs for net operating losses and/ or other tax attributes), enter into any federal or state tax closing agreement, settle any Tax claim or assessment relating to the Company, surrender any right to claim a refund of Taxes, consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to the Company, or take any other similar material action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption, change, amendment, agreement, settlement, surrender, consent or other action would have the effect of materially increasing the Tax liability of the Company for the Post-Closing Tax Period or materially decreasing any Tax attribute of the Company existing on the Closing Date. In addition, except for payment for the Preferred Shares or as otherwise provided herein, from and after the date hereof, the Company shall not distribute cash, cash equivalents, or non-cash assets of the Company (other than in the ordinary course of business) without the prior written consent of Agency.

5.2 Reasonable Efforts of Company. The Company shall use commercially reasonable efforts to take, or cause to be taken, those actions and to do, or cause to be done, those things necessary to fulfill the conditions precedent to the other party's obligations hereunder and to consummate and make effective as promptly as reasonably practicable the transactions contemplated by this Agreement and to cooperate reasonably with each other in connection with the foregoing. The Company shall use commercially reasonable efforts to secure all consents, approvals, waivers and authorizations required or necessary from other parties to any material contract or under applicable laws in order to consummate the transactions contemplated by this Agreement.

5.3 Reasonable Efforts of Newhall. Newhall shall use its commercially reasonable efforts to take, or cause to be taken, those actions and to do, or cause to be done, those things

reasonably necessary to fulfill the conditions precedent to Agency's obligations hereunder and to consummate and make effective as promptly as reasonably practicable the transactions contemplated by this Agreement and to cooperate reasonably with the Agency in connection with the foregoing. Newhall shall use its commercially reasonable efforts to secure all consents, approvals, waivers, and authorizations required or necessary from other parties to any material contract or under applicable laws in order to consummate the transactions contemplated by this Agreement.

5.4 Post Closing Covenants of Newhall and Company. Should it be determined, after the Closing Date, that one or more required consents, approvals, waivers, and authorizations had not been secured by the Company or Newhall, the Agency shall so notify Newhall and the Company and Newhall and the Company, at Newhall's sole expense, shall promptly use their reasonable efforts to secure such consents, approvals, waivers, and/or authorizations from the applicable entity or entities. Provided that any such consents, approvals, waivers, and/or authorizations are thereafter obtained, the failure to obtain them prior to the Closing Date shall not be deemed a breach of this Agreement.

5.5 Reasonable Efforts of Agency. The Agency shall use its commercially reasonable efforts to take, or cause to be taken, those actions and to do, or cause to be done, those things necessary to fulfill the conditions precedent to Newhall's obligations hereunder and to consummate and make effective as promptly as reasonably practicable the transactions contemplated by this Agreement and to cooperate reasonably with Newhall in connection with the foregoing. The Agency shall use its commercially reasonable efforts to secure all consents, approvals, waivers and authorizations required or necessary from other parties to any material contract or under applicable laws in order to consummate the transactions contemplated by this Agreement.

5.6 Tax Matters. The following provisions shall govern the allocation of responsibility as between the Agency and Newhall for certain tax matters:

5.6.1 Income Tax Obligations. Subject to the limitations set forth in this Section 5.6.1 and Section 5.6.5, Newhall shall be responsible for all federal and California State income taxes of the Company (the "**Income Taxes**") that relate to the Pre-Closing Tax Period; provided, however, the Parties agree to allocate responsibility for Income Taxes for the Interim Period (defined below) and, if necessary, to make an adjustment to the Purchase Price as follows:

(a) the Income Tax payable for the interim period commencing on January 1, 2012 and ending on the Closing Date (the "**Interim Period**") shall be calculated in accordance with Schedule 5.6.1;

(b) for purposes of calculating the Income Taxes for the Interim Period, (1) the federal Income Tax liability of the Company for 2012 shall be determined using a rate of thirty-four percent (34%), (2) the California State Income Tax liability of the Company for 2012 shall be determined using a rate of eight and 84/100ths percent (8.84%) and (3) for 2013 (should the Interim Period extend beyond December 31, 2012) the federal and State rates used shall be the actual rates in effect for that year;

(c) within ninety (90) days following the Closing Date, representatives of Newhall and the Agency shall meet at the principal office of Newhall to determine whether it is necessary to make an adjustment to the Purchase Price solely to reflect the differences between the estimated Income Tax actually paid by the Company for the Interim Period set forth on Schedule 5.6.1 (the “**Estimated Tax Payments**”) and the actual Income Tax payable by the Company for the Interim Period based on the rates set forth in clauses (1) and (2) above in subsection (b) above (the “**Interim Period Actual Tax Liability**”); and

(d) notwithstanding the foregoing, Newhall shall not be responsible for any Taxes (the “**Additional Taxes**”) resulting from any action, inaction, election, distribution, sale, transfer, merger, liquidation, conversion, reorganization and/or other transaction taken by the Company or the Agency on or following the Closing Date.

If it is determined that the Estimated Tax Payments exceed the Interim Period Actual Tax Liability (the “**Estimated Tax Payment Overage**”), then the Agency shall pay, or shall cause the Company to pay, to Newhall the Estimated Tax Payment Overage within ten (10) business days after the date the Estimated Tax Payment Overage is determined. If it is determined that the Interim Period Actual Tax Liability exceeds the Estimated Tax Payments (the “**Tax Payment Shortfall**”), then Newhall shall pay the Tax Payment Shortfall to the Agency within ten (10) business days after the date the Tax Payment Shortfall is determined. The Agency shall be responsible for (x) all unpaid Income Taxes reflected in the Pro Forma Balance Sheet that relate to any period (or that are attributable to any action, inaction, election, distribution, sale, transfer, merger, liquidation, conversion, reorganization and/or other transaction taken by the Company or the Agency) following the Closing Date (such period following the Closing Date, the “**Post-Closing Tax Period**”) and (y) all Additional Taxes. For avoidance of doubt, Newhall shall not have any responsibility for any Income Taxes that have already been paid or that are reflected in the Proforma Balance Sheet.

For purposes of clauses (a) and (x) of this Section 5.6.1, any taxable period that includes (but does not end on) the Closing Date shall constitute a Pre-Closing Tax Period only until (and shall be deemed to end on) the Closing Date, and the amount of any Income Taxes which are based on or measured by income or gross receipts of the Company for such Pre-Closing Tax Period shall be determined based on an interim closing of the books as of the close of business on the Closing Date. Any other Income Taxes of the Company which relate to any such Pre-Closing Tax Period shall be allocated between the Pre-Closing Tax Period and the Post-Closing Tax Period based upon the daily accrual of such income Taxes up to and including the Closing Date or pursuant to any other reasonable method chosen by Newhall in accordance with applicable laws. The Parties acknowledge and agree that any Tax refunds, net operating losses, credits, overpayments or other benefits that relate to the Pre-Closing Tax Period shall constitute the sole property of Newhall and that any Tax refunds, credits, overpayments or other benefits that relate to the Post-Closing Tax Period shall constitute the sole property of the Agency or the Company.

5.6.2 Responsibility for Filing Tax Returns. Except as provided in Section 5.6.5 below, the Agency shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for the Company that are filed after the Closing Date. With respect to Tax Returns that include any Pre-Closing Tax Period, the Agency shall provide such Tax Returns to Newhall for

its review and approval at least thirty (30) days prior to the date any such returns are required to be filed (taking into account any extensions). Such Tax Returns shall be prepared in a manner reasonably consistent with any such Tax Returns previously filed by the Company for any Pre-Closing Tax Period, and the Agency shall not (and shall cause the Company not) to make or change any federal or state tax election, accounting period, or any accounting method, to file any amended Tax Return, to enter into any federal or state tax closing agreement, to settle any Tax claim or assessment relating to the Company, to surrender any right to claim a refund of Taxes, to consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment relating to the Company, or to take any other similar material action relating to the filing election or take any tax position, whether included as part of such Tax Return or otherwise, which may increase the taxes of Newhall or the Company attributable to the Pre-Closing Tax Period. Should Newhall object to the filing of any such Tax Return as prepared by the Agency, Newhall shall notify the Agency of its specific objections in writing no later than fifteen (15) days subsequent to the date such Tax Return was provided to Newhall for approval pursuant to this Section 5.6.2. If Newhall and the Agency cannot agree on the resolution of Newhall's objections prior to the filing of any such Tax Return, the Agency shall be responsible for any additional Taxes attributable to a Pre-Closing Tax Period which is attributable to such filing.

5.6.3 Cooperation on Tax Matters.

(a) The Agency, the Company and Newhall shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to Section 5.6.2 and any audit, litigation or other proceeding with respect to Taxes; provided that with respect to any Taxes at issue in any such audit, litigation or other proceeding, the party responsible for such Taxes under this Agreement shall also have primary responsibility for, and the right to control at its own expense, such audit, litigation or other proceeding (and the disposition thereof). Such cooperation shall include, without limitation, (i) promptly notifying the other party of any threatened, actual or pending audit, litigation, proceeding, or any other material correspondence or notice received from any taxing authority, and (ii) the retention and (upon the other party's request) the provision of records and information that are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder, provided that any such records or information are not confidential or protected by the attorney-client privilege. The Company and Newhall agree (A) to retain all books and records with respect to Tax matters pertinent to the Company relating to the Pre-Closing Tax Period that are in the possession and control of either such party as of the Closing Date until the expiration of the statute of limitations (and, to the extent notified in writing by the Agency or Newhall, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any federal, state, or local taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, the Company or Newhall, as the case may be, shall allow the other party to take possession of such books and records. If, as a result of any adjustment by any taxing authority of any Tax Return that relates to the Pre-Closing Tax Period, the Company and/or the Agency (or any affiliate thereof) derives a tax benefit for the Post-Closing Tax Period, then the Agency shall pay to Newhall the value of such tax benefit within thirty (30) days following the date such tax benefit is realized.

(b) The Agency and Newhall further agree, upon request, to use their commercially reasonable efforts to obtain any certificate or other document from any governmental authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby); provided, however, no such certificate or other document shall be sought or obtained by the Agency, the Company or Newhall if such Certificate or document would lead to an increase in the Taxes of the Company or Newhall for any Pre-Closing Tax Period.

(c) The Agency and Newhall further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to Code §6043, or Code §6043A, or Treasury Regulations promulgated thereunder.

5.6.4 Tax-Sharing Agreements. All tax-sharing agreements or similar agreements with respect to or involving the Company shall be terminated as of the Closing Date and, after the Closing Date, the Company shall not be bound thereby or have any liability thereunder.

5.6.5 Certain Taxes and Fees. All Transaction Taxes incurred in connection with consummation of the transactions contemplated by this Agreement shall be paid by the Agency when due, and the Agency will, at its own expense, file all necessary Tax Returns and other documentation with respect to all the Transaction Taxes, fees and charges, and, if required by applicable law, Newhall will, and will cause its affiliates to, join in the execution of any such Tax Returns and other documentation.

ARTICLE VI

PROVISIONS REGARDING WATER RIGHTS AND WATER SERVICE

6.1 California Public Utilities Commission. On the Closing Date, Agency shall notify the PUC, in writing, that it has obtained the Shares through settlement of an eminent domain proceeding and that the Company intends to continue operating under its existing certificate and tariffs.

6.2 Water Rights and Operation of the Company.

6.2.1 Interim Operation. For seventy-five (75) days from the Closing Date, Agency shall conduct the Company's Business and affairs in the ordinary and normal course as it was being operated prior to the Closing Date and shall not, without the written consent of Donald Kimball, the designee selected by Newhall ("**Newhall Designee**"): (i) permit the sale, encumbrance, transfer, limitation, or assignment of any material real or personal property or any interests therein held by the Company as of the Closing Date, including but not limited to water-related rights; (ii) permit or carry out any material changes in Company personnel or their wages, benefits, or working conditions except as may be required by federal, state or local laws or regulations; or (iii) take any affirmative action or consent to an action by any third party that would alter or permit the alteration of the status of the Company as a PUC-regulated entity. During this 75-day period, the Agency shall not engage in or permit any act or omission which would materially, negatively affect the value of the Company or its ability to provide water service to existing and future water users within its service area, including but not limited to, its ability to perfect and secure all water rights and supplies, permits, and applications of the

Company. Newhall may change the identity of the Newhall Designee at any time by written notice to Agency and Company.

6.2.2 Operation In The Event Of Litigation. In the event, during the seventy-five (75)-day period set forth in section 6.2.1, an action is filed in court or before any administrative agency (i) challenging the right of the Agency to acquire the Shares, including pursuant to its power of eminent domain, or (ii) claiming that the Agency exceeded the powers of its authorizing statute in entering into and performing the terms of this Agreement, including operating the Business, Agency and Company, until a final, non-appealable judgment or order is obtained in that action or the action is otherwise dismissed with prejudice, (a) shall diligently conduct the Company's Business and affairs in the ordinary and normal course as it was being operated immediately prior to the Closing Date and (b) except in the ordinary course of business, shall not, without the written consent of the Newhall Designee: (i) permit the sale, encumbrance, transfer, limitation, or assignment of any real or personal property or any interests therein held by the Company as of the Closing Date, including but not limited to water-related rights; (ii) engage in or permit any act or omission which would materially, negatively affect the value of the Company or its ability to provide water service to existing and future water users within its service area, including but not limited to, its ability to perfect and secure all water rights and supplies, permits, and applications of the Company; or (iii) take any affirmative action or consent to an action by any third party that would alter or permit the alteration of the status of the Company as a PUC-regulated entity.

6.2.3 Operation in the Absence of or After Litigation. Should the Agency or the Company, after expiration of the interim operation obligations set forth in Sections 6.2.1 and 6.2.2, determine to merge, change, consolidate, or otherwise transfer the operations of the Company with or into the operations of the Agency or a joint powers agency of which Agency is a member, it shall not effect such merger, change, consolidation or transfer until seventy-five (75) days after adoption of the resolution authorizing such action. The Parties stipulate that the Agency's agreement to defer the effective date of any such merger, change, consolidation or transfer as provided by this paragraph represents a central consideration for the settlement of the eminent domain action filed by the Agency and that Newhall may specifically enforce the Agency's obligations hereunder or file an action challenging the Agency's authority to carry out such a merger, change, consolidation, or transfer.

6.2.4 Insurance. The Agency shall take all necessary steps to ensure that the Company insurance policies listed on Schedule 6.2.4 of this Agreement remain in full force and effect after the Closing Date. Newhall and/or the Company shall ensure that the policies listed on Schedule 6.2.4 are effective on the Closing Date.

6.2.5 Frozen Defined Benefit Plan. Newhall shall be solely responsible for administering and providing all necessary funding for the frozen defined benefit plan described more particularly on Schedule 6.2.5 attached hereto that currently covers certain of the existing employees (as of the Closing Date) and past employees, and will indemnify and hold harmless Company and the Agency from any costs or expenses related to such plan.

6.2.6 Cooperation. Agency, to insure timely completion of water service facilities, shall cooperate with Newhall in the development of water supply infrastructure needed to serve Newhall projects located within the Company's or Agency's service areas. Agency,

when necessary to ensure such timely completion, will, to the extent authorized by law, enter into agreements with Newhall whereby Newhall or its agents can construct such facilities and turn them over to the Agency or Company for operation and maintenance. The Agency shall retain the right to review water system master plans and facility designs and observe facility construction and notify Company and Newhall of any inconsistencies with the facility standards of the Agency that would require remediation before acceptance by the Agency.

6.2.7 401k Plan. As of the Closing Date, the Company will cease to be a participating employer in The Newhall Land and Farming Company Employee Savings Plan (the “**Newhall Savings Plan**”) and the employees of the Company will no longer be eligible to participate or accrue any benefits in the Newhall Savings Plan. As soon as administratively possible, but in no event later than sixty (60) days after the Closing Date, the Agency shall ensure that the Company establishes a new savings plan (the “Valencia Water Company Employees **Savings Plan**”) substantially similar to the Newhall Savings Plan. As soon as practicable after the Agency Plan is established, but in no event later than seventy-five (75) days after the Closing Date, Newhall and the Agency shall take all necessary and appropriate actions to transfer the Newhall Savings Plan accounts of all employees of the Company and any outstanding participant loans to the Agency Savings Plan (the “**Transfer**”). This includes, but is not limited to, instructing the third-party administrator to take any and all necessary actions required for the Transfer. Newhall and Buyer shall reasonably cooperate to effectuate the Transfer.

6.2.8 Welfare Benefit Plans. As of the Closing Date, the Company sponsored health and welfare benefit plans listed on Schedule 6.2.8 shall be, and shall remain, in effect.

6.3 Newhall/SRV/Company Retail Water Demand Agreements. Agency acknowledges that, in addition to the matters disclosed in Section 3.1 of this Agreement, Newhall and SRV have each, entered into an agreement with Company entitled “Agreement Establishing Process for Determining Water Demands,” (the “**Newhall/SRV/Company Agreements**”), copies of which has been provided to Agency. Agency shall not directly or indirectly cause or permit Company or Company’s successor to breach the Newhall/SRV/Company Agreements, or take any action or fail to take any action that would result in Company’s or Company’s successor’s breach thereof. Should Agency merge, change, consolidate, or otherwise transfer the assets or operations of the Company with or into the Agency, a joint powers agency of which the Agency is a member, any other entity with which the Agency is affiliated, the Agency shall assume or cause the entity with which the Agency is affiliated to assume the Newhall/SRV/Company Agreements. The Parties recognize and agree that the obligations to fully abide by the terms and conditions of the Newhall/SRV/Company Agreements relate solely to the Company’s or any assuming entity’s retail water service functions and responsibilities and that said agreement is not intended to limit or control the Agency’s wholesale and water supply planning functions and responsibilities.

6.4 Annexation of the Legacy Property. Newhall hereby informs and the Agency acknowledges and agrees that Newhall has informed it that, through an affiliate (SRV), Newhall has an interest in those certain lands known as Legacy Village (“**Legacy**”), which consists of residential and non-residential development situated south of the Newhall Ranch Specific Plan. Los Angeles County has not yet adopted project approvals for Legacy, however, to date, SRV

has submitted to the County a proposed tentative tract map (No. 061996) for Legacy. The Parties recognize that the Legacy property is not located within the Agency service area and that annexation of the Legacy property to the Agency, in conformity with the Agency's Annexation Policy, must occur before water service to Legacy can be provided by Company or any successor of the Company. For Legacy, the terms of this Agreement are intended solely to confirm the availability of a firm water supply adequate to meet water supply requirements of the Los Angeles County Local Agency Formation Commission ("**LAFCO**") and the Agency Annexation Policy for the annexation of the Legacy lands into the Agency. Nothing in this Agreement shall be interpreted to limit or otherwise affect the obligation of the Company, as the retail water purveyor for Legacy, to provide a water supply assessment to Los Angeles County pursuant to Water Code section 10910 et seq. for use by the County in carrying out its land use planning authority.

6.5 Legacy Water Supply. Commencing on the Closing Date and subject to the terms and conditions of the Pre-Annexation Agreement between SRV and the Agency referenced in paragraph 7.1(f) of this Agreement, the Agency will irrevocably reserve for the a period of time set forth in the Pre-Annexation Agreement 2,500 acre-feet per year of Agency water (the "**Annexation Water**"), which, for Legacy, the Parties agree is a sufficient amount of potable water to meet the Agency's Annexation Policy based on the development plan set out on **Schedule 6.5** to this Agreement. The carrying cost for the Annexation Water will continue to be borne by the Agency until the Legacy property is annexed into the Agency service area and the Annexation Water is put to "beneficial use" (as that term is defined in the Pre-Annexation Agreement) within Legacy. Prior to filing a Legacy annexation application with L.A. LAFCO, Newhall and the Agency shall diligently and in good faith develop an equitable financial mechanism mutually acceptable to Newhall and the Agency that allocates the cost of Annexation Water to landowners/water users within Legacy. The costs so determined will become effective at the time of annexation, but will not be implemented as to any parcel or lot until the Annexation Water is put to Beneficial Use (as the term is defined in the Pre-Annexation Agreement) for each water user. The selected financial mechanism shall equitably reflect the equivalent cost to the area of receiving Buena Vista/Rosedale-Rio Bravo Water Banking and Recovery Program ("**BV/RRB Program**") water in accordance with current Agency practices and policies. Based on the agreement to irrevocably reserve 2500 acre feet of Annexation Water, and in consideration of (i) the potential transfer of surplus Nickel Water pursuant to this Agreement; (ii) the transfer of the Saugus Formation well sites pursuant to Section 6.10; (iii) the recycled water facilities for Legacy, and (iv) other consideration set forth in this Agreement, including, in part, the payment of the supplemental facility capacity fees pursuant to Section 6.12, the Agency finds, and based on that finding agrees, that for the Legacy property Newhall has met all potable water supply conditions of the Agency's Annexation Policy. At Newhall's request, in any annexation proceedings for Legacy involving the Agency, Los Angeles County, LAFCO, the California Department of Water Resources, or any other federal, state, or local agency, Agency shall inform all appropriate persons or entities that the Agency has determined that annexation of Legacy into the Agency will be consistent with all Agency policies related to water supplies. The Agency further agrees that, provided the conditions set forth in section 4 of the Pre-Annexation Agreement are met, the water supply elements of the Agency's annexation policy in effect on the Closing Date shall be the water supply elements used by the Agency for annexation of the Legacy property.

6.6 Deposit and Funding Agreement. Upon payment of the amount set forth below, the Deposit and Funding Agreement entered into between the Agency and SRV, dated January 23, 2007, which was entered into to defray Agency costs incurred in processing the feasibility of the proposed annexation of the Legacy lands into the Agency's service area and to reserve sufficient water supplies that had been acquired by the Agency to meet annexation needs for Legacy, will be terminated and of no further force or effect. The Agency and Newhall acknowledge that Newhall's affiliate deposited the amount of two million three hundred seventy-eight thousand eight hundred four dollars (\$2,378,804) with Agency pursuant to such Deposit and Funding Agreement. Agency shall refund such amount to SRV at the Closing by wire transfer using the instructions set forth in Section 2.2.1 of this Agreement (but via a wire transfer separate from the wire transfer described in Section 2.2.1.). On the Closing Date, Newhall will provide Agency with a letter from SRV authorizing (a) delivery of the funds to Newhall on behalf of SRV and (b) termination of the 2007 Deposit and Funding Agreement.

6.7 Nickel Water and Facility Capacity Fees. (a) The Agency acknowledges without independent investigation, that Newhall owns the right to the Nickel Water and the Parties agree that the Nickel Water is not subject to contractual or other shortage provisions. Based upon the Agency's acknowledgement and agreement in this Section 6.7, for itself and as the owner of the Company's Shares, the Parties agree that:

- (i) Because the Nickel Water is not subject to contractual or other shortage provisions, when the right to receive any of the Nickel Water is conveyed by Newhall to Agency, it shall be deemed a firm supply.
- (ii) Upon Newhall transferring or assigning to the Agency or the Company any of its Nickel Water rights, and the Agency or the Company acquiring such Nickel Water rights, the Agency shall credit Newhall with one acre-foot of water towards meeting any applicable water demand requirement for each acre-foot of Nickel Water so acquired
- (iii) Agency or Company acknowledge and agree that any transfer or assignment by Newhall to Agency or Company of any of Newhall's rights to Nickel Water will not impact the availability or reliability of the water supplies for the Newhall Ranch Specific Plan.

(b) Newhall agrees that Agency shall have the authority to, and Newhall shall not protest, oppose, or attempt to annul the levy of a supplemental Facility Capacity Fee within the Newhall Ranch Specific Plan, that will generate approximately, but not more than, \$6,000,000. The amount of the supplemental Facility Capacity Fee necessary to generate \$6,000,000 in the aggregate shall be calculated using the Agency's standard methodology for determining such fees and shall be paid at the same time and manner other similar fees are due and payable under Agency ordinances or regulations.

6.8 Conveyance of Nickel Water. Notwithstanding any other provision of this Agreement, by not later than ninety (90) days after Newhall has received from Los Angeles County a final non-reviewable approval (and a final non-appealable judgment or order is obtained in any legal, equitable or administrative action challenging such approval) of the final

tentative map for the Newhall Ranch project, Newhall, the Agency, and the Company shall determine (based on the amount, if any, by which the groundwater amounts set forth in the Newhall/SRV/Company Agreements are insufficient to meet potable water requirements within the Newhall Ranch Specific Plan) how much, if any, Nickel Water is needed to make up such insufficiency. At that time, Newhall shall convey and assign to the Agency or the Company (as determined by the Agency) all of its rights in and to the Nickel Water, and all of its rights and obligations under the Nickel Agreement. Upon conveyance and assignment of the Nickel Agreement, the Agency or the Company shall assume all obligations of Newhall with respect to such agreement; provided, however, for ten (10) years from the date of this Agreement, Newhall shall have the obligation to reimburse the Agency or Company for the annual costs to acquire and transport that portion of the Nickel Water not used by the Agency in any year for Agency purposes. After the date set forth in the proviso in the prior sentence, Newhall's reimbursement obligation shall be limited to reimbursing Agency for the annual costs to acquire and transport that part of the Nickel Water not being put to beneficial use within the Newhall Ranch Specific Plan that is needed to meet calculated future water demands within the Newhall Ranch Specific Plan; provided, however, that the Agency shall pay all acquisition and transportation costs associated with any such water used by the Agency in any year for interim Agency purposes. Notwithstanding any contrary rule, regulation, policy, resolution, or ordinance of the Agency, the Company, the PUC, or LAFCO, upon assignment or conveyance by Newhall, the Agency shall hold in trust for Newhall or its designee, all rights and water supplies described in this Section 6.8 that are needed to provide water service to the Newhall Ranch Specific Plan, and all associated rights thereto, until such rights or water supplies are required to meet actual demands for the Newhall Ranch Specific Plan. Upon Newhall's conveyance of Nickel Water, the Agency or the Company shall take all appropriate steps to ensure that the Nickel Water can be conveyed via the State Water Project system through point of delivery agreements.

6.9 Review by Agency. Agency acknowledges that it has received a copy of the Nickel Agreement and has reviewed and understands such document, including without limitation, all documents referenced in the Nickel Agreement. Newhall agrees to fully comply with its obligations under the Nickel Agreement. Newhall hereby grants the Agency, as its sole and exclusive remedy, shall have the right to cure any default by Newhall under the Nickel Agreement.

6.10 Saugus Formation Well Sites. Newhall shall convey to Agency, at no cost to Agency, easements to four well sites for the purpose of allowing the Agency to construct, operate, and maintain up to four wells for extraction of water from the Saugus Formation aquifer. The well sites will be at locations mutually agreed to by Agency and Newhall, taking into consideration Newhall's development plans for its properties. Once a well site location has mutually approved and a legal description prepared of such well site, the Parties shall enter into a mutually acceptable easement agreement for such well site, which shall be recorded in the official records of Los Angeles County, California. The Parties agree that should efforts to develop municipal water wells fail on up to two (2) of such Well Sites, Agency shall have the option to reconvey to Newhall its interest in the failed site(s) in exchange for up to two additional sites. This exchange right shall expire ten (10) years from the Closing Date. Agency and Newhall shall agree on the locations of the four (4) well sites and the two (2) exchange sites not later than two (2) years after the Closing Date.

6.11 Non-Potable Water. In consideration of (i) the settlement set out in this Agreement, (ii) the provision of the Nickel Water, the Saugus Formation well sites, the Newhall Ranch Specific Plan groundwater, and the non-potable water these water assets will generate, (iii) construction and implementation of the non-potable water system set forth in the Newhall Ranch Specific Plan and for the Westside Properties (including Legacy), and (iv) the payment of taxes, facility capacity fees, and other tariffed rates, fees, and costs that have been or will be paid by Newhall or its successors in interest for the Newhall Ranch Specific Plan properties and the Westside Properties, the Agency agrees that non-potable water equal to the amounts required to meet the non-potable water demands of all such properties will be provided to such properties by the Agency or the Company without further payment or other consideration other than those set forth above. The Agency further agrees that, in any annexation, advice letter, water management program, or urban water management plan proceedings, it shall inform the appropriate entity that all needed non-potable water supplies described in this paragraph will be provided for the properties.

ARTICLE VII

CLOSING OBLIGATIONS AND CONDITIONS

7.1 Obligations of Newhall and Company at Closing. The obligation of Agency to acquire the Shares pursuant to this Agreement shall be subject to the satisfaction or waiver by Agency in writing on or prior to the Closing Date of each of the following conditions:

(a) Newhall shall have delivered to the Agency the certificate representing the Shares as provided in Section 2.2.3;

(b) The Company shall have delivered the resignations of the directors of the Company effective as of the Closing Date;

(c) Agency shall have received such other documents and instruments as the Parties have mutually determined are necessary to effectuate the transactions contemplated hereby;

(d) The representations and warranties of Newhall and the Company contained in this Agreement and in all schedules, certificates and other documents delivered pursuant hereto or in connection with the transactions contemplated hereby, shall be true and correct in all material respects as of the date when made and at and as of the Closing Date with the same effect as though made on and as of such date, except for changes contemplated by this Agreement, and Newhall and the Company shall have performed, in all material respects, all of its obligations hereunder that are required to be performed on or before the Closing Date;

(e) Newhall shall have delivered or caused to be delivered to the Agency a non-foreign affidavit dated as of the Closing Date, sworn under penalty of perjury and in form and substance acceptable to the Agency stating that Newhall and each of its members is not a "foreign person" as defined in Code §1445;

(f) The Agency and SRV shall have executed the Pre-Annexation Agreement referred to in section 6.5 of this Agreement and the Deposit and Funding Agreement for annexation of the Legacy property.

7.2 Obligations of Agency at the Closing. The obligation of Newhall to transfer the Shares pursuant to this Agreement shall be subject to the satisfaction or waiver in writing by Newhall on or prior to the Closing Date of each of the following conditions:

- (a) Agency shall have delivered the Purchase Price as provided for herein;
- (b) Agency shall deliver to Newhall (i) a certificate of the Secretary of Agency, dated as of the Closing Date, certifying a copy of the resolutions of the Board of Directors of the Agency authorizing the execution and performance of this Agreement, the Ancillary Agreements, and all documents related thereto, and the incumbency of the respective official(s), and (ii) a certified copy of a signed and endorsed Stipulated Judgment in the form attached hereto as Exhibit B;
- (c) Newhall shall have received such other documents and instruments as the Parties have mutually agreed are necessary to effectuate the transactions contemplated hereby;
- (d) The representations and warranties of Agency contained in this Agreement and in all schedules, certificates and other documents delivered pursuant hereto or in connection with the transactions contemplated hereby, shall be true and correct in all material respects as of the date when made and at and as of the Closing Date respects with the same effect as though made on and as of such date, except for changes contemplated by this Agreement, and Agency shall have performed, in all material respects, all of its obligations hereunder that are required to be performed on or before the Closing Date.

7.3 Failure to Close. If, for any reason, the Closing does not take place on the earlier of three (3) business days after entry of the Stipulated Judgment or January 31, 2013, Newhall shall have the right, at any time thereafter, to terminate the transactions contemplated by this Agreement (the “**Termination Option**”) by providing to the Agency a written notice of the exercise of such Termination Option. Upon exercise of the Termination Option (a) this Agreement shall terminate as of the date of such notice and be of no further force and effect; (b) the Agency shall promptly dismiss the Condemnation Action (without prejudice) and rescind the Resolution of Necessity; and (c) the Agency, Company, and Newhall shall have no further obligations, rights, or benefits under this Agreement, the Stipulated Judgment, and the Resolution of Necessity. Except in the event of a breach of this Agreement, in the event of termination, neither party is entitled to costs, attorneys’ fees, or any other damages.

ARTICLE VIII

POST-CLOSING LITIGATION

Should a third party file litigation or an administrative complaint (collectively “**Action**”) challenging Agency’s rights to operate the Business or acquire or hold the Shares, the following provisions shall apply:

8.1 Agency shall, if Newhall is not named as a party, support any effort by Newhall to intervene or otherwise appear as a party in such Action. If Newhall is not named a party, Newhall will intervene or otherwise appear as a party in such Action upon reasonable request of the Agency. Newhall shall be solely responsible for any attorney's fees and costs associated with its participation in any Action as a party or an intervenor.

8.2 Except in the circumstance described in Section 5.4 of this Agreement where a regulatory or similar entity requires acquisition of an additional consent or approval of the Agency's acquisition of the Shares, Agency shall, at its sole expense, diligently defend the Action, including any appeal as an appellant or respondent, and Agency and Newhall (if it is a party) shall cooperate in the defense. If Newhall is not named a party, Newhall will intervene or otherwise appear as a party in such Action upon reasonable request of the Agency.

ARTICLE IX

INDEMNIFICATION

9.1 Subject to the limitations set forth in Section 9.3, to the fullest extent permitted by law, Newhall agrees to indemnify, defend (with counsel reasonably selected by the Agency) and hold harmless the Agency and the Agency-Related Parties for any Damages (as defined in Section 9.7) suffered by the Agency and/or the Agency-Related Parties that arises out of (i) the breach of any representation or warranty made by Newhall pursuant to Article III, to the extent any claim for any such Damages is made prior to the expiration of the applicable survivability period, and (ii) the breach of any post-closing covenant of Newhall contained in this Agreement, to the extent any claim for any such Damages is made prior to the expiration of the applicable survivability period.

9.2 To the fullest extent permitted by law, Agency agrees to indemnify, defend (with counsel reasonably selected by Newhall) and hold harmless Newhall and the Newhall-Related Parties for any Damages suffered by the Newhall and/or the Newhall-Related Parties that arises out of (i) the breach of any representation or warranty made by the Agency pursuant to Article IV, to the extent any claim for any such Damages is made prior to the expiration of the applicable survivability period, (ii) the breach of any post-closing covenant of the Agency contained in this Agreement, to the extent any claim for any such Damages is made prior to the expiration of the applicable survivability period, and (iii) the Company, the Shares, the Business, the Company Assets and/or the Company Liabilities (regardless of whether any claims for Damages arise out of events occurring before, on or after the Closing Date).

9.3 Notwithstanding any provision of this Agreement to the contrary, Newhall shall not have any obligation to indemnify, defend, or hold harmless the Agency or the Agency-Related Parties under this Article IX if (i) the claim is based on a condition or circumstance (including environmental conditions) described or deemed investigated by Agency in Section 4.5 of this Agreement, or (ii) the cumulative cost of all payments plus costs (including attorneys' fees) incurred with respect to such indemnification is equal to or less than (fifty thousand dollars) \$50,000 or has equaled or exceeded (one million dollars) \$1,000,000. Notwithstanding any provision of this Agreement to the contrary, Agency shall not have any obligation to indemnify, defend, or hold harmless Newhall or any other person for the breach of any representation or warranty made by Agency pursuant to Article IV, if the cumulative cost of all payments plus costs (including attorneys' fees) incurred with respect to such indemnification is equal to or less

than (fifty thousand dollars) \$50,000 or has equaled or exceeded (one million dollars) \$1,000,000.

9.4 Whenever any claim shall arise for indemnification hereunder, the party entitled to indemnification (the “**Indemnified Party**”) shall promptly notify the Party from whom indemnity may be sought under this Article IX (the “**Indemnifying Party**”) of the claim and, when known, the facts constituting the basis for such claim; provided, however, that the Indemnified Party’s failure to give such notice shall not affect any rights or remedies of such indemnified Party hereunder with respect to indemnification for Damages except to the extent that the Indemnifying Party is materially prejudiced thereby. In the event of any claim for indemnification hereunder resulting from or in connection with any claim or legal proceeding by a third party, the notice to the Indemnifying Party shall specify, if known, the amount or any estimate of the amount of the liability arising therefrom. Neither the Indemnified Party nor any Indemnifying Party shall settle or compromise any claim by a third party for which the Indemnified Party is entitled to indemnification hereunder, without the prior written consent of the other party (which shall not be unreasonably withheld), unless such claim shall have been instituted against the Indemnified Party and the Indemnifying Party shall not have accepted the tender of the defense of such claim after notification thereof as provided in Section 9.5 of this Agreement.

9.5 Agency shall, if it is the Indemnifying Party and may, if Newhall is the Indemnifying Party and fails to undertake the following or agrees to permit the Agency to undertake the following and the Agency so elects: (i) take control of the defense and investigation of such lawsuit or action; (ii) employ and engage attorneys of its own choice which are reasonably acceptable to the Indemnified Party, to handle and defend the same, at the Indemnifying Party’s cost, risk and expense; and (iii) compromise or settle such claim, which compromise or settlement shall be made only with the written consent of Newhall, which shall not be unreasonably withheld. If Agency has assumed the defense of any such claim or legal proceeding, Newhall (and the indemnified Party in other than Newhall) shall be entitled to participate in (but not control) the defense of any such action, with its counsel and at its own expense. Each Party agrees to cooperate fully with the other, such cooperation to include, without limitation, attendance at depositions and the provision of relevant documents as reasonably may be requested by the Indemnifying Party, provided that the Indemnifying Party will hold the Indemnified Party harmless from all of its reasonable expenses, including reasonable attorneys’ fees, as and when incurred in connection with such cooperation by the Indemnified Party.

9.6 Newhall shall, if it is the Indemnifying Party, and may, if the Agency is the Indemnifying Party and fails to undertake the following or agrees to permit Newhall to undertake the following and Newhall so elects: (i) take control of the defense and investigation of such lawsuit or action; (ii) employ and engage attorneys of its own choice which are reasonably acceptable to the Agency, if the Agency is the Indemnified Party, to handle and defend the same, at the Indemnifying Party’s cost, risk and expense; and (iii) compromise or settle such claim, which compromise or settlement shall be made only with the written consent of the Agency, which shall not be unreasonably withheld; provided, that if the Agency is an Indemnifying Party and the Agency has agreed to assume liability for any claim made against an Agency Board Member, the Agency shall have the right to take control of the defense and investigation of such

lawsuit or action. If a Board Member has assumed the defense of any such claim or legal proceeding, the Agency shall be entitled to participate in (but not control) the defense of any such action, with its counsel and at its own expense. Each party agrees to cooperate fully with the other, such cooperation to include, without limitation, attendance at depositions and the provision of relevant documents as reasonably may be requested by the Indemnifying Party, provided that the Indemnifying Party will hold the indemnified party harmless from all of its reasonable expenses, including reasonable attorneys' fees, as and when incurred in connection with such cooperation by the Indemnified Party.

9.7 "Damages," as used in this Article IX, shall mean: (x) demands, claims, actions, suits, investigations, and legal or other proceedings brought against any indemnified party or parties (as hereinbefore defined), and any judgments or assessments, fines or penalties rendered therein or any settlements thereof, and (y) all liabilities, damages, losses, taxes payable by the Company (whether incurred prior to or after the Closing Date), assessments, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) incurred by any Indemnified Party or Parties, whether or not they have arisen from or were incurred in or as a result of any demand, claim, action, suit, assessment or other proceeding or any settlement or judgment, and whether sustained before or after the Closing Date. Solely for purposes of Section 9.2, "Damages" includes but is not limited to the Additional Taxes, if any, and excludes any other Taxes which may owed by a Shareholder (or any beneficial owner thereof) as a result of the sale of such Shares by the Shareholder to the Agency, and for purposes of Section 9.1, "Damages" shall not include the Additional Taxes.

ARTICLE X

NOTICES

All notices, requests, demands, or other communications hereunder shall be in writing and shall be deemed to have been duly given, if delivered in person or mailed, registered (and not certified), return receipt requested, postage prepaid or on confirmation of receipt if delivered by facsimile transmission; provided the original thereof is sent by mail, in the manner set forth above, within one business day after the original transmission:

(a) If to Newhall to:

The Newhall Land and Farming Company
25124 Springfield Court, Suite 300
Valencia, California 91355
Attention: President
Facsimile No.: (661) 255-3960

With copies to:

Kronick Moskovitz Tiedemann & Girard
400 Capitol Mall, 27th Floor
Sacramento, California 95814
Attention: Clifford W. Schulz
Facsimile No.: (916) 321-4555

And:

FivePoint Communities Management, Inc.
25 Enterprise, Suite 400
Aliso Viejo, California 92656-2601
Attention: Michael A. Alvarado Esq.,
General Counsel
Facsimile No.: (949) 349-1075

(b) If to Agency, addressed to:

Castaic Lake Water Agency
27234 Bouquet Canyon Road
Santa Clarita, California 91350
Attention: Dan Masnada, General Manager
Facsimile: (661) 297-1610

With a copy to:

Russell G. Behrens, General Counsel
Best Best & Krieger LLP
5 Park Plaza, Suite 1500
Irvine, CA 92614
Facsimile: (949) 260-0972

Douglas S. Brown, Special Counsel
Stradling Yocca Carlson & Rauth
660 Newport Center, Suite 1600
Newport Beach, CA 92660
Facsimile: (949) 823-5106

(c) If to Company, addressed to:

Valencia Water Company
24631 Ave. Rockefeller
Valencia CA 91355-3907
Attention: Keith Abercrombie

General Manager
Facsimile No.: (661) 294-3806

With a copy to:

Nossaman LLP
50 California Street, 34th Floor
San Francisco, California 94111
Attention: Martin A. Mattes
Facsimile No.: (415) 398-2438

Any party hereto may from time to time, by written notice to the other party, designate a different address, which shall be substituted for the one specified above for such party. If any notice or other document is sent by registered (and not certified) mail, return receipt requested, postage prepaid, properly addressed as aforementioned, the same shall be deemed served or delivered on the third business day following mailing thereof. If any notice is transmitted by facsimile machine ("fax") to a party, it will be deemed to have been delivered on the date the fax thereof is actually received, as indicated by an electronic confirmation of successful transmission, provided that an original or photocopy of the document sent is also mailed by registered (and not certified) mail, postage prepaid, to the address then applicable to such party within twenty-four (24) hours after such transmission.

ARTICLE XI

MISCELLANEOUS

11.1 California Environmental Quality Act ("CEQA"). Notwithstanding any provision in this Agreement, the Parties acknowledge and agree that Agency cannot and does not commit itself or agree that it can or will annex or provide water service to any particular project, as such annexation or the provision of such water service may require compliance with the California Environmental Quality Act. Newhall assumes the risk that annexations and related approvals may not be approved by Agency or other governmental agencies and that such agencies retain full discretion to consider and approve or deny such annexations, related approvals, or the provision of such water service.

11.2 Assignment. (a) Prior the Closing Date, Newhall, may not assign its rights or delegate its duties hereunder, without the written consent of the Agency; provided, however, if the Closing Date does not occur on or before January 31, 2013, and Newhall elects not to exercise the Termination Option provided to it by Section 7.3 of this Agreement (which election may be made or not made in Newhall's sole and absolute discretion), then at anytime after January 31, 2013, and until the actual Closing Date, Newhall shall have the right and obligation to assign its rights and delegate its duties under this Agreement, without the consent of the Agency, in connection with any asset sale that includes Legacy and all or substantially all of the Newhall Ranch Project, in which case Newhall shall require transferee to assume Newhall's rights and duties under this Agreement.

(b) Any time after the Closing Date, (i) Newhall shall assign its then-remaining rights and delegate its then remaining duties hereunder (other than its rights and duties in Sections 6.4 and 6.5) to any transferee of all or substantially all of the Newhall Ranch Project; and (ii) should SRV sell all or substantially all of Legacy to a third party not affiliated with Newhall, Newhall shall assign its rights and delegate its duties under Sections 6.4 and 6.5 to such transferee of Legacy. In addition, after the Closing Date, if Newhall sells or otherwise transfers fee title to portions (but not all or substantially all) of Newhall's properties located within the Agency service area, Newhall may assign its rights and delegate its duties under this Agreement in whole or in part, without the consent of the Agency, in connection with any such sale or transfer to the respective successor(s) in interest to such portions of Newhall's properties.

(c) Except as provided in Paragraphs (a) and (b), above, Newhall may not assign this Agreement, or assign the rights or delegate the duties hereunder except with the written consent of the Agency, which shall not be unreasonably withheld, conditioned or delayed. Newhall shall provide prompt written notice to Agency of any assignment made pursuant the terms of this Paragraph 11.2.

(d) Except for a successor public agency with the power to exercise wholesale and retail water supply functions for the Newhall Ranch, Legacy, and the Newhall's other properties located with the Agency's service area, Agency may not assign its rights or delegate its duties hereunder (in whole or in part), without the prior written consent of Newhall, which shall not be unreasonably withheld, conditioned or delayed.

11.3 Severability. If, after the Closing Date, any of the surviving provisions of Article VI of this Agreement are determined to be illegal, invalid or unenforceable, such provisions shall be ineffective to the extent of such illegality, invalidity or unenforceability, without affecting the remaining provisions hereof, unless and to the extent the rights and obligations or the benefits of the bargain of any Party have been materially altered or abridged by such illegality, invalidity or unenforceability, as determined by the Party who would have benefited. In such event, the Parties will meet and confer in a good faith effort to reach an agreement that will restore the benefits of the bargain established through this Agreement, and, in the absence of such agreement, any party may institute a Judicial Reference pursuant to Section 11.13 of this Agreement for the purpose of seeking a reformation of this Agreement which will carry out the original intent of the Parties.

11.4 Further Assurances. Each party hereto shall execute and deliver, both before and after the Closing, such instruments and take such other actions as the other party or parties, as the case may be, may reasonably request in order to carry out the intent of this Agreement or to better evidence or effectuate the transactions contemplated herein.

11.5 Governing Law. This Agreement is deemed to have been made in the State of California, and its interpretation, its construction and the remedies for its enforcement or breach are to be applied pursuant to, and in accordance with, the laws of California, without giving effect to any choice of law provisions.

11.6 Incorporation and Amendment. This Agreement, the Schedules and Exhibits hereto and each additional agreement and document referred to herein constitute the entire agreement of the Parties, superseding and extinguishing all prior agreements, understandings,

representations, and warranties relating to the subject matter hereof whether oral or written. This Agreement may not be modified, amended, or terminated except by written agreement specifically referring to this Agreement signed by Agency, Newhall, and the Company. The parties hereto agree that the terms of the stipulated judgment shall, to the extent inconsistent with the terms hereof, be controlling.

11.7 Waiver. No waiver of a breach or default hereunder shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

11.8 Headings. The section and paragraph headings contained herein are for ease of reference only and are not intended to define or limit the contents of such sections.

11.9 Interpretation. The use of the singular or plural form shall include the other form and the use of the masculine, feminine or neuter gender shall include the other genders. Each party hereto has participated (through their attorneys) in the drafting of this Agreement. Accordingly, no party shall have any provision of this Agreement strictly construed against it by reason of such party having drafted the provision in question.

11.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.11 Attorneys' Fees. In the event of any controversy, claim, or dispute arising out of or relating to this Agreement, or breach hereof, the prevailing party shall be entitled to recover from the losing party reasonable attorneys' and expert witness fees, expenses and costs.

11.12 Successors. Subject to the limitation in Section 11.2 of this Agreement, this Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors.

11.13 Judicial Reference. The Parties agree that any and all disputes, claims, and controversies of any nature (collectively, "**Claim**") among the Parties arising out of or relating to this Agreement, including the transactions and agreements contemplated thereby, shall be decided by a reference to a retired judge or justice, mutually selected by the Parties and appointed in accordance with California Code of Civil Procedure sections 638 through 645.1, inclusive, sitting without a jury, in Los Angeles County, California; provided, however, that the retired judge or justice is technically qualified as to the particular subject matter of the reference proceeding. If the Parties cannot agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the Presiding Judge of the Los Angeles County Superior Court (or his or her representative) shall select the retired judge or justice that is technically qualified to hear and resolve the particular subject matter of the reference proceeding. A request for appointment of the retired judge or justice may be heard on an ex parte or expedited basis, and the Parties agree that irreparable harm would result if ex parte or expedited relief is not granted. Pursuant to Code of Civil Procedure section 170.6, the Parties hereto shall have one peremptory challenge to the retired judge or justice selected by the Presiding Judge (or his or her representative), and submit to the jurisdiction of such reference and court. The agreed upon or selected retired judge or justice shall have the power, among others, to grant specific

performance and provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions, and appointing receivers. The judicial reference proceeding before the retired judge or justice shall adhere to the following:

(a) The proceeding shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings.

(b) The retired judge or justice shall determine the manner in which the reference proceeding is conducted, including, without limitation, the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceedings.

(c) The Parties shall be entitled to discovery, which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings; however, the retired judge or justice shall oversee and limit discovery as appropriate and may enforce all discovery rules and orders applicable to the reference proceeding in the same manner as a trial court judge.

(d) The retired judge or justice shall have the power to decide all issues in the action or proceeding, whether factual, legal, or equitable, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure Section 644(a). The statement of decision shall include a determination of all questions submitted to the retired judge or justice. The statement of decision will stand as the decision of the court, and upon filing of the statement of decision with the clerk of the court, judgment may be entered thereon in the same manner as if the action or proceeding had been tried by the court.

(e) The Parties agree that time is of the essence in conducting the reference proceeding. Accordingly, the retired judge or justice shall, subject to change in the time periods specified herein for good cause shown: (i) set the matter for a status and trial-setting conference (the "**Conference**") within fifteen (15) days after the date of selection of the retired judge or justice; (ii) if practicable, hear all issues submitted within one hundred twenty (120) days after the date of the Conference; and (iii) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

(f) The Parties hereto reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the retired judge or justice. The Parties reserve the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this Section 11.13.

(g) If a Claim subject to this Agreement also includes other claims or parties, which are found not subject to this Agreement, the Parties hereto shall stay the proceedings relating to those other claims or parties until the Claim arising out of or relating to this Agreement is resolved in accordance with this Section 11.13. The retired judge or justice shall have the power to stay such other claims, sever non-parties, and first resolve the Claim subject to this Agreement.

(h) During the pendency of any Claim submitted to judicial reference in accordance with this Agreement, each of the Parties to such Claim shall bear equal shares of the

fees charged and costs incurred by the retired judge or justice in performing the services described in this Section 11.13. Compensation of the retired judge or justice shall not exceed the prevailing rate for like services. The prevailing party shall be entitled to reasonable court costs and legal fees, including customary attorney fees, expert witness fees, legal assistant fees, fees of the referee, and other reasonable costs and disbursements charged to the party by its counsel, in such amount as is determined by the retired judge or justice.

(i) The retired judge or justice shall also determine all issues relating to the applicability, interpretation, and enforceability of this Section 11.13.

11.14 Third Party Beneficiaries. This Agreement does not create, and shall not be construed to create, any rights enforceable by any person, partnership, corporation, joint venture, limited liability company or other form of organization or association of any kind that is not a party to this Agreement; provided, that any affiliate of Newhall shall be deemed a third party beneficiary of this Agreement and shall be entitled to enforce its provisions as if it were a party hereto in the event of a breach affecting such affiliate.

11.15 Survival

(a.) All of the representations and warranties of Newhall set forth in Articles III and IV of this Agreement (other than the representations and warranties set forth in Section 3.1.21) and of the Agency set forth in Article IV of this Agreement shall remain in full force and effect until the date that is the one-year anniversary of the Closing Date (the “**Expiration Date**”). No claim for a breach of any such representation or warranty of any Party will be actionable or payable if (i) the other Party does not notify the breaching Party in writing of such breach and file an action in the appropriate court prior to the Expiration Date, or (ii) the breach in question results from or is based on a condition, fact or other matter known to such other Party prior to the Closing Date. All of the representations and warranties of Newhall set forth in Section 3.1.21 shall remain in full force and effect until the date that is the three-year anniversary of the Closing Date (the “**Tax Expiration Date**”). No claim for a breach of any such representation or warranty of Newhall will be actionable or payable if the Agency does not notify Newhall in writing of such breach and file an action in the appropriate court prior to the Tax Expiration Date.

(b.) Sections 2.2(c), 5.2, 5.3, 5.4, 5.5, all provisions of Articles VI, VIII, and XI, with the exception of Section 6.6, shall survive the Closing.

(c.) The indemnities and other obligations of the Parties in Article IX shall survive the Closing.

11.16 Nonrecourse Nature of this Agreement. No direct or indirect partner, member, manager, shareholder, officer, director, trustee or beneficiary of Newhall, the Company, or the Agency (collectively, the “**Nonrecourse Parties**”) shall be personally liable in any manner or to any extent under or in connection with this Agreement, and Newhall and the Agency, as the case may be, shall not have any recourse to any assets of any of the Nonrecourse Parties to satisfy any liability, judgment or claim that may be obtained or made against any such Nonrecourse Party under this Agreement. The limitation of liability provided in this Section 11.16 is in addition to,

and not in limitation of, any limitation on liability applicable to any Nonrecourse Parties provided by law or by this Agreement or any other contract, agreement or instrument.

11.17 Specific Performance. The Parties acknowledge and agree that the subject matter of this Agreement involves unique assets, that damages for breach likely are substantial, but may not be readily compensable in monetary damages, and that, therefore, in addition to any other remedies available to Newhall or its affiliates at law or in equity, in the event of breach, or a threatened breach, of this Agreement, Newhall shall be entitled to specific performance of this Agreement and neither Agency nor the Company shall contend otherwise.

IN WITNESS WHEREOF, the undersigned Parties have caused this Settlement Agreement to be executed by officers or other persons thereunto duly authorized, and the individuals have executed this Settlement Agreement, on the date first above stated.

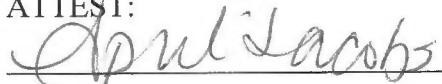
Date: December 17, 2012

Castaic Lake Water Agency

By: 

Dan Masnada, General Manager

ATTEST:



April Jacobs, Secretary

**The Newhall Land and Farming Company,
a California limited partnership**

By: NWHL GP LLC, a Delaware limited liability company, its General Partner

By: LandSource Holding Company, LLC, a Delaware limited liability company, its Sole Member

By: Newhall Land Development, LLC, a Delaware limited liability company, its Sole Member

By: Newhall Holding Company, LLC, a Delaware limited liability company, its Manager

By: 

Donald L. Kimball, Executive Vice President

Valencia Water Company, a California corporation

By: 

Keith Abercrombie, General Manager

Minutes of the Special Meeting of the Board of Directors of the Castaic Lake Water Agency –
December 10, 2012

A special meeting of the Board of Directors of the Castaic Lake Water Agency was held at Castaic Lake Water Agency, 27234 Bouquet Canyon Road, Santa Clarita, CA 91350, at 6:15 PM on Monday, December 10, 2012. A copy of the agenda is inserted in the Minute Book of the Agency preceding these minutes.

DIRECTORS PRESENT: Directors B. J. Atkins (arrived at 6:26 PM), Tom Campbell, Ed Colley, William Cooper, Dean Efstathiou, Jerry Gladbach, Peter Kavounas, R. J. Kelly, Jacque McMillan (arrived at 6:17 PM) and Bill Pecsí were in attendance.

DIRECTORS ABSENT: None

Also present: Dan Masnada, General Manager; Russ Behrens, General Counsel; April Jacobs, Board Secretary; Brian Folsom, Engineering and Operations Manager; Mauricio Guardado, Retail Manager; Dirk Marks, Water Resources Manager; Valerie Pryor, Administrative Services Manager; Doug Brown, Stradling Yocca Carlson & Rauth; Lynn Takaichi, Kennedy/Jenks Consultants; Hunt Braly; Maria Gutzeit, Newhall County Water District; and no members of the public were present.

President Campbell called the meeting to order at 6:15 PM. A quorum was present.

Upon motion of Director Gladbach, seconded by Director Colley and carried, the Agenda was approved. (Item 1.4)

Upon motion of Director Kelly, seconded by Director Pecsí and carried, the Board went into Closed Session at 6:18 PM to discuss the item listed on the agenda. (Item 2)

Upon motion of Director Gladbach, seconded by Director Kelly and carried, the Board voted to come out of Closed Session at 8:37 PM.

President Campbell reconvened the Open Session at 8:37 PM.

Russ Behrens, Esq. announced that there was no action taken in Closed Session that is reportable under the Ralph M. Brown Act. (Item 3)

Upon motion of Director Gladbach, seconded by Director McMillan and unanimously carried, the meeting was adjourned at 8:38 PM. (Item 4)

April Jacobs, Board Secretary

ATTEST:

President of the Board

Minutes of the Special Meeting of the Board of Directors of the Castaic Lake Water Agency –
December 12, 2012

A special meeting of the Board of Directors of the Castaic Lake Water Agency was held at Castaic Lake Water Agency, 27234 Bouquet Canyon Road, Santa Clarita, CA 91350, at 6:15 PM on Wednesday, December 12, 2012. A copy of the agenda is inserted in the Minute Book of the Agency preceding these minutes.

DIRECTORS PRESENT: Directors B. J. Atkins, Tom Campbell, Ed Colley, William Cooper, Dean Efstathiou, Jerry Gladbach, Peter Kavounas, R. J. Kelly, Jacque McMillan (left at 8:30 PM) and Bill Pecsí were in attendance.

DIRECTORS ABSENT: None

Also present: Dan Masnada, General Manager; Russ Behrens, General Counsel; April Jacobs, Board Secretary; Brian Folsom, Engineering and Operations Manager; Mauricio Guardado, Retail Manager; Dirk Marks, Water Resources Manager; Valerie Pryor, Administrative Services Manager; Doug Brown, Stradling Yocca Carlson & Rauth; Lynn Takaichi, Kennedy/Jenks Consultants; Hunt Braly; Robert Porr, Fieldman Rolapp & Associates; Doug Evertz, Murphy & Evertz; Ken Pulkamp; and members of staff and the public.

President Campbell called the meeting to order at 6:18 PM. A quorum was present.

Upon motion of Director Gladbach, seconded by Director Kelly and carried, the Board approved the agenda. (Item 1.4)

President Campbell, Directors and Staff recognized Kenneth Pulkamp for his distinguished service in the Santa Clarita Valley. (Item 2.1)

A presentation was given by staff and the consultants regarding the consideration of approval of adoption of a Resolution of Necessity Authorizing and Directing the Condemnation of a All Issued and Outstanding Capital Stock of the Valencia Water Company, and Declaring the Public Necessity Therefore and Hearing Thereon Castaic Lake Water Agency v. Newhall Land and Farming Company, a California Limited Partnership. The Board and public were then given the opportunity to make comments concerning the proposed action. The Board of Directors and members of the public made comments. Letters of support and opposition were filed to be included in the comments.

Director Colley made a motion to adopt Resolution No. 2890 subject to striking the word "hearing" and inserting the word "meeting" in the 6th Recital of the Resolution. Director Colley's motion was seconded by Director Gladbach. The President requested the Secretary to conduct a roll call vote of the Board. Pursuant to the roll call vote set forth below, the Board approved Resolution No. 2890, A Resolution of the Castaic Lake Water Agency Authorizing and Directing the Condemnation of All Issued and Outstanding Capital Stock of the Valencia Water Company, and Declaring the Public Necessity Therefore. (Item 2.2)

A roll call vote was taken:

Director Efstathiou	Yes	Director Gladbach	Yes
Director Kelly	Yes	Director McMillan	Yes
Director Pecs	Yes	Director Kavounas	Yes
Director Atkins	No	Director Colley	Yes
Vice President Cooper	Yes	President Campbell	Yes

RESOLUTION NO. 2890

A RESOLUTION OF THE CASTAIC LAKE WATER AGENCY AUTHORIZING AND DIRECTING THE CONDEMNATION OF ALL ISSUED AND OUTSTANDING CAPITAL STOCK OF THE VALENCIA WATER COMPANY, AND DECLARING THE PUBLIC NECESSITY THEREFORE

WHEREAS, the Castaic Lake Water Agency (Agency) is a special district formed, existing and exercising its powers and purposes pursuant to the Castaic Lake Water Agency Law, Water Code Appendix Section 103-1 *et seq.*, and is authorized to take properties by condemnation and to hold, use and enjoy such properties as necessary to fully exercise its powers; and

WHEREAS, the Valencia Water Company, a California corporation (VWC) is an investor-owned public utility subject to the jurisdiction of the Public Utilities Commission of the State of California. VWC is a retail water purveyor providing water service in the County of Los Angeles, State of California; and

WHEREAS, The Newhall Land and Farming Company, a California limited partnership (Newhall), is the sole shareholder of VWC; and

WHEREAS, the Agency is specifically authorized by virtue of, *inter alia*, Article 1, Section 19, of the California Constitution, Article 16, Section 17, of the California Constitution, Water Code Appendix Section 103-15, Section 1230.010, *et seq.* of the California Code of Civil Procedure, including, without limitation, Sections 1240.010, 1240.110, 1240.120 and 1240.610, and other applicable law, to exercise the right of eminent domain to take any property or interests in property necessary to carry out the business of the Agency by condemnation; and

WHEREAS, on December 11, 2012, and pursuant to Government Code Section 7267.2, the Agency submitted to Newhall an Offer to Purchase all issued and outstanding shares of common stock of VWC (Shares). The Agency offered to buy the Shares for the purpose of, among other things, (1) maintaining and enhancing the reliability of retail and wholesale water service in the Agency's boundaries; (2) developing more uniform water service policies within the Santa Clarita Valley; (3) better coordinating groundwater management activities and enhancing Valley wide conjunctive use of all sources of supply; (4) providing potential future opportunities for operational efficiencies and capital improvement economies of scale and (5) ensuring continuity in the ongoing critical perchlorate contamination clean-up efforts in the Santa Clara River Valley Groundwater Basin, Eastern Subbasin (Project).

WHEREAS, a public meeting was held by the Agency on December 12, 2012, at which the matters set forth in Code of Civil Procedure Section 1240.030 were discussed, including the following matters:

- a) Whether the public interest and necessity require the Project; and
- b) Whether the Project is planned and located in the manner that would be most compatible with the greatest public good and the least private injury; and
- c) Whether the Shares sought to be acquired (which are described herein) are necessary for the Project; and
- d) Whether any offer required by Section 7267.2 of the Government Code has been made to the owner or owners of record; and

WHEREAS, the Agency has provided all persons a reasonable opportunity to appear and be heard on those matters referred to in Code of Civil Procedure Section 1240.030; and

WHEREAS, Newhall has waived the right to receive notice of the hearing on the resolution of necessity and right to be heard, as required by Code of Civil Procedure Section 1245.235; and

WHEREAS, at such hearing, information on the Project and the matters set forth in this resolution were presented to the Agency by the Agency staff, including a detailed Staff Report of the purpose and necessity of the Project. The Staff Report is attached hereto as Exhibit "A" and incorporated herein by reference; and

WHEREAS, the acquisition of the Shares is not a "project" as the term is defined by State CEQA guidelines (Pub. Res. Code, § 21000 *et seq.*), the Board of Directors of the Agency finds no substantial evidence to support an argument that the acquisition of the Shares would have a direct or reasonably foreseeable indirect impact on the environment, and the Agency's acquisition of the Shares is excluded pursuant to State CEQA Guidelines Section 15378, the Agency will file a Notice of Exemption (Pub. Res. Code, §§ 21108, 21152 *et seq.*; 14 C.C.R. § 15000 *et seq.*)

NOW, THEREFORE, BE IT RESOLVED, the Agency hereby declares, finds, and determines as follows:

1. The public interest and necessity require the acquisition of all issued and outstanding shares of common stock of VWC. The Board of Directors of the Agency finds that the acquisition of the Shares is necessary to advance the business and statutory purposes of the Agency, including, but not limited to, (1) maintaining and enhancing the reliability of retail and wholesale water service in the Agency's boundaries; (2) developing more uniform water service policies within the Santa Clarita Valley; (3) better coordinating groundwater management activities and enhancing Valley wide conjunctive use of all sources of supply; (4) providing potential future opportunities for operational efficiencies and capital improvement economies of scale and (5) ensuring continuity in the ongoing critical perchlorate contamination clean-up efforts in the Santa Clara River Valley Groundwater Basin, Eastern Subbasin.

2. The public interest and necessity require the acquisition and taking of the Shares and ownership of VWC for water service and related purposes, which uses are public uses authorized by law. Water Code Appendix Section 103-15 permits and empowers this

acquisition by the Agency through its exercise of the power of eminent domain for the stated public use.

3. A list of all Shareholders of the Company, together with the Certificate Numbers of the Shares to be acquired, is attached hereto as Exhibit "B" and incorporated herein by reference.

4. The offer required by Government Code Section 7267.2 together with the accompanying statement of, and summary of the basis for, the amount established as just compensation, was made to owners of the Shares.

5. The Project as described herein will result in a number of benefits to all water users in the Agency's service area, including, but not limited to, (1) maintaining and enhancing the reliability of retail and wholesale water service in the Agency's boundaries; (2) developing more uniform water service policies within the Santa Clarita Valley; (3) better coordinating groundwater management activities and enhancing Valley wide conjunctive use of all sources of supply; (4) providing potential future opportunities for operational efficiencies and capital improvement economies of scale and (5) ensuring continuity in the ongoing critical perchlorate contamination clean-up efforts in the Santa Clara River Valley Groundwater Basin, Eastern Subbasin.

6. The taking and acquiring by the Agency of the Shares described herein is deemed necessary for the Agency to advance its statutory purposes of, among other things, providing efficient, reliable and quality water services, and the Project is planned and located in a manner most compatible with the greatest public good and the least private injury.

7. The Agency's use is a more necessary public use than the use to which VWC's Shares are now appropriated. Such acquisitions are made pursuant to the powers conferred by Code of Civil Procedure Section 1240.610.

8. All conditions and statutory requirements necessary to exercise the power of eminent domain to acquire the Shares described herein have been complied with by the Agency.

9. The Agency authorizes and ratifies any and all prior actions and activities of the members of its board of directors, Agency staff and consultants relating the acquisition of the Shares, including, but not limited to, compliance with Agency notices, administrative and legal procedures, expenditure of Agency funds, any and all discussions, negotiations, or other activities with or concerning Valencia Water Company, The Newhall Land and Farming Company, and any representatives of Valencia Water Company and the Newhall Land and Farming Company. The Agency deems all such actions and activities compliant with all provisions of Water Code Appendix Section 103-1 *et seq* and Agency procedures, policies and customary business practices.

10. The law firms of Best Best & Krieger LLP, and Murphy & Evertz LLP are authorized, empowered and directed to prepare, commence and prosecute an eminent domain action or actions in the Superior Court of the State of California in and for the County of Los Angeles in the name and on behalf of the Agency against all owners and persons and entities claiming or having interests in the above described Shares, for the purpose of performing and carrying out all proceedings and steps incident to the condemnation and the acquisition of the

Shares.

11. The General Manager of the Agency is authorized and empowered to execute any documents for the purpose of performing and carrying out all steps incident to the condemnation and the acquisition of the Shares, without further Agency approval, so long as the acquisition of the Shares of VWC is for the price set forth in the offer referred to in Paragraph 4 above.

Upon motion of Director McMillan, seconded by Director Gladbach and carried, the Board went into Closed Session at 8:30 AM to discuss the item listed on the agenda. (Item 3.1)

Upon motion of Director Kelly, seconded by Director Gladbach and carried, the Board voted to come out of Closed Session at 10:00 PM.

President Campbell reconvened the Open Session at 10:00 PM.

Russ Behrens, Esq. announced that there was no action taken in Closed Session that is reportable under the Ralph M. Brown Act. (Item 4)

Upon motion of Director Gladbach, seconded by Director Kavounas and carried the Consent Calendar was approved including Resolution No. 2891 and 2892. (Item 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, and 5.8)

RESOLUTION NO. 2891

RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASTAIC LAKE WATER AGENCY APPROVING THE REVISED MISCELLANEOUS FEES

WHEREAS, on November 12, 2008, the Castaic Lake Water Agency (CLWA) Board of Directors approved the selection of Camp Dresser & McKee Inc. (CDM), to prepare a Comprehensive Water Rate Report and Impact/Capacity Fee Analysis for Santa Clarita Water Division (SCWD). CDM concluded its analysis of the water rate increases, which includes Miscellaneous Fees, and presented its findings to the CLWA Board of Directors on July 8, 2009. The CLWA Board of Directors approved a Resolution for Miscellaneous Fee Increases on November 10, 2009; and

WHEREAS, staff implemented the new Termination-Shut Off Notice procedures replacing the existing Door Hanger/Shut off notice procedures on the Miscellaneous Fees. The Miscellaneous Fees schedule requires updating to include the correct fee description due to the change above and also update the descriptions to accommodate the Utility Billing/Customer Information System software implementation. The overall rates in the Miscellaneous Fees remain the same; only the descriptions are changed; and

WHEREAS, the CLWA's Board of Directors desires to comply with the American Water Works Association and California Water Code requirements promulgated under AB 1600; and

WHEREAS, Miscellaneous Fees would have the same overall rates.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors hereby adopts and directs SCWD staff to implement the Miscellaneous Fees schedule as attached.

RESOLUTION NO. 2892

**RESOLUTION OF THE CASTAIC LAKE WATER AGENCY
BOARD OF DIRECTORS TO AWARD CONTRACTS
FOR ON-CALL ENGINEERING SERVICES**

WHEREAS, all Statement of Qualifications (SOQs) submitted to the Santa Clarita Water Division (SCWD) pursuant to SCWD's Request for SOQs for the Professional Services Agreement (PSA) were received at SCWD on November 5, 2012, in full accordance with the law and SCWD's customary procedures; and

WHEREAS, this Board finds, after considering the evaluation from staff, that Cannon Corp., Civiltec Engineering, Inc., Kennedy/Jenks Consultants, RBF Consulting and Willdan Engineering substantially meet the requirements of the specifications.

WHEREAS, it is in SCWD's best interest that the Agency's Board of Directors authorize its Retail Manager to execute PSA's with these firms for tasks not greater than \$250,000.

NOW, THEREFORE, BE IT RESOLVED that the Agency's Board of Directors does hereby authorize its Retail Manager to execute PSA's with Cannon Corp., Civiltec Engineering, Inc., Kennedy/Jenks Consultants, RBF Consulting and Willdan Engineering for water distribution, pumping, treatment, resources and support facilities.

RESOLVED FURTHER that SCWD's Retail Manager is thereafter authorized to execute and forward PSA's to Cannon Corp., Civiltec Engineering, Inc., Kennedy/Jenks Consultants, RBF Consulting and Willdan Engineering.

Upon motion of Director Gladbach, seconded by Director Kelly and carried, the meeting was adjourned at 10:02 PM. (Item 7)

April Jacobs, Board Secretary

ATTEST:

President of the Board