

PICO HOLDINGS INC /NEW  
Form 10-Q  
November 09, 2010

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 033-36383

PICO HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

|   |                          |                                      |
|---|--------------------------|--------------------------------------|
| California  | 33-36383                 | 94-2723335                           |
| (State or other jurisdiction of<br>incorporation) | (Commission File Number) | (IRS Employer<br>Identification No.) |

875 Prospect Street, Suite 301  
La Jolla, California 92037  
(Address of principal executive offices) (Zip code)

Registrant's Telephone Number, Including Area Code:  
(858) 456-6022

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

|  |                                     |                           |                          |
|--|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer  | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer<br>(Do not check if a smaller reporting company) | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

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

On November 5, 2010, the registrant had 22,700,558 shares of common stock, \$0.001 par value outstanding.

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PICO HOLDINGS, INC.  
 FORM 10-Q  
 For the Nine Months Ended September 30, 2010

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## Part I: Financial Information

## Item I: Condensed Consolidated Financial Statements

PICO HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

|  | September<br>30, 2010<br>(Unaudited) | December<br>31,<br>2009 |
|--|--------------------------------------|-------------------------|
| <b>ASSETS</b>  |                                      |                         |
| Available for sale investments:  |                                      |                         |
| Fixed maturities   | \$ 42,094                            | \$ 50,575               |
| Equity securities  | 117,188                              | 118,327                 |
| Total available for sale investments   | 159,282                              | 168,902                 |
| Other Investments  | 8,531                                | 8,884                   |
| Total investments  | 167,813                              | 177,786                 |
| Cash and cash equivalents  | 111,328                              | 154,545                 |
| Notes and other receivables, net   | 10,065                               | 15,412                  |
| Reinsurance receivables  | 14,080                               | 15,013                  |
| Real estate and water assets, net  | 345,478                              | 299,833                 |
| Property and equipment, net  | 2,146                                | 1,328                   |
| Net deferred income taxes  | 15,711                               | 11,165                  |
| Federal, foreign and state income taxes  | 10,769                               | 8,879                   |
| Other assets   | 3,259                                | 3,656                   |
| Total assets   | \$ 680,649                           | \$ 687,617              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                      |                         |
| Reserves for unpaid losses and loss adjustment expenses  | \$ 22,480                            | \$ 24,175               |
| Deferred compensation  | 36,360                               | 31,144                  |
| Borrowings   | 42,637                               | 41,221                  |
| Other liabilities  | 10,534                               | 11,382                  |
| Total liabilities  | 112,011                              | 107,922                 |
| <b>Commitments and Contingencies (Note 6)</b>  |                                      |                         |
| Common stock, \$.001 par value; authorized 100,000,000 shares, 27,117,269 issued and 22,700,558 outstanding at September 30, 2010, and 27,020,473 issued and 22,595,678 outstanding at December 31, 2009 | 27                                   | 27                      |
| Additional paid-in capital   | 540,523                              | 539,792                 |
| Retained earnings  | 92,122                               | 100,002                 |
| Accumulated other comprehensive income   | 19,371                               | 21,094                  |
| Treasury stock, at cost (common shares: 4,416,711 in 2010 and 4,424,795 in 2009)   | (78,152)                             | (78,272)                |
| Total PICO Holdings, Inc. shareholders' equity   | 573,891                              | 582,643                 |
| Noncontrolling interest in subsidiaries  | (5,253)                              | (2,948)                 |
| Total shareholders' equity   | 568,638                              | 579,695                 |
| Total liabilities and shareholders' equity   | \$ 680,649                           | \$ 687,617              |

The accompanying notes are an integral part of the condensed consolidated financial statements.

PICO HOLDINGS, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED  
 (In thousands, except per share data)

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2010 | Three<br>Months<br>Ended<br>September<br>30,<br>2009 | Nine<br>Months<br>Ended<br>September<br>30, 2010 | Nine<br>Months<br>Ended<br>September<br>30,<br>2009 |
|--|--|--|--|---|
| Revenues:  |  |  |  |   |
| Sale of real estate and water assets                           | \$ 51  | \$ 536   | \$ 3,791   | \$ 5,804  |
| Net investment income  | 1,619  | 1,441  | 4,981  | 4,449   |
| Net realized gain (loss) on sale and impairment of investments | 5,203  | (2,010)  | 10,016   | (13,091)  |
| Other  | 624  | 998  | 2,134  | 2,477   |
| Total revenues (charges)                                       | 7,497  | 965  | 20,922   | (361)   |
| Costs and expenses:  |  |  |  |   |
| Operating and other costs                                      | 9,566  | 7,982  | 28,758   | 28,083  |
| Impairment loss on real estate and water assets                |  |  |  | 12,378  |
| Cost of real estate and water assets sold                      | 5  | 307  | 2,453  | 1,807   |
| Depreciation and amortization                                  | 351  | 305  | 1,003  | 977   |
| Interest   | 328  |  | 1,237  | 949   |
| Total costs and expenses                                       | 10,250   | 8,594  | 33,451   | 44,194  |
| Equity in loss of unconsolidated affiliate                     | (942)  |  | (2,413)  |   |
| Loss before income taxes and noncontrolling interest           | (3,695)  | (7,629)  | (14,942)   | (44,555)  |
| Benefit for federal, foreign, and state income taxes           | (1,613)  | (4,973)  | (4,757)  | (18,891)  |
| Net loss   | (2,082)  | (2,656)  | (10,185)   | (25,664)  |
| Net loss attributable to the noncontrolling interests          | 764  | 832  | 2,305  | 2,976   |
| Net loss attributable to PICO Holdings, Inc.                   | \$ (1,318)   | \$ (1,824)   | \$ (7,880)                                       | \$ (22,688)   |
| Net loss per common share – basic and diluted:                 |  |  |  |   |
|  | \$ (0.06)  | \$ (0.08)  | \$ (0.35)  | \$ (1.11)   |
| Weighted average shares outstanding                            | 22,656,749   | 22,590,392   | 22,621,447                                       | 20,383,087  |

The accompanying notes are an integral part of the condensed consolidated financial statements.

PICO HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY - UNAUDITED  
 NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009  
 (In thousands)

|  | Total      | Comprehensive<br>Loss<br>attributable<br>to PICO<br>Holdings,<br>Inc. | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Common<br>Stock | Paid-in<br>Capital | Treasury<br>Stock, at<br>Cost | Non-<br>controlling<br>Interest |
|--|------------|---|----------------------|---|-----------------|--------------------|-------------------------------|---------------------------------|
| Beginning<br>balance, January<br>1, 2010                                   | \$ 579,695 |   | \$ 100,002           | \$ 21,094                                       | \$ 27           | \$ 539,792         | \$ (78,272)                   | \$ (2,948)                      |
| Stock-based<br>compensation<br>expense                                     | 3,838      |   |                      |   |                 | 3,838              |                               |                                 |
| Exercise of<br>restricted stock<br>unit                                    | (2,086)    |   |                      |   |                 | (2,086)            |                               |                                 |
| Stock-based<br>compensation<br>income tax<br>benefits<br>(deficiencies)    | (1,157)    |   |                      |   |                 | (1,157)            |                               |                                 |
| Disposition of<br>treasury stock<br>from deferred<br>compensation<br>plans | 256        |   |                      |   |                 | 136                | 120                           |                                 |
| Comprehensive<br>loss:   |            |   |                      |   |                 |                    |                               |                                 |
| Net loss   | (10,185)   | (7,880)   | (7,880)              |   |                 |                    |                               | (2,305)                         |
| Other<br>comprehensive<br>loss,<br>net of tax:                             |            |   |                      |   |                 |                    |                               |                                 |
| Unrealized loss<br>on securities   | (1,323)    | (1,323)   |                      | (1,323)   |                 |                    |                               |                                 |
| Foreign currency<br>translation  | (400)      | (400)   |                      | (400)   |                 |                    |                               |                                 |
| Other<br>comprehensive<br>loss   | (1,723)    | (1,723)   |                      |   |                 |                    |                               |                                 |
| Comprehensive<br>loss  | (11,908)   | (9,603)   |                      |   |                 |                    |                               |                                 |
| Ending balance,<br>September 30,   | \$ 568,638 |   | \$ 92,122            | \$ 19,371                                       | \$ 27           | \$ 540,523         | \$ (78,152)                   | \$ (5,253)                      |



2010

|  | Total      | Comprehensive<br>Loss<br>attributable<br>to PICO<br>Holdings,<br>Inc. | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Common<br>Stock | Paid-in<br>Capital | Treasury<br>Stock, at<br>Cost | Non-<br>controlling<br>Interest |
|--|------------|---|----------------------|---|-----------------|--------------------|-------------------------------|---------------------------------|
| Beginning<br>balance, January<br>1, 2009                 | \$ 477,746 |   | \$ 118,037           | \$ (1,424)                                    | \$ 23           | \$ 439,382         | \$ (78,272)                   |                                 |
| Changes in<br>ownership of<br>noncontrolling<br>interest | 513        |   |                      |   |                 | 172                |                               | \$ 341                          |
| Common stock<br>offering                                 | 95,731     |   |                      |   | 4               | 95,727             |                               |                                 |
| Stock-based<br>compensation<br>expense                   | 4,193      |   |                      |   |                 | 4,193              |                               |                                 |
| Comprehensive<br>loss:                                   |            |   |                      |   |                 |                    |                               |                                 |
| Net loss   | (25,664)   | (22,688)  | (22,688)             |   |                 |                    |                               | (2,976)                         |
| Other<br>comprehensive<br>income(loss),<br>net of tax:   |            |   |                      |   |                 |                    |                               |                                 |
| Unrealized gain<br>on securities                         | 13,444     | 13,444  |                      | 13,444  |                 |                    |                               |                                 |
| Foreign currency<br>translation                          | 1,796      | 1,796   |                      | 1,796   |                 |                    |                               |                                 |
| Other<br>comprehensive<br>income                         | 15,240     | 15,240  |                      |   |                 |                    |                               |                                 |
| Comprehensive<br>loss                                    | (10,424)   | (7,448)   |                      |   |                 |                    |                               |                                 |
| Ending balance,<br>September 30,<br>2009                 | \$ 567,759 |   | \$ 95,349            | \$ 13,816                                     | \$ 27           | \$ 539,474         | \$ (78,272)                   | \$ (2,635)                      |

The accompanying notes are an integral part of the condensed consolidated financial statements.

PICO HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED  
(In thousands)

|  | Nine<br>Months<br>Ended<br>September<br>30, 2010 | Nine<br>Months<br>Ended<br>September<br>30, 2009 |
|--|--|--|
| <b>OPERATING ACTIVITIES:</b>   |  |  |
| Net cash used in operating activities                                | \$ (56,033)                                      | \$ (24,343)                                      |
| <b>INVESTING ACTIVITIES:</b>   |  |  |
| Purchases of investments   | (29,258)   | (19,237)   |
| Proceeds from sale of investments                                    | 24,168   | 18,089   |
| Proceeds from maturity of investments                                | 22,608   | 1,510  |
| Purchases of property and equipment                                  | (932)  |  |
| Real estate and water asset capital expenditure                      |  | (198)  |
| Other investing activities, net                                      | 9  | 79   |
| Net cash provided by investing activities                            | 16,595   | 243  |
| <b>FINANCING ACTIVITIES:</b>   |  |  |
| Proceeds from common stock offering, net                             |  | 95,731   |
| Repayments of borrowings   | (2,590)  | (11,009)   |
| Proceeds from borrowings   |  | 4,427  |
| Net cash provided by (used in) financing activities                  | (2,590)  | 89,149   |
| Effect of exchange rate changes on cash                              | (1,189)  | (786)  |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>              | <b>(43,217)</b>                                  | <b>64,263</b>                                    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                | <b>154,545</b>                                   | <b>96,316</b>                                    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                      | <b>\$ 111,328</b>                                | <b>\$ 160,579</b>                                |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                           |  |  |
| Net cash paid (refunded) for Federal, foreign and state income taxes | \$ 2,463   | \$ (20,839)                                      |
| Cash paid for interest, net of amounts capitalized                   | \$ 1,225   | \$ 1,165   |
| <b>Non-cash investing and financing activities:</b>                  |  |  |
| Mortgage incurred to purchase real estate                            | \$ 2,970   | \$ 2,460   |

The accompanying notes are an integral part of the condensed consolidated financial statements.



PICO HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PICO Holdings, Inc. and subsidiaries (collectively, the "Company" or "PICO") have been prepared in accordance with the interim reporting requirements of Form 10-Q, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete consolidated financial statements.

In the opinion of management, all adjustments and reclassifications considered necessary for a fair and comparable presentation of the financial statements presented have been included and are of a normal recurring nature. Operating results presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of the Company's consolidated financial statements relate to the assessment of other-than-temporary impairments and the application of the equity method of accounting, unpaid losses and loss adjustment expenses, real estate and water assets, deferred income taxes, stock-based compensation and contingent liabilities. While management believes that the carrying value of such assets and liabilities are appropriate as of September 30, 2010, and December 31, 2009, it is reasonably possible that actual results could differ from the estimates upon which the carrying values were based.

Stock-Based Compensation:

At September 30, 2010, the Company had one stock-based payment arrangement outstanding:

The PICO Holdings, Inc. 2005 Long Term Incentive Plan (the "Plan"). The Plan provides for the grant or award of various equity incentives to PICO employees, non-employee directors and consultants. A total of 2,654,000 shares of common stock are issuable under the Plan and it provides for the issuance of incentive stock options, non-statutory stock options, free-standing stock-settled stock appreciation rights ("SAR"), restricted stock awards ("RSA"), performance shares, performance units, restricted stock units ("RSU"), deferred compensation awards and other stock-based awards. The Plan allows for broker assisted cashless exercises and net-settlement of income taxes and employee withholding taxes. Upon exercise of a SAR and RSU, the employee will receive newly issued shares of PICO Holdings common stock with a fair value equal to the in-the-money value of the award, less applicable United States Federal, state and local withholding and income taxes (however, the holder of an RSU can elect to pay withholding taxes in cash).

The Company has three different equity incentive awards outstanding under the Plan at September 30, 2010:

Restricted Stock Unit Awards (RSU):

RSU entitle the recipient the right to receive one share of PICO common stock with no monetary payment required. RSU do not vote and are not entitled to receive dividends. In March, 2009, the Company granted 300,000 RSUs that will vest in March 2012. The total fair value of the awards was \$5.9 million based on the Company's closing stock price on the date of grant. Compensation expense recognized for these awards was \$1.1 million and \$3 million for the three and nine months ended September 30, 2010, respectively. Compensation expense recognized for these awards was \$494,000 and \$1.2 million for the three and nine months ended September 30, 2009, respectively.

During the nine months ended September 30, 2010, 160,000 RSU were exercised when two officers left the Company. After payment of applicable withholding taxes, the Company issued 91,896 newly-issued shares of common stock in satisfaction of the exercise of those RSU. There were no RSU granted during the nine months ended September 30, 2010. However, subsequent to September 30, 2010, the Company awarded 454,000 RSU to various members of management. The awards cliff vest in October of 2014. The fair value of the award based on the closing price on the date of grant is \$13.9 million and will be recognized ratably over the vesting period.

At September 30, 2010, there was \$1.3 million of unrecognized compensation costs for RSU that is expected to be recognized through the first quarter of 2012 based on the vesting schedule of the grants.

#### Restricted Stock Awards (RSA):

In May of each year since 2008, and as part of a duly adopted revised director annual compensation program, the Company has issued RSA to the non-employee directors of the Company. Each award vests one year from the date of grant. Until vested, the awards are held in escrow; however, the shares can be voted and the holder is entitled to any dividends. Once vested, common stock of the Company is distributed to the recipient. Each award is valued at the Company's closing stock price on the date of grant and the compensation expense is recognized over the vesting period of the award.

A summary of activity of the RSU and RSA is as follows:

|   | RSU       | RSA     |
|---|-----------|---------|
| Outstanding at January 1, 2010                | 300,000   | 5,286   |
| Granted                                       |           | 5,600   |
| Exercised                                     | (160,000) |         |
| Forfeited                                     |           | (700)   |
| Vested  |           | (5,286) |
| Outstanding at September 30, 2010             | 140,000   | 4,900   |
| Unrecognized compensation cost (in thousands) | \$ 1,306  | \$ 96   |

#### Stock – Settled SAR:

There were no SAR granted or exercised during the nine months ended September 30, 2010 or 2009. However, 173,000 SAR expired during the three months ended September 30, 2010.

Compensation expense recognized for SAR was \$182,000 and \$728,000 for the three and nine months ended September 30, 2010 respectively, and \$997,000 and \$3 million for the three and nine months ended September 30, 2009 respectively. During the 3 months ended September 30, 2010, 173,000 SAR expired. At September 30, 2010, there was no unrecognized compensation costs for SAR.

The fair value of each award was estimated on the date of grant using a Black-Scholes option pricing model that uses various assumptions and estimates to calculate a fair value as described below.

Expected volatility was based on the actual trading volatility of the Company's common stock. The Company used historical experience to estimate expected forfeitures and expected terms. The expected term of a SAR grant represented the period of time that the SAR was expected to be outstanding. The risk-free rate was the U.S. Treasury Bond yield that corresponded to the expected term of each SAR grant. Expected dividend yield was zero as the Company had not and does not foresee paying a dividend in the future. Forfeitures were estimated to be zero based on the strike price and expected holding period of the SAR.

|                     |             |
|---------------------|-------------|
| Expected volatility | 29% — 31%   |
| Expected term       | 7 years     |
| Risk-free rate      | 4.3% — 4.7% |
|                     | 0%          |

|                          |    |
|--------------------------|----|
| Expected dividend yield  |    |
| Expected forfeiture rate | 0% |

A summary of SAR activity under the Plan is as follows:

|   | SAR          | Weighted Average Exercise Price | Weighted Average Contractual Term |
|---|--------------|---------------------------------|-----------------------------------|
| Outstanding at January 1, 2010                    | 1,995,018 \$ | 36.89                           | 6.5 years                         |
| Granted   |              |                                 |                                   |
| Exercised   |              |                                 |                                   |
| Expired   | (172,939)    | 44.69                           |                                   |
| Outstanding and exercisable at September 30, 2010 | 1,822,079 \$ | 36.15                           | 6 years                           |

A summary of the status of the Company's unvested SAR as of September 30, 2010 and changes during the period is as follows:

|                                | SAR    | Weighted Average Grant<br>Date Fair Value |
|--------------------------------|--------|---|
| Unvested at January 1, 2010    | 57,646 | \$ 18.93                                  |
| Granted                        |        |   |
| Vested                         | 57,646 | \$ 18.93                                  |
| Unvested at September 30, 2010 | -0-    |   |

At September 30, 2010, none of the outstanding SAR were in-the-money.

#### Deferred Compensation:

The Company reports the investment returns generated in the deferred compensation accounts within the Company's financial statements (with a corresponding increase in the trust assets) and an expense is reported in operating and other costs for increases in the market value of the assets held with a corresponding increase in the deferred compensation liability (except in the case of PICO stock, which is reported as treasury stock, at cost). In the event the trust assets decline in value, the Company will reverse previously expensed compensation.

At September 30, 2010 and December 31, 2009, the Company had \$36.4 million and \$31.1 million, respectively, recorded as deferred compensation payable to various members of management and certain non-employee members of the board of directors of the Company. The assets of the plan are held in Rabbi Trust accounts. Such trusts hold various investments that are consistent with the Company's investment policy. The investments are held in separate accounts and accounted and reported for as available for sale securities in the accompanying condensed consolidated balance sheets. Assets of the trust will be distributed according to predetermined payout elections established by each employee or member of the board of directors.

The deferred compensation liability increased during the nine months ended September 30, 2010 primarily due to increases in the fair value of the invested assets. Included in operating and other costs in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2010, is compensation expense of \$3.8 million and \$5.5 million, respectively. For the three and nine months ended September 30, 2009, operating and other costs include deferred compensation expense of \$1.9 million and \$4.2 million, respectively.

#### Real Estate and Water Assets:

All real estate and tangible water assets are classified as held and used until management commits to a plan to sell the assets, the asset is available for sale in its present condition, is being actively marketed for sale, and it is probable that the asset will be sold within the next year. At September 30, 2010 the Company had no real estate classified as held for sale. At December 31, 2009, the Company had \$4.8 million classified as held for sale.

#### Notes and Other Receivables:

Notes and other receivables include installment notes from the sale of real estate and water assets. These notes generally have terms ranging from three to ten years, with interest rates from 8% to 10%. The Company records a provision for doubtful accounts to allow for any specific accounts which may be unrecoverable and is based upon an



analysis of the Company's prior collection experience, customer creditworthiness, and current economic trends. The notes are typically secured by the assets which allows the Company to recover the underlying property if and when a buyer defaults. No significant provision for bad debts was required on any installment notes from the sale of real estate and water assets during the nine months ended September 30, 2010 and 2009.

Operating and Other Costs:

For the three and nine months ended September 30, 2010, the Company reported a foreign currency gain of \$2.9 million and \$1.8 million, respectively. For the three and nine months ended September 30, 2009, the Company reported a foreign currency gain of \$1.5 million and a loss of \$252,000, respectively. In each period, the net foreign currency gain or loss results principally from a Swiss Franc denominated loan from PICO Holdings to one of its subsidiaries. Included in the nine months ended September 30, 2009 only, the Company also reported a loss of \$1.1 million on third party foreign receivables.

### Provision for Income Taxes:

The Company's provision for income tax expense includes U.S. federal, state, local and foreign income taxes currently payable and those deferred because of temporary differences between the income tax and financial reporting bases of the assets and liabilities. The liability method of accounting for income taxes also requires the Company to reflect the effect of a tax rate change on accumulated deferred income taxes in income in the period in which the change is enacted. The provision for income taxes is based on the actual effective rate for each reporting period as the Company is currently unable to reasonably estimate the annual effective tax rate considering the transactional nature of the results of operations.

In assessing the realization of deferred income taxes, management considers whether it is more likely than not that any deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the period in which temporary differences become deductible. If it is more likely than not that some or all of the deferred income tax assets will not be realized, a valuation allowance is recorded.

The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense. For the nine months ended September 30, 2010 and 2009, the Company recorded approximately \$116,000 and \$111,000, respectively, in interest related to uncertain tax positions.

The effective income tax rate for the three and nine months ended September 30, 2010 is 44% and 32%, respectively and 65% and 42% for the three and nine months ended September 30, 2009, respectively. For the three and nine months ended September 30, 2010 the effective rate differs from the statutory rate of 35% primarily due to foreign taxes and non-deductible compensation expense. The effective rate differs from the statutory rate in the 2009 period primarily due to the recognition or reversal of interest expense and penalties on uncertain tax positions, operating losses without any associated tax benefit from subsidiaries that are excluded from the consolidated federal income tax return, certain non-deductible compensation expense, and state income tax charges.

### 2. Net Loss Per Share

Basic earnings or loss per share is computed by dividing net earnings by the weighted average number of shares outstanding during the period. Diluted earnings or loss per share is computed similarly to basic earnings or loss per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock equivalents using the treasury method, if dilutive. The Company's free-standing SAR and RSU are considered common stock equivalents for this purpose. The number of additional shares related to these common stock equivalents is calculated using the treasury stock method.

For the three and nine months ended September 30, 2010 and 2009, the Company's stock-settled SAR and RSU were excluded from the diluted per share calculation because their effect on the loss per share was anti-dilutive.

### 3. Comprehensive Loss

Comprehensive income or loss, net of income tax is comprised of the following (in thousands):

|  | Three Months<br>Ended<br>September 30,<br>2010 | Three Months<br>Ended<br>September 30,<br>2009 | Nine Months<br>Ended<br>September 30,<br>2010 | Nine Months<br>Ended<br>September 30,<br>2009 |
|--|--|--|---|---|
|  |  |  |   |   |

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|  |    |         |    |         |    |          |    |          |
|--|----|---------|----|---------|----|----------|----|----------|
| Net loss   | \$ | (2,082) | \$ | (2,656) | \$ | (10,185) | \$ | (25,664) |
| Other comprehensive income (loss), net of tax:                             |    |         |    |         |    |          |    |          |
| Unrealized appreciation (depreciation) on available<br>for sale securities |    | 1,675   |    | 6,922   |    | (1,323)  |    | 13,444   |
| Appreciation (depreciation) in foreign currency<br>translation             |    | (41)    |    | 402     |    | (400)    |    | 1,796    |
| Total other comprehensive income (loss), net of<br>tax                     |    | 1,634   |    | 7,324   |    | (1,723)  |    | 15,240   |
| Comprehensive income (loss)  |    | (448)   |    | 4,668   |    | (11,908) |    | (10,424) |
| Comprehensive loss attributable to the<br>noncontrolling interest          |    | 764     |    | 832     |    | 2,305    |    | 2,976    |
| Comprehensive income (loss) attributable to PICO<br>Holdings, Inc.         | \$ | 316     | \$ | 5,500   | \$ | (9,603)  | \$ | (7,448)  |

Total comprehensive loss for the three and nine months ended September 30, 2010 is net of a deferred income tax benefit of \$1.5 million and \$4.5 million, respectively. Total comprehensive income for the three months ended and loss for the nine months ended September 30, 2009 is net of a deferred income tax charge of \$1.2 million and a deferred income benefit of \$1 million, respectively.

The components of accumulated other comprehensive income are as follows (in thousands):

|   | September 30, 2010 | December 31, 2009 |
|---|--------------------|-------------------|
| Net unrealized appreciation on available for sale investments | \$ 24,530          | \$ 25,853         |
| Foreign currency translation                                  | (5,159)            | (4,759)           |
| Accumulated other comprehensive income                        | \$ 19,371          | \$ 21,094         |

The accumulated balance is net of deferred income tax liability of \$9.6 million at September 30, 2010 and \$9.8 million at December 31, 2009.

The following table reports the cost and carrying value of available for sale investments at September 30, 2010 and December 31, 2009 (in thousands):

| September 30, 2010               | Cost       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|----------------------------------|------------|------------------------------|-------------------------------|-------------------|
| Fixed maturities:                |            |                              |                               |                   |
| U.S. Treasury securities         | \$ 3,883   | \$ 96                        | \$ (1)                        | \$ 3,978          |
| Municipal bonds                  | 3,154      | 248                          |                               | 3,402             |
| Corporate bonds                  | 27,848     | 2,146                        | (721)                         | 29,273            |
| Government sponsored enterprises | 5,199      | 242                          |                               | 5,441             |
|                                  | 40,084     | 2,732                        | (722)                         | 42,094            |
| Marketable equity securities     | 83,583     | 34,273                       | (668)                         | 117,188           |
| Total                            | \$ 123,667 | \$ 37,005                    | \$ (1,390)                    | \$ 159,282        |

| December 31, 2009                | Cost       | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Carrying<br>Value |
|----------------------------------|------------|------------------------------|-------------------------------|-------------------|
| Fixed maturities:                |            |                              |                               |                   |
| U.S. Treasury securities         | \$ 1,106   | \$ 80                        |                               | \$ 1,186          |
| Municipal Bonds                  | 3,175      | 64                           |                               | 3,239             |
| Corporate bonds                  | 21,217     | 2,278                        | \$ (2,224)                    | 21,271            |
| Government sponsored enterprises | 24,764     | 329                          | (214)                         | 24,879            |
|                                  | 50,262     | 2,751                        | (2,438)                       | 50,575            |
| Marketable equity securities     | 81,935     | 37,009                       | (617)                         | 118,327           |
| Total                            | \$ 132,197 | \$ 39,760                    | \$ (3,055)                    | \$ 168,902        |

The following table summarizes the market value of those investments in an unrealized loss position for periods less than or greater than 12 months (in thousands):

|                          | 2010       |                             | 2009       |                             |
|--------------------------|------------|-----------------------------|------------|-----------------------------|
|                          | Fair Value | Gross<br>Unrealized<br>Loss | Fair Value | Gross<br>Unrealized<br>Loss |
| Less than 12 months      |            |                             |            |                             |
| Fixed maturities:        |            |                             |            |                             |
| U.S. Treasury securities | \$ 830     | \$ 1                        |            |                             |
| Government sponsored     |            |                             | \$ 17,961  | \$ 214                      |

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|                              |           |        |           |        |
|------------------------------|-----------|--------|-----------|--------|
| Corporate bonds              | 7,948     | 71     | 779       | 10     |
|                              | 8,778     | 72     | 18,740    | 224    |
| Marketable equity securities | 10,358    | 206    | 5,590     | 488    |
| Total                        | \$ 19,136 | \$ 278 | \$ 24,330 | \$ 712 |

|                              | 2010       |          | 2009       |          |
|------------------------------|------------|----------|------------|----------|
|                              | Gross      |          | Gross      |          |
|                              | Unrealized |          | Unrealized |          |
| Greater than 12 months       | Fair Value | Loss     | Fair Value | Loss     |
| Fixed maturities:            |            |          |            |          |
| Corporate bonds              | \$ 6,789   | \$ 650   | \$ 9,510   | \$ 2,214 |
| Marketable equity securities | 2,373      | 462      | 1,346      | 129      |
| Total                        | \$ 9,162   | \$ 1,112 | \$ 10,856  | \$ 2,343 |

**Marketable Equity Securities:** The Company's investments in marketable equity securities totaled \$117.2 million at September 30, 2010, and principally consist of common stock of publicly traded small-capitalization companies in the U.S. and selected foreign markets. Equities are researched, and selected for purchase, on a case by case basis depending on the fundamental characteristics of the individual security. The Company reviewed its equity securities in an unrealized loss position, and concluded that these investments were not other-than-temporarily impaired as the declines were not of sufficient duration and severity, and publicly-available financial information did not indicate impairment. The primary cause of the losses is due to normal market volatility. During the three and nine months ended September 30, 2010, the Company recorded \$36,000 and \$347,000, respectively, of other-than-temporary impairment charges on marketable equity securities. During the three and nine months ended September 30, 2009, the Company recorded \$5.2 million and \$13.1 million respectively, of other-than-temporary impairment charges on marketable equity securities.

**Corporate Bonds and U.S. Treasury Obligations:** The Company owns various fixed maturity bonds in its portfolio. The U.S. Treasury, municipal and government sponsored enterprise bonds are typically held to meet state regulatory capital and deposit requirements for the insurance companies. The remainder of the bond portfolio consists of corporate bonds, which are researched, and selected for purchase, on a case by case basis depending on the maturity and yield-to-maturity of the bond available for purchase, and an analysis of the fundamental characteristics of the issuer. The Company does not consider the unrealized losses on the bond portfolio to be other-than-temporarily impaired because the Company intends to hold, and will not be required to sell, these particular securities, and the Company expects to recover the entire amortized cost basis. The Company believes that the unrealized losses are primarily attributable to the reduced availability of credit throughout the U.S. economy, which is affecting the market prices of all bonds other than those issued by the U.S. Treasury, as well as deterioration of the underlying issuer of certain bonds held by the Company. During the three and nine months ended September 30, 2010, the Company did not record any impairment charges on fixed maturity securities. During the three and nine months ended September 30, 2009, the Company recorded impairment charges of zero and \$5.1 million, respectively on corporate bonds due to deterioration of the underlying issuer's financial condition.

The following table sets forth the Company's financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009 by level within the fair value hierarchy. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. During the nine months ended September 30, 2010, the Company transferred \$8.9 million from level 1 to level 2 due to the volume and frequency of trading activity for those particular securities. This determination was done at the end of the reporting period:

At September 30, 2010 (in thousands):

|                                   | Quoted Prices In<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Balance at<br>September<br>30, 2010 |
|-----------------------------------|---|---|---|-------------------------------------|
| <b>Assets</b>                     |   |   |   |                                     |
| Available for sale securities (A) | \$ 150,338  | \$ 8,944  |   | \$ 159,282                          |
| <b>Liabilities</b>                |   |   |   |                                     |
| Deferred compensation (B)         | \$ 36,360   |   |   | \$ 36,360                           |

At December 31, 2009 (in thousands):

|                                   | Quoted Prices In<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance at<br>December 31,<br>2009 |
|-----------------------------------|---|---|--|------------------------------------|
| <b>Assets</b>                     |   |   |  |                                    |
| Available for sale securities (A) | \$ 168,902  |   |  | \$ 168,902                         |
| <b>Liabilities</b>                |   |   |  |                                    |
| Deferred compensation (B)         | \$ 31,144   |   |  | \$ 31,144                          |

(A) Where there are quoted market prices that are readily available in an active market, securities are classified as Level 1 of the valuation hierarchy. Level 1 available for sale securities are valued using quoted market prices multiplied by the number of shares owned and debt securities are valued using a market quote in an active market. Level 2 available for sale securities are valued using market prices and include securities where the markets are not active, that is where there are few transactions, or the prices are not current or the prices vary considerably over time. Inputs include directly or indirectly observable inputs such as quoted prices for similar assets or liabilities exchanged in active or inactive markets or quoted prices for identical assets or liabilities exchanged in inactive markets. Level 3 available for sale securities include securities where valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

(B) Deferred compensation plans are compensation plans directed by the Company and structured as a Rabbi Trust for certain executives and non-employee directors. The investment assets of the Rabbi Trust are valued using quoted market prices multiplied by the number of shares held in each trust account including the shares of PICO Holdings common stock held in the trusts. The related deferred compensation liability represents the fair value of the investment assets.

#### 4. Disclosures About Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that fair value:

- Cash and Cash Equivalents: Carrying amounts for these items approximate fair value because of the short maturity of these instruments. The majority of the Company's cash is held in the Federated Government Obligations Money Market.
- Investments in fixed maturities and equity securities: Fair values are estimated based on quoted market prices, or dealer quotes for the actual or comparable securities. The Company regularly evaluates the carrying value of securities to determine whether there has been any diminution in value that is other-than-temporary.
- Borrowings: Carrying amounts for these items approximates fair value because current interest rates and, therefore, discounted future cash flows for the terms and amounts of loans are not significantly different from the original terms.

The table below presents the carrying values and estimated fair values for certain of the Company's financial instruments at September 30, 2010 (in thousands).

|                                   | September 30, 2010 |                      |
|-----------------------------------|--------------------|----------------------|
|                                   | Carrying Amount    | Estimated Fair Value |
| Financial assets:                 |                    |                      |
| Cash and cash equivalents         | \$ 111,328         | \$ 111,328           |
| Investments with fixed maturities | \$ 42,094          | \$ 42,094            |
| Equity securities                 | \$ 177,188         | \$ 117,188           |
| Notes and other receivables net   | \$ 10,065          | \$ 10,065            |
| Reinsurance receivable            | \$ 14,080          | \$ 14,080            |
| Financial liabilities:            |                    |                      |
| Borrowings                        | \$ 42,637          | \$ 42,637            |

#### 5. Segment Reporting

PICO is a diversified holding company engaged in four operating and reportable segments: Water Resource and Water Storage Operations, Real Estate Operations, Insurance Operations in Run Off and Corporate.

The accounting policies of the reportable segments are the same as those described in the Company's 2009 Annual Report on Form 10-K filed with the SEC. Management analyzes segments using the following information:

Segment assets (in thousands):



|   | September<br>30, 2010 | December<br>31, 2009 |
|---|-----------------------|----------------------|
| Total Assets:                               |                       |                      |
| Water Resource and Water Storage Operations | \$ 233,334            | \$ 207,565           |
| Real Estate Operations                      | 132,270               | 149,217              |
| Corporate                                   | 153,876               | 169,146              |
| Insurance Operations in Run Off             | 161,169               | 161,689              |
|   | \$ 680,649            | \$ 687,617           |

During the nine months ended September 30, 2010, total assets in the water resource and water storage operation increased \$25.8 million primarily due to the \$15.8 million acquisition of a single-purpose limited liability company, Active Resource Management, LLC (“ARM”), whose primary asset is approximately 126,000 acre–feet of stored water. There are no significant revenues or earnings from ARM since the acquisition and no significant revenues or earnings for the comparative period of 2009.

During the nine months ended September 30, 2010, total assets in the real estate operations decreased \$16.9 million primarily due to a \$49.5 million cash distribution from NLRC to the corporate segment offset by acquisition and development of real estate projects in UCP.

Corporate segment assets decreased \$15.3 million primarily as a result of funding the real estate and water acquisitions and development in excess of the cash received from NLRC.

On a consolidated basis, real estate and water assets have increased \$45.6 million primarily due to \$26.7 million of acquisition and development of real estate projects and \$20 million in purchases of stored water.

Segment revenues and expenses (in thousands):

|   | Three Months Ended |            | Nine Months Ended |             |
|---|--------------------|------------|-------------------|-------------|
|   | September 30,      |            | September 30,     |             |
|   | 2010               | 2009       | 2010              | 2009        |
| <b>Revenues (Charges):</b>                                      |                    |            |                   |             |
| Water Resource and Water Storage Operations                     | \$ 375             | \$ 390     | \$ 2,499          | \$ 3,975    |
| Real Estate Operations  | 611                | 926        | 4,336             | 3,903       |
| Corporate   | 1,497              | (711)      | 4,120             | (4,007)     |
| Insurance Operations in Run Off                                 | 5,014              | 360        | 9,967             | (4,232)     |
| Total revenues (charges)  | \$ 7,497           | \$ 965     | \$ 20,922         | \$ (361)    |
| <b>Income (Loss) Before Taxes and Noncontrolling Interests:</b> |                    |            |                   |             |
| Water Resource and Water Storage Operations                     | \$ (2,731)         | \$ (2,131) | \$ (6,622)        | \$ (14,927) |
| Real Estate Operations  | (792)              | (712)      | (2,462)           | (2,783)     |
| Corporate   | (4,608)            | (4,821)    | (13,910)          | (21,052)    |
| Insurance Operations in Run Off                                 | 4,436              | 35         | 8,052             | (5,793)     |
| Loss before income taxes and noncontrolling interest            | \$ (3,695)         | \$ (7,629) | \$ (14,942)       | \$ (44,555) |

## 6. Commitments and Contingencies

The Company is subject to various other litigation matters that arise in the ordinary course of its business. Certain of our insurance subsidiaries are frequently a party in claims proceedings and actions regarding insurance coverage, all of which are considered routine and incidental to our business. Based upon information presently available, management is of the opinion that resolution of such litigation will not likely have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. Neither PICO nor its subsidiaries are parties to any potentially material pending legal proceedings other than the following.

### Fish Springs Ranch, LLC:

The Company's settlement agreement with the Pyramid Lake Paiute Tribe of Indians relating to the exportation of water from the properties owned by Fish Springs Ranch, LLC is pending ratification by the United States Congress, which we anticipate will occur in 2010; however, we cannot be certain as to when the United States Congress will act on this matter. No material developments occurred relating to this dispute or the settlement agreement during the third quarter of 2010.

## Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations should be read together with the Unaudited Condensed Consolidated Financial Statements and accompanying Notes included elsewhere in this report, and the Consolidated Financial Statements and accompanying Notes included in our Annual Report on Form 10-K.

Note About “Forward-Looking Statements”

This Quarterly Report on Form 10-Q (including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section) contains “forward-looking statements,” as defined in Section 21E of the United States Securities Exchange Act of 1934, as amended, regarding our business, financial condition, results of operations, and prospects, including, without limitation, statements about our expectations, beliefs, intentions, anticipated developments, and other information concerning future matters. Words such as “may”, “will”, “could”, “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “should”, “target”, “projects”, “contemplates”, “predicts”, “potential”, “could”, and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report on Form 10-Q.

Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on current expectations and assumptions. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and the actual results and outcomes could differ from what is expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings “Item 1A. Risk Factors” in our 2009 Annual Report on Form 10-K and in other filings made from time to time with the United States Securities and Exchange Commission (“SEC”) after the date of this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q.

## INTRODUCTION

PICO Holdings, Inc. is a diversified holding company. In this Quarterly Report, PICO and its subsidiaries are collectively referred to as “PICO”, “the Company”, or by words such as “we” and “our”. We seek to build and operate businesses where we believe significant value can be created from the development of unique assets, and to acquire businesses which we identify as undervalued and where our management participation in operations can aid in the recognition of the business’s fair value, as well as create additional value.

Our objective is to maximize long-term shareholder value. Our goal is to manage our operations to achieve a superior return on net assets over the long term, as opposed to short-term earnings.

Our business is separated into four operating segments:

- Water Resource and Water Storage Operations;
- Real Estate Operations;
- Insurance Operations in “Run Off”; and
- Corporate.

As of September 30, 2010, our major consolidated subsidiaries are:

- Vidler Water Company, Inc. (“Vidler”), which acquires and develops water resources and water for storage in the southwestern United States, with assets and operations in Nevada, Arizona, Idaho, Colorado and New Mexico;
- UCP, LLC (“UCP”), which acquires and develops partially-developed and finished residential housing lots in selected markets in California;
- Nevada Land and Resource Company, LLC (“Nevada Land”), which sells property in northern Nevada and also sells or leases certain sub – surface rights (such as mineral rights, water rights and geothermal rights) associated with Nevada Land’s property;
- Physicians Insurance Company of Ohio (“Physicians”), which is “running off” its medical professional liability insurance loss reserves; and

- Citation Insurance Company (“Citation”), which is “running off” its property and casualty insurance and workers’ compensation loss reserves.

RESULTS OF OPERATIONS—THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

PICO Shareholders’ Equity

At September 30, 2010, we reported shareholders’ equity of \$573.9 million (\$25.28 per share), compared to \$582.6 million (\$25.79 per share) at December 31, 2009. The \$8.7 million decrease in shareholders’ equity for the first nine months of 2010 was primarily due to a \$9.6 million comprehensive loss. Book value per share decreased by \$0.51, or 2%, during the first nine months of 2010.

Comprehensive Loss

We report comprehensive income or loss as well as net income or loss from the Condensed Consolidated Statement of Operations. Comprehensive income or loss measures changes in shareholders’ equity, and includes unrealized items which are not recorded in the Consolidated Statement of Operations, for example, foreign currency translation and the change in unrealized investment gains and losses on available-for-sale securities.

For the third quarter of 2010, we reported comprehensive income of \$316,000 which consisted primarily of a \$1.7 million net increase in unrealized appreciation in investments offset by a net loss of \$1.3 million.

During the first nine months of 2010, we reported a comprehensive loss of \$9.6 million comprised of a net loss of \$7.9 million, a \$1.3 million net decrease in unrealized appreciation in investments and a \$400,000 foreign currency translation loss.

## Segment Results of Operations

Our segment revenues and loss before taxes and noncontrolling interest for the third quarter and first nine months of 2010 and 2009 were:

| Thousands of dollars  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|------------|------------------------------------|-------------|
|   | 2010                                | 2009       | 2010                               | 2009        |
| <b>Revenues:</b>  |                                     |            |                                    |             |
| Water Resource and Water Storage Operations                           | \$ 375                              | \$ 390     | \$ 2,499                           | \$ 3,975    |
| Real Estate Operations  | 611                                 | 926        | 4,336                              | 3,903       |
| Corporate   | 1,497                               | (711)      | 4,120                              | (4,007)     |
| Insurance Operations in "Run Off"                                     | 5,014                               | 360        | 9,967                              | (4,232)     |
| Total revenues (charges)  | \$ 7,497                            | \$ 965     | \$ 20,922                          | \$ (361)    |
| <b>Income (loss) before income taxes and noncontrolling interest:</b> |                                     |            |                                    |             |
| Water Resource and Water Storage Operations                           | \$ (2,731)                          | \$ (2,131) | \$ (6,622)                         | \$ (14,927) |
| Real Estate Operations  | (792)                               | (712)      | (2,462)                            | (2,783)     |
| Corporate   | (4,608)                             | (4,821)    | (13,910)                           | (21,052)    |
| Insurance Operations in "Run Off"                                     | 4,436                               | 35         | 8,052                              | (5,793)     |
| Loss before income taxes and noncontrolling interest                  | \$ (3,695)                          | \$ (7,629) | \$ (14,942)                        | \$ (44,555) |

The focus of our operations is building long – term shareholder value. Our revenues and results of operations (income or loss before income taxes and noncontrolling interests) can fluctuate widely from period to period. For example, we recognize revenue from the sale of real estate and water assets when specific transactions close, and as a result, sales of real estate and water assets for any individual quarter are not necessarily indicative of revenues for future quarters or the full financial year.

## Third Quarter Net Loss

Our third quarter year-over-year net loss before income taxes and noncontrolling interests decreased by \$3.9 million. The primary component of this decrease was \$4.5 million increase in our net income before tax primarily from net realized investment gains in the insurance in run off segment.

## Third Quarter Revenues

Our third quarter revenues were \$7.5 million in 2010, compared to \$965,000 in 2009, an increase of \$6.5 million year-over-year. This change was primarily due to a year-over-year increase of \$4.7 million in the insurance in run off segment and a \$2.2 million increase in our corporate segment. Both segment increases are primarily a result of increases in net realized gains on investments during 2010.

## Third Quarter Costs and Expenses

Third Quarter costs and expenses were \$10.3 million in 2010, compared to \$8.6 million in 2009, an increase in year-over-year expenses of \$1.7 million. The primary increase in costs and expenses is due to a year-over-year

increase in deferred compensation expense of \$1.9 million.

#### Third Quarter Income Taxes and Noncontrolling Interest in Subsidiaries

In the third quarter of 2010, we reported a net loss of \$1.3 million (\$0.06 per share). We recorded a \$1.6 million tax benefit and the noncontrolling interests reported a loss of \$764,000.

We reported a net loss of \$1.8 million (\$0.08 per share) for the third quarter of 2009 after a \$5 million tax benefit. During the three months ended September 30, 2009, the noncontrolling interests reported a loss of \$832,000.

Our effective tax rate for the third quarter of 2010 was 44% compared to the federal corporate income tax rate of 35% primarily due to tax expense we recorded for foreign taxes and non-deductible compensation expense.

Our most significant subsidiary that is not wholly-owned is Fish Springs Ranch, LLC (“Fish Springs”). Most of the losses attributable to the noncontrolling interests in our subsidiaries relate to our 49% partner’s share of the financing cost charged to Fish Springs by our wholly-owned subsidiary, Vidler, on the expenditures incurred to develop our water resources at Fish Springs Ranch.

## First Nine Months Net Loss

Our net loss before income taxes and noncontrolling interests decreased by \$29.6 million in the first nine months of 2010 compared to the first nine months of 2009 due in part to costs and expenses that we recorded during the first nine months of 2009 but not present in 2010 and an increase in net realized investment gains in 2010. During the first nine months of 2009, we recorded an impairment charge of \$12.4 million on our water assets in the Tule Desert Groundwater Basin in Lincoln County, Nevada. There was no similar charge in 2010. During 2010, we recorded \$10 million in net realized gains on debt and equity securities and minimal other than temporary impairment charges on securities compared to \$18.2 million in other than temporary impairment charges offset by \$5.1 million in net realized gains during 2009, creating a favorable change of \$23.1 million from the first nine months 2009.

## First Nine Months Revenues

Our revenues during the first nine months of 2010 were \$20.9 million compared to net charges of \$361,000 in 2009, an increase of \$21.3 million year-over-year. This increase is due principally to a \$23.1 million favorable change in net realized investment gain or loss on the sale or impairment of securities in investments held in our insurance company and deferred compensation portfolios.

## First Nine Months Costs and Expenses

Our costs and expenses during the first nine months were \$33.5 million in 2010 compared to \$44.2 million in 2009, a year-over-year decrease of \$10.7 million. This decrease is due primarily to an impairment charge of \$12.4 million related to our Tule Desert water assets in 2009 with no corresponding charge during the first nine months 2010.

## First Nine Months Income Taxes and Noncontrolling Interest in Subsidiaries

We reported a net loss of \$7.9 million (\$0.35 per share) for the first nine months of 2010. Our income tax benefit of \$4.8 million represents a 32% effective tax rate compared to the federal corporate income tax rate of 35% primarily due to tax expense recorded for foreign taxes and non-deductible compensation expense. The noncontrolling interest reported a loss of \$2.3 million for the nine months ended September 30, 2010.

We reported a net loss of \$22.7 million (\$1.11 per share) for the first nine months of 2009 and an \$18.9 million tax benefit, which represents a 42% effective tax rate for the period due primarily to reversal of interest expense and penalties on uncertain tax positions. The noncontrolling interest reported a loss of \$3 million during the 2009 period.

## WATER RESOURCE AND WATER STORAGE OPERATIONS

| Thousands of dollars                 | Three Months Ended |            | Nine Months Ended |              |
|--------------------------------------|--------------------|------------|-------------------|--------------|
|                                      | September 30,      |            | September 30,     |              |
|                                      | 2010               | 2009       | 2010              | 2009         |
| <b>Revenues:</b>                     |                    |            |                   |              |
| Sale of real estate and water assets | \$ 17              | \$ 16      | \$ 1,245          | \$ 3,197     |
| Net investment income                | 151                | 173        | 538               | 215          |
| Other                                | 207                | 201        | 716               | 563          |
| <b>Total revenues</b>                | <b>375</b>         | <b>390</b> | <b>2,499</b>      | <b>3,975</b> |
| <b>Costs and expenses:</b>           |                    |            |                   |              |
| Cost of real estate and water assets | (4)                | (4)        | (724)             | (224)        |



|   |            |            |            |             |
|---|------------|------------|------------|-------------|
| Impairment of water assets                            |            |            |            | (12,378)    |
| Depreciation and amortization                         | (301)      | (273)      | (857)      | (808)       |
| Overhead  | (916)      | (675)      | (2,509)    | (2,227)     |
| Project expenses                                      | (1,885)    | (1,569)    | (5,031)    | (3,265)     |
| Total costs and expenses                              | (3,106)    | (2,521)    | (9,121)    | (18,902)    |
| Loss before income taxes and noncontrolling interests | \$ (2,731) | \$ (2,131) | \$ (6,622) | \$ (14,927) |

Our Water Resource and Water Storage operations are conducted through Vidler and its subsidiaries. Over the past few years, several large sales of real estate and water assets have generated the majority of Vidler's revenues. Since the date of closing generally determines the accounting period in which revenues and cost of sales are recorded, Vidler's reported revenues and income fluctuate from quarter to quarter depending on the dates when specific transactions close. Consequently, sales of real estate and water assets for any individual quarter are not indicative of likely revenues for future quarters or the full financial year.

#### Segment Assets

During the nine months ended September 30, 2010, segment assets increased \$25.8 million primarily due to the \$15.8 million acquisition of a single-purpose limited liability company, Active Resource Management, LLC ("ARM"), whose primary asset is approximately 126,000 acre-feet of stored water.

#### Segment Revenues

In the third quarter and first nine months of 2010, Vidler generated total revenues of \$375,000 and \$2.5 million respectively. There were no significant sales of real estate and water assets in the third quarter 2010 and the most significant transaction in the first nine months of 2010 arose from the sale of approximately 149 acre-feet of water rights in Kane Springs, Lincoln County, Nevada which generated revenues of \$1.2 million. In the third quarter and first nine months of 2009, Vidler generated total revenues of \$390,000 and \$4 million respectively. In the first nine months of 2009, the revenue was primarily from the sale of our entire inventory of water in California (10,252 acre-feet) for \$300 per acre-foot which contributed \$3.1 million to segment revenues. Other revenues and net investment income for all the periods presented in 2010 and 2009 consist largely of lease income from our ranch and farm properties and interest from the financing of certain water asset sales.

### Tule Desert Groundwater Basin and Impairment of Water Assets in 2009

Lincoln/Vidler jointly filed a permit application in 1998 for 14,000 acre-feet of water rights for industrial use from the Tule Desert Groundwater Basin in Lincoln County, Nevada. In November 2002, the Nevada State Engineer awarded Lincoln/Vidler a permit for 2,100 acre-feet of water rights, which Lincoln/Vidler subsequently sold in 2005, and ruled that an additional 7,240 acre-feet could be granted pending additional studies by Lincoln/Vidler (the “2002 Ruling”). Subsequent to the 2002 Ruling and consistent with the Nevada State Engineer’s conditions, Vidler subsequently performed these additional engineering and scientific studies.

During 2008, Lincoln/Vidler submitted comprehensive and substantial evidence to the Nevada State Engineer to support its permit applications as required by the 2002 Ruling. On April 29, 2009, the Nevada State Engineer issued a ruling with respect to such applications (the “2009 Ruling”). In the 2009 Ruling, the Nevada State Engineer determined that the perennial yield of the groundwater recharge in the Tule Desert Groundwater Basin is likely in the range of 2,500 to 5,000 acre-feet per annum. The Nevada State Engineer further concluded that it would permit the appropriation of only one-half of the upper end of that range, or 2,500 acre-feet. Since 2,100 acre-feet had already been appropriated to and permitted to Lincoln/Vidler under the 2002 Ruling, the Nevada State Engineer found that only 396 acre-feet of unappropriated water remained in the Tule Desert Groundwater Basin. Accordingly, the 2009 Ruling granted Lincoln/Vidler 396 acre-feet of additional permitted water rights, instead of the applied for 7,240 acre-feet of water rights.

As of December 31, 2008, our carrying value for the applications for the additional 7,240 acre-feet was \$16.4 million, which primarily represented the data collection, drilling and monitoring costs and expenses incurred to collect, interpret and submit the groundwater data to the Nevada State Engineer. Under agreements in place with developers at the time of ruling, Vidler would only record approximately \$4 million of revenue from the 396 acre-feet of water rights granted in the 2009 Ruling. As such, the carrying value of the 396 acre-feet we had been awarded was written down to this estimated recoverable value, and we recorded a loss on impairment of approximately \$12.4 million, before any related tax effects, in the first nine months of 2009. We did not have any similar charges in the first nine months of 2010.

### Settlement of the Tule Desert Groundwater Basin Litigation

On May 27, 2009, Lincoln/Vidler filed an appeal of the 2009 Ruling in Nevada District Court, as well as in U.S. federal court.

On April 15, 2010, Lincoln/Vidler and the Nevada State Engineer announced that they had concluded a Settlement Agreement with respect to the entire litigation between the parties. The Settlement Agreement resulted in the granting to Lincoln/Vidler of the original Lincoln/Vidler Application of 7,240 acre-feet of water rights with an initial 2,900 acre-feet of water rights available for immediate use by Lincoln/Vidler and the balance of the water rights (4,340 acre-feet) is the subject of staged pumping and development over the next several years. The staged pumping development under the Settlement Agreement requires the continuing collection of recharge data and pumping data over the next several years by Lincoln/Vidler to further refine the modeling of the basin and potential impacts, if any, from deep aquifer pumping in the remote, unpopulated desert valley in Lincoln County, Nevada.

The Tule Desert Groundwater Basin water resources are being developed by Lincoln/Vidler to support the Lincoln County Recreation, Conservation and Development Act of 2004 (the “Land Act”) and the proposed Toquop Power generation project, a 700 megawatt gas fired power generation facility and a 100 megawatt photovoltaic solar power generation site, all located in southern Lincoln County. The water permitted under the Settlement Agreement is anticipated to provide sufficient water resources to support the development of the Toquop Power generation project

and a portion of Land Act properties.

The Settlement Agreement results in Lincoln/Vidler obtaining up to an additional 6,844 acre-feet of permitted water rights in the Tule Desert Groundwater Basin. However, our carrying value of approximately \$4 million as of September 30, 2010, for the 396 acre-feet of water rights previously awarded will not change as a result of being awarded these additional permitted water rights under the Settlement Agreement.

## Other Expenses

Overhead expenses consist of costs which are not related to the development of specific water resources, such as salaries and benefits, rent, and audit fees. Overhead expenses of \$916,000 in the third quarter of 2010 were \$241,000 higher compared to overhead expenses in the third quarter of 2009 of \$675,000. In addition, overhead expenses in the first nine months of 2010 of \$2.5 million were \$300,000 higher compared to the overhead expenses in the first nine months of 2009 of \$2.2 million.

Project expenses consist of costs related to the development of existing water resources, such as operating and maintenance costs and professional fees. Project expenses fluctuate from period to period depending on activity with Vidler's various water resource projects. Costs related to the development of water resources which meet the criteria to be recorded as an asset in our financial statements are capitalized and charged to cost of sales in the period that revenue is recognized. Project expenses principally relate to:

- the operation and maintenance of the Vidler Arizona Recharge Facility;
- the development of water rights in the Tule Desert groundwater basin (part of the Lincoln County agreement);
- the utilization of water rights at Fish Springs Ranch as a future municipal water supply for the north valleys of the Reno, Nevada area;
- the operation of our farm properties in Idaho and maintenance of the associated water rights; and
- the exploration and drilling costs of Vidler's water resource development project in New Mexico.

Project expenses were \$1.9 million in the third quarter of 2010, compared to \$1.6 million in the third quarter of 2009 and \$5 million in the first nine months of 2010, compared to \$3.3 million in the first nine months of 2009. The first nine months year-over-year increase of \$1.7 million is largely due to increased legal costs with respect to the Tule Desert litigation and a significant increase in engineering and consulting expenses for the exploration phase of our water resource development project in New Mexico. Upon the complete resolution of the Tule Desert litigation as noted above, we do not expect to incur further legal costs in the future with respect to this matter.

## Segment Results of Operations

Despite a larger gross margin of \$2.5 million on the sale of water assets in the first nine months of 2009 compared to the corresponding period in 2010, the segment's first nine months year-over-year loss before income taxes and noncontrolling interests decreased by \$8.3 million. This was due largely to the impairment charge of \$12.4 million on Vidler's Tule Desert water asset recorded in the first nine months of 2009, as noted above, with no similar charge in the corresponding period of 2010 and partially offset by an increase of \$1.7 million of water resource exploration project costs in the first nine months of 2010 compared to 2009.

### REAL ESTATE OPERATIONS

| Thousands of dollars              | Three Months Ended |       | Nine Months Ended |        |
|-----------------------------------|--------------------|-------|-------------------|--------|
|                                   | September 30,      |       | September 30,     |        |
|                                   | 2010               | 2009  | 2010              | 2009   |
| <b>Revenues:</b>                  |                    |       |                   |        |
| Sale of real estate – Nevada Land | \$ 34              | \$ 45 | \$ 112            | \$ 430 |
| Sale of real estate UCP           |                    | 475   | 2,434             | 2,177  |
| Net investment income             | 192                | 210   | 536               | 764    |
| Lease income & other              | 385                | 196   | 1,254             | 532    |
| Total revenues                    | 611                | 926   | 4,336             | 3,903  |

## Costs and expenses:

|   |         |          |          |            |
|---|---------|----------|----------|------------|
| Cost of real estate – Nevada Land                     |         | (11)     | (7)      | (131)      |
| Cost of real estate - UCP                             |         | (292)    | (1,722)  | (1,452)    |
| Operating expenses                                    | (1,403) | (1,335)  | (5,069)  | (5,103)    |
| Total costs and expenses                              | (1,403) | (1,638)  | (6,798)  | (6,686)    |
| Loss before income taxes and noncontrolling interests | ( )     | \$ (792) | \$ (712) | \$ (2,462) |
|   |         |          |          | \$ (2,783) |

Currently our businesses in the Real Estate Operations segment are largely conducted through Nevada Land and its operations in Nevada and UCP and its operations in California.

Both Nevada Land and UCP recognize revenue from real estate sales when a sale transaction closes. At closing, the entire sales price is recorded as revenue, and the associated cost basis is reported as cost of real estate sold. Since the date of closing determines the accounting period in which the revenue and cost of sales are recorded, our reported results fluctuate from quarter to quarter, depending on the dates when transactions close. Consequently, results for any one quarter are not necessarily indicative of likely results for future quarters or the full financial year. For purposes of this section, gross margin is defined as revenue less cost of real estate sold, and gross margin percentage is defined as gross margin divided by revenue.

#### Segment Assets

UCP continues to purchase and develop finished and partially-entitled residential lots in select California markets. As of September 30, 2010, UCP owns or controls a total of 459 finished lots and 4,205 potential lots in various stages of entitlement. The finished and entitled lots are primarily located in and around the Central Valley and in the Central Coast areas of California. As of September 30, 2010, we have expended capital of approximately \$95.6 million for the acquisition and development to date of these lots. Approximately \$20.6 million of this capital has been financed by non-recourse, project specific debt.

#### Segment Revenues

In the third quarter of 2010, segment total revenues were \$611,000. UCP did not have any sales in the third quarter of 2010. Nevada Land generated \$385,000 from lease and royalty income in the third quarter of 2010 as well as net investment income of \$192,000 primarily consisting of interest earned on land sales contracts where Nevada Land has provided vendor financing.

In the first nine months of 2010, segment revenues were \$4.3 million. UCP contributed revenues of \$2.4 million in the period from the sale of two model homes, six partially finished homes and one finished lot. The sale of these properties generated a gross margin of approximately 29%. Nevada Land generated \$1.3 million from lease and royalty income in the first nine months of 2010 as well as net investment income of \$536,000 primarily consisting of interest earned on land sales contracts where Nevada Land has provided vendor financing.

In the third quarter and first nine months of 2009, UCP sold five and 37 finished lots, respectively, from two separate developments in and around the Fresno metropolitan area. These sales generated segment revenues in the third quarter and first nine months of 2009 of \$475,000 and \$2.2 million, respectively, and contributed a gross margin of \$183,000 (38.5%) and \$725,000 (33.3%) in those same periods.

In the first nine months of 2009, segment total revenues were \$3.9 million. As noted above, UCP generated sales revenue of \$2.2 million and a gross margin of \$725,000 (33.3%) in this period. Nevada Land sold approximately 3,319 acres of real estate for \$430,000. The average sales price was \$129 per acre, and our average basis in the land sold was \$39.5 per acre. The gross margin on the land sales in Nevada was \$299,000 (69.5%).

#### Segment Results of Operations

The third quarter segment loss was largely unchanged year over year from a loss of \$712,000 in the third quarter of 2009 to a loss of \$792,000 in the third quarter of 2010. However, the year-over-year increase in the net loss of \$80,000 is due primarily to a combination of the following factors:

- a decrease in the gross margin generated by the sale of land and homes at UCP of \$183,000;
- an increase in lease and royalty income generated by Nevada Land of \$189,000; and
- an increase in operating expenses of \$68,000.

The first nine months segment loss decreased from a loss of \$2.8 million in the first nine months of 2009 to a loss of \$2.5 million in the first nine months of 2010. However, the year-over-year decrease in the net loss of \$321,000 is due primarily to a combination of the following factors:

- a decrease in the gross margin generated by land sales at Nevada Land of \$194,000; and
- an increase in lease and royalty income generated by Nevada Land of \$722,000.

Operating expenses of \$5.1 million in the first nine months of 2010 were unchanged from \$5.1 million incurred in the first nine months of 2009. However, the first nine months of 2009 included an expense of \$807,000 for the write-off of a note receivable with no similar charge in the corresponding period of 2010. The resulting increase in the remaining operating expenses for the first nine months of 2010 compared to the corresponding period in 2009 is primarily due to the increased activity at UCP, including interest expense on non-recourse notes payable that UCP has assumed on certain development properties.

## CORPORATE

| Thousands of dollars  | Three Months Ended |                   | Nine Months Ended  |                    |
|---|--------------------|-------------------|--------------------|--------------------|
|   | September 30,      |                   | September 30,      |                    |
|   | 2010               | 2009              | 2010               | 2009               |
| <b>Revenues:</b>  |                    |                   |                    |                    |
| Net realized gain (loss) on sale or impairment of investments | \$ 824             | \$ (1,872)        | \$ 2,219           | \$ (6,662)         |
| Net investment income   | 650                | 588               | 1,796              | 1,366              |
| Other   | 23                 | 573               | 105                | 1,289              |
| <b>Total revenues (charges)</b>                               | <b>1,497</b>       | <b>(711)</b>      | <b>4,120</b>       | <b>(4,007)</b>     |
| <b>Costs and expenses:</b>                                    |                    |                   |                    |                    |
| Stock appreciation rights expense                             | (182)              | (997)             | (728)              | (2,991)            |
| Restricted stock units expense                                | (1,108)            | (494)             | (2,973)            | (1,152)            |
| Foreign exchange gain (loss)                                  | 2,939              | 1,456             | 1,765              | (252)              |
| Other   | (6,812)            | (4,075)           | (13,681)           | (12,650)           |
| <b>Total costs and expenses</b>                               | <b>(5,163)</b>     | <b>(4,110)</b>    | <b>(15,617)</b>    | <b>(17,045)</b>    |
| Equity in loss of unconsolidated affiliate                    | (942)              |                   | (2,413)            |                    |
| <b>Loss before income taxes and noncontrolling interests</b>  | <b>\$ (4,608)</b>  | <b>\$ (4,821)</b> | <b>\$ (13,910)</b> | <b>\$ (21,052)</b> |

This segment substantially consists of cash and fixed-income securities, a 37% interest in spigit, Inc. (“spigit”), and other parent company assets and liabilities. Typically, we invest a portion of our liquid funds in high quality fixed-income securities to generate higher interest income than is available from money market funds, which currently yield only negligible returns.

This segment also contains the deferred compensation assets held in trust for the benefit of certain officers and non-employee directors, as well as the corresponding and offsetting deferred compensation liabilities. See “Deferred Compensation” below.

Revenues in this segment vary considerably from period to period, primarily due to fluctuations in net realized gains or losses on the sale or impairment of securities. At September 30, 2010, substantially all of the publicly-traded equity securities held in this segment are stocks held in deferred compensation investment portfolios.

The expenses recorded in this segment primarily consist of parent company costs which are not allocated to our other segments, such as rent for our head office, any stock-based compensation cost, and deferred compensation expense. In any one period, corporate segment expenses can increase or decrease, due to one or more individually significant items which occur irregularly, such as the recording of stock-based compensation expense when awards are granted and vest, or which fluctuate from period to period, such as foreign currency expense or benefit. Consequently, corporate segment expenses are typically not directly comparable from year to year.

### Segment Revenues

In the third quarter of 2010, segment revenues were \$1.5 million, compared to segment charges of \$711,000 in the third quarter of 2009. The \$2.2 million year-over-year increase is principally due to a \$2.7 million favorable change in net realized gains. The \$824,000 net realized investment gain for the third quarter of 2010, principally resulted from realized gains on securities held in deferred compensation accounts which had been previously written down through provisions for other-than-temporary impairment. The \$1.9 million net realized investment loss in the third



quarter of 2009 essentially consisted of \$1.9 million in charges for other-than-temporary impairment of securities held in deferred compensation accounts.

In the first nine months of 2010, segment revenues were \$4.1 million, compared to segment charges of \$4 million in the first nine months of 2009. The \$8.1 million year-over-year improvement is principally due to an \$8.9 million favorable change in net realized investment gains year-over-year. The \$2.2 million net realized investment gain in the first nine months of 2010 principally resulted from realized gains on securities held in deferred compensation accounts. The \$6.7 million net realized investment loss in the nine months of 2009 primarily consisted of \$7.2 million in charges for other-than-temporary impairment of securities held in deferred compensation accounts, which were partially offset by \$528,000 in gains on the sale of securities held in deferred compensation accounts.

## Segment Expenses

Third quarter segment expenses increased by approximately \$1.1 million year over year, due to the net effect of a number of expense items. These included year over year increases of \$1.9 million in the expense component of deferred compensation, and \$614,000 in RSU expense. These expense increases were partially offset by a \$1.5 million higher foreign exchange gain in 2010 than in 2009, and an \$815,000 decrease in SAR expense year over year. See “Deferred Compensation”, “Stock-Based Compensation Expense” and “Foreign Exchange Gain or Loss” below.

Nine months expenses decreased by approximately \$1.4 million year-over-year, due to the net effect of a number of expense items. These included year over year expense decreases due to a \$2.3 million decrease in SAR expense, and a \$2 million higher foreign exchange gain in 2010 than in 2009. These expense decreases were partially offset by year over year increases of \$1.8 million in RSU expense, and \$1.3 million in the expense component of deferred compensation.

## Deferred Compensation

The deferred compensation assets held in trust for the benefit of certain officers and non-employee directors, as well as the corresponding and offsetting deferred compensation liabilities, are recorded in the Corporate segment.

The investment income and realized gains or losses from the deferred compensation assets are recorded as revenues in the period that they are earned, and a corresponding and offsetting cost or benefit is recorded as deferred compensation expense or recovery. The change in net unrealized appreciation or depreciation in the deferred compensation assets each period is not recorded in revenues, but it is charged to compensation expense or loss. Consequently, due to the expenses or recoveries of expenses recorded due to unrealized appreciation or depreciation, in any one period deferred compensation can have an effect on segment income or loss and income or loss before taxes and noncontrolling interests in the statement of operations. However, once the deferred compensation has been distributed, over the lifetime of the assets, the revenues and deferred compensation expense offset, and there is no net effect on segment income or loss and consolidated income or loss before taxes and noncontrolling interests.

Deferred compensation had the net effect of decreasing segment income before taxes and noncontrolling interests by \$2.4 million in the third quarter of 2010, and \$1.8 million in the first nine months of 2010. Segment revenues included revenues of \$1.5 million related to deferred compensation in the third quarter of 2010, and \$3.7 million in the first nine months of 2010. Segment expenses included a \$3.8 million expense related to deferred compensation in the third quarter of 2010, and a \$5.5 million expense in the first nine months of 2010.

In 2009, deferred compensation had the net effect of reducing segment income before taxes and noncontrolling interests by \$3.3 million in the third quarter, and \$9.6 million in the first nine months. Segment revenues included charges related to deferred compensation of \$1.4 million in the third quarter of 2009, and \$5.4 million in the first nine months of 2009. Segment expenses included a \$1.9 million expense related to deferred compensation in the third quarter of 2009, and a \$4.2 million expense in the first nine months of 2009.

## Stock-Based Compensation Expense

The Stock-Based Compensation Expense recognized in this segment principally consists of costs related to Stock Appreciation Rights (“SAR”) and Restricted Stock Units (“RSU”).

## SAR

The SAR expense is from grants during 2007 which vested over three years, and have now either fully vested or expired worthless. The SAR expense for the 2007 grants was calculated based on the estimated fair value of the vested SAR as of the award date. The expense related to the 2007 SAR grant has now been fully recorded.

At September 30, 2010, the closing PICO stock price was \$29.77, which is less than the exercise price of the SAR granted in 2007.

#### RSU

On March 3, 2009, the Compensation Committee granted 300,000 RSU to five of the Company's officers. The RSU awards vest on March 3, 2012. Compensation expense for the RSU grant will be recorded over the three year vesting period. The RSU expense is calculated based on the estimated fair value of the RSU as of the award date, being \$5.9 million, based on the closing sale price of PICO common stock on March 3, 2009 (\$19.75).

RSU expense of \$1.1 million was recorded in the third quarter of 2010, and \$3 million was recorded in the first nine months of 2010. One of the officers who had been granted RSU left the Company during the second quarter of 2010, and a second officer left during the third quarter. In accordance with their employment arrangements, the RSU immediately vested, and the related RSU expense was recorded in the second and third quarters, respectively, and first nine months of 2010.

In 2009, RSU expense was \$494,000 in the third quarter, and \$1.2 million for the first nine months.

As of September 30, 2010, there are 140,000 RSU outstanding. We expect to record the remainder of the \$1.3 million in compensation expense related to the RSU granted in 2009 over the period until the RSU vest in March 2012.

Subsequent to September 30, 2010, the Company granted an additional 454,000 RSU to various members of management. The awards do not vest until October 2014. The fair value of the awards is \$13.9 million, which is expected to be recorded as an expense ratably over the vesting period.

#### Foreign Exchange Gain or Loss

#### Inter-company Loan

PICO European Holdings, LLC (“PICO European”) holds a portfolio of interests in Swiss public companies. PICO European is a wholly-owned subsidiary of Physicians Insurance Company of Ohio, and forms part of the Insurance Operations in “Run Off” segment.

Part of PICO European’s funding comes from a loan from PICO Holdings, Inc. (“PICO Holdings”), which is denominated in Swiss Francs. Since the U.S. dollar is the functional currency for our financial reporting, under U.S. GAAP we are required to record a benefit or expense through the statement of operations to reflect fluctuation in the exchange rate between the Swiss Franc and the U.S. dollar affecting the amount of the loan. We record an offsetting amount within other comprehensive income, and, as a result, there is no net impact on consolidated shareholders’ equity.

During accounting periods when the U.S. dollar appreciates relative to the Swiss Franc, under U.S. GAAP we are required to record an expense through the statement of operations to reflect the fact that PICO European owes PICO Holdings fewer U.S. dollars.

Conversely, during accounting periods when the Swiss Franc appreciates relative to the U.S. dollar – such as the third quarters of 2009 and 2010, and the first nine months of 2009 and 2010 - we record a benefit through the statement of operations to reflect the fact that PICO European owes PICO Holdings more U.S. dollars.

Consequently, segment expenses were reduced by exchange rate gains related to the inter-company loan of \$3.1 million in the third quarter of 2010, \$1.7 million in the first nine months of 2010, \$1.5 million in the third quarter of 2009, and \$944,000 in the first nine months of 2009.

#### Equity In Unconsolidated Affiliate

From time to time, we make investments in venture capital-type situations, which can be reported in the Corporate segment. At September 30, 2010, the most significant such business was spigit, Inc. (“spigit”) a developer of social productivity software for enterprises, which has established a customer base including several companies in the Fortune 2000.

In October 2009, spigit received a \$10 million equity investment from a global private equity firm, which reduced our majority ownership of spigit to a 37% equity interest. Until October 2009, spigit was consolidated in our group financial statements. Now that spigit is no longer a consolidated subsidiary, our investment in spigit is now carried in our consolidated financial statements as an unconsolidated affiliate, under the equity method, as we believe that we exercise significant influence over the operating and financial policies of spigit.

Our equity share of spigit's losses was \$942,000 in the third quarter of 2010, and \$2.4 million in the first nine months of 2010.

## INSURANCE OPERATIONS IN “RUN OFF”

| Thousands of dollars  | Three Months Ended |              | Nine Months Ended |                   |
|---|--------------------|--------------|-------------------|-------------------|
|   | September 30,      |              | September 30,     |                   |
|   | 2010               | 2009         | 2010              | 2009              |
| <b>Revenues:</b>  |                    |              |                   |                   |
| Net investment income   | \$ 626             | \$ 471       | \$ 2,112          | \$ 2,103          |
| Net realized gain (loss) on sale or impairment of investments         | 4,379              | (137)        | 7,797             | (6,428)           |
| Other   | 9                  | 26           | 58                | 93                |
| <b>Total revenues (charges)</b>                                       | <b>5,014</b>       | <b>360</b>   | <b>9,967</b>      | <b>(4,232)</b>    |
| <b>Total costs and expenses</b>                                       | <b>(578)</b>       | <b>(325)</b> | <b>(1,915)</b>    | <b>(1,561)</b>    |
| <b>Income (loss) before income taxes and noncontrolling interests</b> | <b>\$ 4,436</b>    | <b>\$ 35</b> | <b>\$ 8,052</b>   | <b>\$ (5,793)</b> |

This segment consists of Physicians and Citation, whose operations are in “run off”. This means that Physicians and Citation are handling and resolving claims on expired policies, but not writing any new business.

Once an insurance company is in “run off” and the last of its policies have expired, typically most revenues come from net investment income (interest from fixed-income securities and dividends from stocks) earned on funds held as part of their insurance business. In addition, realized gains or losses arise from the sale or impairment of the securities held.

Revenues and results in this segment vary considerably from period to period and are not necessarily comparable from year to year, primarily due to fluctuations in net realized investment gains and losses, and development in our loss reserves.

#### Net Realized Investment Gain or Loss

The \$4.4 million net realized investment gain reported in the third quarter of 2010 substantially consisted of \$4.4 million in realized gains on the sale of various portfolio holdings.

For the first nine months of 2010, the \$7.8 million reported net realized investment gain primarily consisted of \$8 million in realized gains on the sale of various portfolio holdings, which were partially offset by \$201,000 in charges for other-than-temporary impairment of our holdings in various equities.

We regularly review any securities in which we have an unrealized loss. If we determine that the decline in market value is other-than-temporary, we record a charge to reduce the basis of the security from its original cost (or previously written-down value, if a provision for other-than-temporary impairment has been recorded in a previous accounting period) to current carrying value, which is typically the market price at the balance sheet date when the provision was recorded. The determination is based on various factors, primarily the extent and duration of the unrealized loss.

The \$137,000 net realized investment loss reported in the third quarter of 2009 primarily consisted of \$3.3 million in charges for other-than-temporary impairment of our holdings in various equities, which were partially offset by \$3.2 million in realized gains on the sale of various portfolio holdings.

For the first nine months of 2009, the \$6.4 million reported net realized investment loss primarily consisted of \$11 million in charges for other-than-temporary impairment of our holdings in various equities, which were partially offset by \$4.6 million in realized gains on the sale of various portfolio holdings.

Physicians Loss Reserves

PHYSICIANS INSURANCE COMPANY OF OHIO -- LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

| Thousands of dollars   | September 30,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| Direct Reserves for medical professional liability insurance | \$ 1,940              | \$ 2,338             |

During the first nine months of 2010, Physicians' reserves decreased by \$398,000, due to the payment of claims. There were no unusual trends in claims during the first nine months of 2010.

## Citation Loss Reserves

## CITATION INSURANCE COMPANY -- LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

| Thousands of dollars                         | September<br>30, 2010 | December<br>31, 2009 |
|--|-----------------------|----------------------|
| <b>Property &amp; Casualty Insurance</b>     |                       |                      |
| Direct Reserves                              | \$ 578                | \$ 624               |
| Ceded Reserves                               | (81)                  | (81)                 |
| Net property and casualty insurance reserves | 497                   | 543                  |
| <b>Workers' Compensation</b>                 |                       |                      |
| Direct Reserves                              | 19,962                | 21,213               |
| Ceded Reserves                               | (13,579)              | (14,446)             |
| Net workers' compensation insurance reserves | 6,383                 | 6,767                |
| Total net reserves                           | \$ 6,880              | \$ 7,310             |

During the first nine months of 2010, Citation's total net reserves decreased by \$430,000:

- Citation's net property and casualty insurance reserves declined by \$46,000 due to payment of claims; and
- Citation's net workers' compensation reserves declined by \$384,000 due to payment of claims. Direct reserves declined by \$1.3 million, which was partially offset by the recovery of \$867,000 from our reinsurers.

No unusual trends in claims were noted during the first nine months of 2010.

## LIQUIDITY AND CAPITAL RESOURCES—NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

## Cash Flow

Our assets primarily consist of our operating subsidiaries, cash and cash equivalents, fixed-income securities, and holdings in publicly-traded securities in our insurance company and deferred compensation investment portfolios. On a consolidated basis, we had \$111.3 million in cash and cash equivalents at September 30, 2010, compared to \$154.5 million at December 31, 2009. In addition to cash and cash equivalents, at September 30, 2010 the consolidated group held fixed-income securities with a market value of \$42.1 million, and publicly-traded equities with a market value of \$117.2 million.

The cash and cash equivalents, fixed-income securities, and publicly-traded equities held in each segment at September 30, 2010 are:

- the water resource and water storage operations segment holds cash of \$6.9 million;
- the real estate operations segment holds cash of \$2.5 million;
- the insurance operations in "run off" segment holds cash of \$12.6 million, fixed-income securities with a market value of \$16.2 million, and publicly-traded equities with a market value of \$106 million; and
- the corporate segment holds cash of \$81.4 million, fixed-income securities with a market value of \$8.6 million, and a publicly-traded equity with a market value of \$873,000. In addition, cash of \$7.9 million, fixed-income securities with a market value of \$17.3 million, and publicly-traded equities with



a market value of \$10.3 million are held in deferred compensation Rabbi Trusts within the corporate segment, which will be used to pay the related and offsetting deferred compensation liabilities.

Our liquid funds are principally held in the Federated Government Obligations Money Market Fund (ticker: GOIXX). Due to the nature of the underlying debt securities which this money market fund holds, we do not anticipate any loss of principal.

Our primary sources of funds include cash balances, cash flow from operations, the sale of holdings, and the proceeds of borrowings or offerings of equity and debt. Our cash flow position fluctuates depending on the requirements of our operating subsidiaries for capital, and activity in our insurance company investment portfolios. Apart from the cash balances held in the insurance operations in “run off” segment and in the deferred compensation Rabbi Trusts within the Corporate segment, the cash in the rest of the group is generally unrestricted and can be freely transferred, and allocated to any segment, depending on the cash resources and cash requirements of the companies within the segment.

In broad terms, the cash flow profile of our principal operating subsidiaries is:

- A significant portion of Vidler's revenues results from the one - time sale of strategic water assets. These assets are typically long-term water resource development projects to support growth for a particular community in the southwestern U.S. The timing and size of sales and cash flows depend on a number of factors that are difficult to project and provide no basis of comparison from one period to another. Vidler generates free cash flow when receipts from the sale of real estate and water assets exceed maintenance capital expenditure, development costs, financing costs, and operating expenses. In the interim, Vidler finances its exploration and development costs from existing cash resources;
- Although UCP made some initial sales of lots during 2009 and the first nine months of 2010, we are still acquiring finished and partially-developed residential lots in select California markets if such projects meet our risk/reward criteria. We do not expect UCP to be cash flow-positive until 2012 or 2013, by which time sales proceeds should exceed development costs and overhead. As of September 30, 2010, we anticipate that UCP will require approximately \$15 million of net funding over the next 12 to 18 months, for development costs and overhead on existing projects;
- During the third quarter of 2010, we entered into definitive agreements to build and operate a canola processing plant with an integrated refinery near Hallock, Minnesota. The plant is expected to be operational by the end of 2012. The total cost of the facility is estimated at \$168 million. PICO Holdings will contribute approximately \$60 million of cash for an 88% ownership interest. Closing of the transaction is subject to the completion of a non-recourse, senior secured construction loan facility of approximately \$100 million. If closing occurs during the fourth quarter of 2010, we anticipate that PICO's equity will be drawn down to finance construction over the first six months of 2011;
- Nevada Land is actively selling real estate which has reached its highest and best use. Nevada Land's principal sources of cash flow are the proceeds of cash real estate sales, lease income, royalties, and collections of principal and interest on sales contracts where Nevada Land has provided vendor financing. These receipts and other revenues exceed Nevada Land's operating and development costs, so Nevada Land is generating positive cash flow. Over the 13 years since we acquired the company, Nevada Land has accumulated a significant cash balance from the sale of real estate, and other income, net of expenses. During the third quarter of 2010, Nevada Land made a distribution of \$49.5 million to the corporate segment, which is now available for general corporate purposes or allocation to any segment; and
- Investment income more than covers the operating expenses of the "run off" insurance companies, Physicians and Citation. The funds to pay claims come from the maturity of fixed-income securities, the realization of fixed-income investments and stocks held in their investment portfolios, and recoveries from reinsurance companies.

The Departments of Insurance in Ohio and California prescribe minimum levels of capital and surplus for insurance companies, set guidelines for insurance company investments, and restrict the amount of profits which can be distributed as dividends.

Typically, our insurance subsidiaries structure the maturity of fixed-income securities to match the projected pattern of claims payments. When interest rates are at very low levels, the bond portfolios may have a shorter duration than the projected pattern of claims payments.

As shown in our condensed consolidated statements of cash flow, cash and cash equivalents decreased by \$43.2 million in the first nine months of 2010, compared to a \$64.3 million net increase in the first nine months of 2009.

During the first nine months of 2010, operating activities used \$56 million in cash. The principal operating cash outflow was \$43.8 million for real estate and water assets, which primarily reflected Vidler's purchase of water in storage in metropolitan Phoenix, Arizona area for \$15.8 million, and \$26.7 million expended by UCP to acquire and develop lots. Other operating cash outflows included project expenses at Vidler, and overhead expenses. The principal operating cash inflows were the sale of real estate and water assets by Vidler and lot sales by UCP, and investment income from the insurance operations in "run off" segment and from liquid funds held in the other segments.

Operating activities used \$24.3 million in cash in the first nine months of 2009. The principal operating cash inflows were a \$15.1 million refund from the Swiss tax authorities, and the cash proceeds of real estate and water assets sales by Vidler, UCP and Nevada Land, as well as payments on notes related to sales in previous periods. In addition, cash flow was provided by investment income from the insurance operations in "run off" segment and from liquid funds held in the other segments. Principal operating cash outflows include a net \$35 million to acquire and develop real estate and water assets for future development, which is classified as an operating cash flow, since we are in the business of acquiring and developing real estate and water assets with a view to possible re-sale at an appropriate time in the future. This includes the purchase of the East Garrison note discussed above, for \$22.6 million. Other principal operating cash flows include overhead expenses, and taxes. In addition, \$2.1 million was paid to two officers who took distribution of deferred compensation assets in accordance with pre-determined elections.

During the first nine months of 2010, investing activities provided \$16.6 million of cash. Proceeds from the maturity and call of bonds provided cash of \$26.6 million, and we purchased \$13.9 million of fixed-income securities, which principally represented the purchase of fixed-income securities in our insurance company portfolios and deferred compensation accounts. Proceeds from the sale of stocks provided cash of \$20.2 million, and we purchased \$15.4 million of new equities, which primarily represented activity in our insurance company portfolios.

Investing activities provided \$243,000 of cash in the first nine months of 2009. This principally reflected the temporary investment of \$13.5 million of the parent company's liquid funds in high quality fixed-income securities, and activity in our insurance company and deferred compensation investment portfolios. We generated \$16.6 million from the sale of stocks, and used \$4.6 million to buy new stocks. We received cash of \$3 million from the sale or maturity of bonds, and used \$14.6 million to buy new bonds.

During the first nine months of 2010, financing activities used \$2.6 million of cash, representing the repayment of borrowings on a farm property owned by Vidler.

Financing activities provided \$89.1 million of cash in the first nine months of 2009. This primarily represents the net proceeds of approximately \$95.7 million (after deducting approximately \$5.5 million in underwriting commission and offering expenses) from the June 2009 public offerings of PICO common stock. We also borrowed \$4.4 million under our Swiss Franc current account credit facility to purchase securities, and paid down the facility by \$8.4 million with the proceeds from the sale of securities. Vidler also repaid \$2.6 million in notes on ranch properties during the period.

We believe that our cash and cash equivalent balances, short-term investments, and cash flows are adequate to satisfy cash requirements for at least the next 12 months. In addition, we could issue debt or equity securities under our universal shelf registration statement discussed below.

Although we cannot accurately predict the effect of inflation on our operations, we do not believe that inflation has had a material impact on our net revenues or results of operations, or is likely to in the foreseeable future.

#### Universal Shelf Registration Statement

On December 3, 2007, the SEC declared a universal shelf registration statement effective for the periodic offering and sale of up to \$400 million of debt securities, common stock, and warrants, or any combination thereof, in one or more offerings, over a period of three years.

At the time of any such offering, we will establish the terms, including the pricing, and describe how the proceeds from the sale of any such securities will be used.

During 2009, we completed public offerings of PICO common stock of 3,055,556 shares on June 10, 2009, and 694,444 shares on June 15, 2009, each at a price of \$27 per share, under the universal shelf registration statement. The aggregate gross proceeds were approximately \$101.2 million.

#### Off-Balance Sheet Arrangements

As of September 30, 2010, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

#### Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our balance sheets include a significant amount of assets and liabilities whose fair value are subject to market risk. Market risk is the risk of loss arising from adverse changes in market interest rates or prices. We currently have interest rate risk as it relates to our fixed maturity securities, equity price risk as it relates to our marketable equity securities, and foreign currency risk as it relates to investments denominated in foreign currencies. Generally, our borrowings are short to medium term in nature and therefore approximate fair value. At September 30, 2010, we had \$42.1 million of fixed maturity securities, \$117.2 million of marketable equity securities that were subject to market risk, of which \$56.1 million were denominated in foreign currencies, primarily Swiss francs. Our investment strategy is to manage the duration of the portfolio relative to the duration of the liabilities while managing interest rate risk.

We use two models to report the sensitivity of our assets and liabilities subject to the above risks. For fixed maturity securities we use duration modeling to calculate changes in fair value. The model calculates the price of a fixed maturity assuming a theoretical 100 basis point increase in interest rates and compares that to the actual quoted price of the security. At September 30, 2010, the model calculated a loss in fair value of \$1 million. For our marketable equity securities, we use a hypothetical 20% decrease in the fair value to analyze the sensitivity of our market risk assets and liabilities. For investments denominated in foreign currencies, we use a hypothetical 20% decrease in the local currency of that investment. The actual results may differ from the hypothetical results assumed in this disclosure due to possible actions we may take to mitigate adverse changes in fair value and because the fair value of securities may be affected by credit concerns of the issuer, prepayment rates, liquidity, and other general market conditions. The hypothetical 20% decrease in fair value of our marketable equity securities would produce a loss in fair value of \$23.9 million that would impact the unrealized appreciation in shareholders' equity, before the related tax effect. The hypothetical 20% decrease in the local currency of our foreign denominated investments would produce a loss of \$7.2 million that would impact the foreign currency translation in shareholders' equity.

#### Item 4: Controls and Procedures

Under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report. There was no change in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended September 30, 2010, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

We commenced implementation of a new accounting system during the third quarter of 2010 that is scheduled to be completed in multiple phases through the third quarter of 2011. During each phase of the implementation, an appropriate level of employee training, testing of the system and monitoring of the financial results recorded in the system is conducted. This migration to a new system represents a material change in internal control over financial reporting. Accordingly, our system of internal control over financial reporting has been updated.

#### Changes in Internal Control Over Financial Reporting

Other than the foregoing, there have been no changes in our internal control over financial reporting that occurred in the quarterly period covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Part II: Other Information

##### Item 1: Legal Proceedings

The Company is subject to various litigation matters arising in the ordinary course of its business. Certain of our insurance subsidiaries are frequently a party in claims proceedings and actions regarding insurance coverage, all of which are considered routine and incidental to our business. Based upon information presently available, management is of the opinion that resolution of such litigation will not likely have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

Neither PICO nor its subsidiaries are parties to any potentially material pending legal proceedings other than the following.

##### Fish Springs Ranch, LLC:

The Company's settlement agreement with the Pyramid Lake Paiute Tribe of Indians relating to the exportation of water from the properties owned by Fish Springs Ranch, LLC is pending ratification by the United States Congress, which we anticipate will occur in 2010, however, we cannot be certain as to when the United States Congress will act on this matter. No material developments occurred relating to this dispute or the settlement agreement during the third quarter of 2010. For more information on this dispute, see "Item 3. Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

##### Item 1A: Risk Factors

None

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: (Removed and Reserved)

Item 5: Other Information

On August 13, 2010, the Company invested \$2,000,000 in exchange for a Company subsidiary, Raven Investment Holdings, Inc., being issued 273,229 shares of Series D Convertible Preferred Stock of Synthomics, Inc. Kenneth J. Slepicka, a director of the Company, is currently the Chairman, Chief Executive Officer and acting Chief Financial Officer of Synthomics, Inc.

## Item 6. Exhibits

| Exhibit Number | Description  |
|----------------|--|
| 3(i)           | Amended and Restated Articles of Incorporation of PICO. (1)  |
| 3(ii)          | Amended and Restated By-laws of PICO. (2)  |
| 4.1            | Form of Indenture relating to Debt Securities. (3)   |
| 10.1†          | Form of Restricted Stock Grant for Directors. (4)  |
| 31.1           | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2           | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1           | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).</u>                        |
| 32.2           | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).</u>                        |

† Indicates compensatory plan, contract or arrangement in which directors or executive officers may participate.

- (1) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 7, 2007.
- (2) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 19, 2009.
- (3) Incorporated by reference to the Form S-3 filed with Securities and Exchange Commission on November 20, 2007.
- (4) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 9, 2009.



PICO HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURE

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

PICO HOLDINGS, INC.

Date: November 5, 2010

By: /s/ Maxim C. W. Webb  
Maxim C. W. Webb  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer and  
Authorized Signatory)