PICO HOLDINGS INC /NEW
Form 10-K
March 02, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017
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)

Delaware	94-2723335
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

7979 Ivanhoe Avenue, Suite 300 La Jolla, California 92037

(Address of Principal Executive Offices, including Zip Code)
Registrant's Telephone Number, Including Area Code
(888) 389-3222
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $0.001	NASDAQ Stock Market LLC

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.
Yes ¨ No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
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 ý 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company, " and "Emerging Growth Company" in Rule 12b-2 of the Exchange Act (check one):
Large accelerated filer ¨Accelerated filer ý Non-accelerated filer ¨ Smaller reporting company ¨Non-accelerated filer ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At June 30, 2017, the aggregate market value of shares of the registrant’s common stock held by non-affiliates of the registrant (based upon the closing sale price of such shares on the NASDAQ Global Select Market on June 30, 2017) was $404.9 million, which excludes shares of common stock held in treasury and shares held by executive officers, directors, and stockholders whose ownership exceeds 10% of the registrant’s common stock outstanding at June 30, 2017. This calculation does not reflect a determination that such persons are deemed to be affiliates for any other purposes.

On February 16, 2018, the registrant had 23,152,027 shares of common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Definitive Proxy Statement to be filed with the United States Securities and Exchange Commission pursuant to Regulation 14A in connection with the registrant’s 2018 Annual Meeting of Shareholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Annual Report on Form 10-K.

ANNUAL REPORT ON FORM 10-K
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PART I

Note About “Forward-Looking Statements”

This Annual Report on Form 10-K (including “Management’s Discussion and Analysis of Financial Condition and Results of Operations”) contains “forward-looking statements,” as defined in the Private Securities Litigation Reform Act of 1995, 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”, “estima 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 Annual Report on Form 10-K.

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

ITEM 1. BUSINESS

Introduction

PICO Holdings, Inc. is a diversified holding company that was incorporated in 1981. In this Annual Report on Form 10-K, PICO and its subsidiaries are collectively referred to as “PICO,” the “Company,” or by words such as “we,” “us,” and “our.”

Our objective is to maximize long-term shareholder value. Currently, we believe the highest potential return to shareholders is from a return of capital. As we monetize assets, rather than reinvest the proceeds, we intend to return capital back to shareholders through a stock repurchase program or by other means such as special dividends.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and, if applicable, amendments to those reports, are made available free of charge on our web site (www.picoholdings.com) as soon as reasonably practicable after the reports are electronically filed or furnished with the SEC. Our website also contains other material about our Company. Information on our website is not incorporated by reference into this Annual Report on Form 10-K. Our corporate office is located at 7979 Ivanhoe Avenue, Suite 300, La Jolla, California 92037, and our telephone number is (888) 389-3222.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K. Additional information regarding the performance of and recent developments in our operating segments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

We are primarily focused on selling our existing water rights and storage credits that we own in Arizona, Colorado, Nevada and New Mexico. The long-term future demand for our existing water assets is driven by population and economic growth relative to currently available water supplies in the southwestern United States. We have developed sources of water for municipal and industrial use, either from existing supplies of water, such as water used for agricultural purposes, acquired unappropriated (previously unused) water, or discovered new water sources based on science and targeted exploration. We are not a water utility, and do not currently intend to enter into regulated utility activities.

A water right is the legal right to divert water and put it to beneficial use. Water rights are real property rights which can be bought and sold and are commonly measured in acre-feet (“AF”), which is a measure of the volume of water required to cover an area of one acre to a depth of one foot and is equal to 325,850 gallons. The value of a water right depends on a number of factors, which may include location, the seniority of the right, whether or not the right is transferable, or if the water can be moved from one location to another. We believe we have purchased water rights at prices consistent with their then current use, which was typically agricultural in nature, with the expectation that the value would increase as we converted the water rights through the development process to a higher use, such as municipal and industrial use. We acquired and developed water resources with the expectation that such water resources would be the most competitive source of water (the most economical source of water supply) to support new growth in municipalities or new commercial and industrial projects.

Over the past six years, the population growth of these states also exceeded the national growth rate collectively and individually, with the exception of New Mexico. According to the Census Bureau’s estimate of state population changes for the period April 1, 2010 to July 1, 2017, Nevada’s growth rate was 11.02%, Arizona 9.77%, Colorado 11.49%, and New Mexico 1.4%. These population growth statistics compare to the national total growth rate of 5.5% over the same period.

Historically, a significant portion of the Southwest’s water supplies have come from the Colorado River. The balance is provided by other surface rights, such as rivers and lakes, groundwater (water pumped from underground aquifers), and water previously stored in reservoirs or aquifers. Prolonged droughts (decreased snow pack runoff and the related decreased surface water) and rapid population growth in the past twenty years have exacerbated the region’s general water scarcity.

In December 2012, the U.S. Department of the Interior released a report titled: The Colorado River Basin Water Supply and Demand Study, examining the future water demands on the Colorado River Basin. The report projects water supply and demand imbalances throughout the Colorado River Basin and adjacent areas over the next 50 years. The average imbalance in future supply and demand is projected to be greater than 3.2 million acre-feet per year by 2060. The study projects that the largest increase in demand will come from municipal and industrial users as a result of population growth. The Colorado River Basin currently provides water to some 40 million people, and the study estimates that this number could nearly double to approximately 76.5 million people by 2060, under a rapid growth scenario.

Certain areas of the Southwest confronting long-term growth have insufficient known supplies of water to support their future economic and population growth. The inefficient allocation of available water between agricultural users and municipal or industrial users, the lack of available known water supplies in a particular location, or inadequate infrastructure to fully utilize or store existing and new water supplies provide opportunities for us to apply our water resource development expertise.

The development of our water assets required significant capital and expertise. A complete project, from acquisition, through development, permitting, and sale is typically a long-term endeavor. In the regions in which we operate, new housing, and commercial and industrial developments require an assured, or sustainable, water supply (for example, in Arizona, access to water supplies for at least 100 years is required) before a permit for the development will be issued.

We have acquired or developed water rights and water related assets in Arizona, Idaho, Nevada, Colorado, and New Mexico. We also developed and operated our own water storage facility near Phoenix, Arizona, utilize water storage capacity operated by third parties in Arizona, and “bank,” or store, water with municipalities in Nevada and New Mexico.

We have also entered into “teaming” and joint resource development arrangements with third parties who have water assets but lack the capital or expertise to commercially develop these assets. The first of these arrangements was a water delivery teaming agreement in southern Nevada with the Lincoln County Water District (“Lincoln/Vidler”), which is developing water resources in Lincoln County, Nevada. In northern Nevada, we have also entered into a joint development agreement with Carson City and Lyon County, Nevada to develop and provide water resources in Lyon County as well as a water banking agreement with Washoe County in Reno, Nevada.

We generate revenues by:

- selling our developed water rights to real estate developers, power generating facilities or other commercial and industrial users who must secure rights to an assured, or sustainable, supply of water in order to receive permits for their development projects;
- selling our developed water rights to water utilities, municipalities and other government agencies for their specific needs, including to support population growth;
- selling our stored water to state agencies, commercial developers or municipalities that have either exhausted their existing water supplies or require reserves for future water obligations, or, in instances where our water represents the most economical source of water, for their commercial projects or communities; and
- leasing our water, or land.

We owned the following significant water resource and water storage assets at December 31, 2017:

Fish Springs Ranch

We own a 51% membership interest in, and are the managing partner of, Fish Springs Ranch, LLC ("FSR"), which owns the Fish Springs Ranch and other properties totaling approximately 7,313 acres in Honey Lake Valley in Washoe County, approximately 40 miles north of Reno, Nevada. FSR also owns 12,984 acre-feet of permitted water rights related to the properties of which 7,984 acre-feet are designated as water credits, transferable to other areas within Washoe County (such as Reno and Sparks) to support community development. Although the additional 5,000 AF has been approved and permitted by the Nevada State Engineer, existing federal rights of way will need to be updated before such water is transferable. To date, we have funded all of the operational expenses, development, and construction costs incurred in this partnership. Certain of the development and construction costs are treated as preferred capital under the partnership agreement which among other things, entitles us to receive interest on the initial balance of the preferred capital and the accumulated interest at the London Inter-Bank Offered Rate ("LIBOR") plus 450 basis points. The preferred capital and accumulated interest is first in line to be paid out as the partnership generates sufficient revenue. At December 31, 2017 the balance in the preferred capital account including $75 million of accrued interest, was $169.6 million and the associated interest rate was 6.2%.

During 2006, we started construction of a pipeline and an electrical substation to provide the power required to pump the water to the north valleys region of Reno. In July 2008, we completed construction of and dedicated our pipeline and associated infrastructure to Washoe County, Nevada under the terms of an Infrastructure Dedication Agreement ("IDA") between Washoe County and FSR. Under the provisions of the IDA, Washoe County is responsible for the operation and maintenance of the pipeline and we own the exclusive right to the capacity of the pipeline to allow for the sale of water for future economic development in the north valley area of Reno. Our 7,984 acre-feet of water that has regulatory approval to be imported to the north valleys of Reno is available for sale under a Water Banking Agreement entered into between FSR and Washoe County. Under the Water Banking Agreement, Washoe County holds our water rights in trust. We can sell our water credits to developers, who must then dedicate the water to the local water utility for service. In December 2014, Washoe County Water Utilities merged with the Truckee Meadows Water Authority ("TMWA"), consolidating water supply service in Washoe County. Also effective at the end of 2014, FSR, Washoe County, and TMWA consented to the Assignment of the Water Banking Agreement and the IDA to the Truckee Meadows Water Authority.

Carson/Lyon

The capital of Nevada, Carson City, and Lyon County are located in the western part of the state, close to Lake Tahoe and the border with California. While Carson City's housing growth has been and is expected to be minimal due to land constraints, there is planned growth for the Dayton corridor, directly east of Carson City. The planned growth in this area is anticipated to be driven by the employment growth at the Tahoe Reno Industrial Center (“TRIC”) and the construction of the extension of the USA Parkway, completed in August 2017, which connects Interstate route 80 to TRIC and the extension connects Interstate route 80 and TRIC to U.S. route 50 near Silver Springs, Lyon County. There are currently few existing water sources to support future growth and development in the Dayton corridor area and we have worked with Carson City and Lyon County for several years on ways to deliver water to support this expected growth.

We have development and improvement agreements with both Carson City and Lyon County to provide water resources for planned future growth in Lyon County and to connect, or “intertie,” the municipal water systems of Carson City and Lyon County. The agreements allow for certain river water rights owned or controlled by us to be conveyed for use in Lyon County. The agreements also allow us to bank water with Lyon County and authorize us to build the infrastructure to upgrade and inter-connect the Carson City and Lyon County water systems.

We own or control water rights consisting of both Carson River agriculture designated water rights and certain municipal and industrial designated water rights. We anticipate that we will have up to 4,000 acre-feet available for municipal use in Lyon County for future development, if and when demand occurs, principally by means of delivery through the new infrastructure we constructed.

Vidler Arizona Recharge Facility

We built and received the necessary permits to operate a full-scale water “recharge” facility that allowed us to bank water underground in the Harquahala Valley, Arizona. “Recharge” is the process of placing water into storage underground. When needed, the water will be “recovered,” or removed from storage, by ground water wells. This stored water creates a long term storage credit (“LTSC”).

We hold recharged Colorado River water at this facility, which is a primary source of water for the Lower Basin States of Arizona, California, and Nevada. The water storage facility is strategically located adjacent to the Central Arizona Project (“CAP”) aqueduct, a conveyance canal running from Lake Havasu to Phoenix and Tucson. Our recharged water was purchased from surplus flows of CAP water. Proximity to the CAP provides a competitive advantage as it minimizes the cost of water conveyance of our LTSCs.

Potential users include industrial companies, power-generating companies, developers, and local governmental political subdivisions in Arizona, and out-of-state users such as municipalities and water agencies in Nevada and California. The Arizona Water Banking Authority (“AWBA”) has the responsibility for intrastate and interstate storage of water for governmental entities. To date, we have not stored water at the facility for any third party and there is no longer excess water which can be banked.

While Arizona was the only southwestern state with surplus flows of Colorado River water available for storage, there is little to no surplus flows available to us as drought conditions have reduced the flow of the Colorado River and other water users have fully utilized their water allocations. In the future, we do not anticipate purchasing and storing surplus flows of Colorado River water and we have discontinued using the recharge element of the storage site. At December 31, 2017, we had LTSCs of approximately 251,000 acre-feet of water in storage at the facility. To date, we have not generated any revenue from selling our stored water at this facility.

Phoenix AMA Water Storage

As of December 31, 2017, we owned approximately 54,000 acre-feet of LTSCs stored in the Arizona Active Management Area (“AMA”), approximately 44,000 acre-feet of which is in the Roosevelt Water Conservation District (“RWCD”). For the purposes of storing water, the RWCD is part of the Phoenix AMA, which corresponds to the Phoenix metropolitan area. Accordingly, water stored in the AMA may be recovered and used anywhere in the AMA and could have a variety of uses for commercial developments within the Phoenix metropolitan area. All of the storage sites we utilize within the AMA are operated by third parties.

Harquahala Valley Ground Water Basin

Any new residential development in Arizona must obtain a permit from the Arizona Department of Water Resources certifying a “designated assured water supply” sufficient to sustain the development for at least 100 years. Harquahala Valley groundwater meets the designation of assured water supply.

Under Arizona law, the property and water rights in the Harquahala Valley are located in one of three areas in the state from which groundwater may be withdrawn and transferred from a rural area to a metropolitan area. In July 1998, we were granted approval for the transportation of three acre-feet of groundwater per acre of previously irrigated ground, totaling 3,837 acre-feet of groundwater, from Harquahala Valley into the Phoenix-Scottsdale metropolitan area. During 2011, we were granted approval for 9,877 acre-feet of groundwater, which included the prior 3,837 acre-feet awarded.

At December 31, 2017, we own 1,926 acres of land and have the ability to utilize 6,040 acre-feet of groundwater for development within the Harquahala Basin. The Analysis of Adequate Water Supply for the 6,040 acre-feet must be renewed before December 2021 in order to maintain these rights.

In addition, the area in and around the Harquahala Valley appears to be a desirable area to site natural gas fired and solar power-generating plants. The site's proximity to energy transmission lines and the high solarity in the region are strengths of the location. The water assets we own in this region could potentially provide a water source for energy plants that might be constructed in this area.

Lincoln County, Nevada Water Delivery and Teaming Agreement

Lincoln/Vidler entered into a water delivery teaming agreement to locate and develop water resources in Lincoln County, Nevada for planned projects under the County's master plan. Under the agreement, proceeds from sales of water will be shared equally after Vidler is reimbursed for the expenses incurred in developing water resources in Lincoln County. Lincoln/Vidler has filed applications for more than 100,000 acre-feet of water rights with the intention of supplying water for residential, commercial, and industrial use, as contemplated by the county's approved master plan. We believe that this is the only known new source of water for Lincoln County. Although it is uncertain, Vidler currently anticipates that over the long-term, up to 40,000 acre-feet of water rights will ultimately be permitted from these applications, and put to use for planned projects in Lincoln County.

Tule Desert Groundwater Basin

Lincoln/Vidler jointly filed permit applications in 1998 for approximately 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, we completed these additional engineering and scientific studies.

On April 15, 2010, Lincoln/Vidler and the Nevada State Engineer announced that we entered into a Settlement Agreement with respect to litigation between the parties regarding the amount of water to be permitted in the Tule Desert Groundwater Basin. The Settlement Agreement resulted in the granting to Lincoln/Vidler of the original application of 7,240 acre-feet of water rights with an initial 2,900 acre-feet of water rights available for sale or lease by Lincoln/Vidler. The balance of the water rights (4,340 acre-feet) is the subject of staged pumping and development over the next several years 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 were developed by Lincoln/Vidler to support the Lincoln County Recreation, Conservation and Development Act of 2004 (the "Land Act") and Vidler's proposed Toquop Power generation project, as discussed below. The water permitted under the Settlement Agreement is anticipated to provide sufficient water resources to support any development of the Toquop Power generation project and a portion of Land Act properties.

Lincoln County Power Plant Project

We developed the Toquop Power project. We are finalizing the required studies and National Environmental Protection Act ("NEPA") permits for the project. We continue to engage in discussions with potential energy generation partners capable of building a power generation facility in Lincoln County. We own 100% of this power plant project, as it is not part of the Lincoln/Vidler teaming agreement.

Kane Springs

In 2005, Lincoln/Vidler agreed to sell water to a developer of Coyote Springs, a new planned residential and commercial development 60 miles north of Las Vegas, as and when supplies were permitted from Lincoln/Vidler's existing applications in Kane Springs, Nevada. Lincoln/Vidler currently has priority applications for approximately 17,375 acre-feet of water in Kane Springs for which the Nevada State Engineer has requested additional data before making a determination on the applications from this groundwater basin. The actual permits received may be for a lesser quantity, which cannot be accurately predicted.

Currently, we have an option agreement with a developer to sell our remaining 500 acre-feet of water rights we own in this area at a price of $6,358 per acre-foot that is escalated at 7.5% per year from September 2017. The agreement expires in September 2019 and requires an annual option fee of $60,000 to maintain the rights under the option. To date, the developer has made all required annual option payments.

The following table summarizes our other water rights and real estate assets at December 31, 2017:

Name and location of asset	Brief description	Present commercial use
Nevada:		
Truckee River Water Rights	Approximately 299 acre-feet of Truckee River water rights permitted for municipal use.	Water rights are available to support development through sale, lease, or partnering arrangements.
Dry Lake	Vidler owns 595 acres of agricultural and ranch land in Dry Lake Valley North. Lincoln/Vidler owns the 1,009 acre-feet of permitted agricultural groundwater rights associated with the land. Located in Lincoln County.	Water rights and land are available to support development through sale, lease, or partnering arrangements.
Muddy River	267 acre-feet of water rights. Located 35 miles east of Las Vegas.	Currently leased to farmers in the Muddy River Irrigation Company.
Dodge Flat	1,428 acre-feet of permitted municipal and industrial use water rights, and 1,068 acres of land. Located in Washoe County, east of Reno.	Water rights and land are currently under contract. In November 2014, we entered into an option agreement with a solar developer for the potential development of a solar power project of up to 180 megawatts.
Colorado:		
Tunnel	Approximately 155 acre-feet of water rights. Located in Summit County (the Colorado Rockies), near Breckenridge.	59 acre-feet of water leased under long term leases. 96 acre-feet are available for sale or lease.
New Mexico:		
Campbell Ranch	Application for a new appropriation of 350 acre-feet of ground water. Vidler is in partnership with the land owner. The water rights would be used for a new residential and commercial development.	In November 2014, our application was denied by the New Mexico State Engineer causing us to record an impairment loss of $3.5 million which reduced the capitalized costs and other assets of this project to zero. We appealed this decision on November 19, 2014.

	Located 25 miles east of Albuquerque.	
Lower Rio Grande Basin	Approximately 1,215 acre-feet of agricultural water rights. Located in Dona Ana and Sierra Counties.	Water is available for sale, lease or other partnering opportunities. In 2014, we entered into a long term lease for a portion of these water rights.
Middle Rio Grande Basin	Approximately 99 acre-feet of water rights permitted for municipal use. Located in Santa Fe and Bernalillo Counties.	Water is available for sale, lease, or other partnering opportunities.

We also own investments in small businesses which have typically been venture capital-type situations.The most significant at December 31, 2017 is Mindjet Inc. (“Mindjet”), which is a privately held company located in San Francisco, California that provides software to help business innovation. The investment is comprised of common and preferred stock and a convertible debt security. The investment is held at cost and included in investments in our consolidated financial statements while the outstanding loan balance is included in other assets. At December 31, 2017, we controlled 19.3% of the voting stock of the company and the carrying value of our total investment in Mindjet was $2.3 million, comprised of $1.3 million in preferred stock and a loan of $1 million.

It is reasonably possible given the volatile nature of the software industry that circumstances may change in the future which could require us to record impairment losses on our investments included in this segment.

Employees

At December 31, 2017, we had 21 employees.

Executive Officers

The executive officers of PICO are:

Name	Age	Position
Maxim C. W. Webb	56	President, Chief Executive Officer and Chairman of the Board
John T. Perri	48	Chief Financial Officer and Secretary

Mr. Webb has served as our President, Chief Executive Officer, and as a member of our board of directors since October 2016 and as Chairman of the Board of Directors since December 2016. Mr. Webb has been an officer of Vidler Water Company, Inc. since 2001. He has served in various capacities since joining our company in 2001, including Chief Financial Officer, Treasurer, Executive Vice President and Secretary from 2001 to October 2016 and as a director of UCP, Inc. from 2013 to 2017.

Mr. Perri has served as our Chief Financial Officer and Secretary since October 2016. He has served in various capacities since joining our company in 1998, including Vice President, Chief Accounting Officer from 2010 to October 2016, Financial Reporting Manager, Corporate Controller and Vice President, Controller from 2003 to 2010.

ITEM 1A. RISK FACTORS

The following information sets out factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Annual Report on Form 10-K and those we may make from time to time. You should carefully consider the following risks, together with other matters described in this Form 10-K or incorporated herein by reference in evaluating our business and prospects. If any of the following risks occurs, our business, financial condition or operating results could be harmed. In such case, the trading price of our securities could decline, in some cases significantly.

* General economic conditions could have a material adverse effect on our financial results, financial condition and the demand for and the fair value of our assets.

Our operations are sensitive to the general economic conditions of the local markets in which are assets are located although international, national, and regional economic conditions may also impact our markets. General poor economic conditions and the resulting effect of non-existent or slow rates of growth in the markets in which we operate could have a material adverse effect on the demand for our water assets. These poor economic conditions include higher unemployment, inflation, deflation, decreases in consumer demand, changes in buying patterns, a weakened dollar, higher consumer debt levels, higher interest rates, especially higher mortgage rates, and higher tax rates and other changes in tax laws or other economic factors that may affect commercial and residential real estate development.

Specifically, high national, regional, or local unemployment may arrest or delay any significant growth of the residential real estate markets in which we operate, which could adversely affect the demand for our water assets. Any prolonged lack of demand for our water assets could have a significant adverse effect on our revenues, results of operations, cash flows, and the return on our investment from these assets.

Our future revenue is uncertain and depends on a number of factors that may make our revenue, profitability, cash flows, and the fair value of our assets volatile.

Our future revenue and profitability related to our water resource and water storage operations will primarily be dependent on our ability to develop and sell or lease our water assets. In light of the fact that our water resource and water storage operations represent the majority of our overall business at present, our long-term profitability and the fair value of the assets related to our water resource and water storage operations could be affected by various factors, including the drought in the southwest, regulatory approvals and permits associated with such assets, transportation arrangements, and changing technology. We may also encounter unforeseen technical or other difficulties which could result in cost increases with respect to our water resource and water storage development projects. Moreover, our profitability and the fair value of the assets related to our water resource and water storage operations is significantly affected by changes in the market price of water. Future sales and prices of water may fluctuate widely as demand is affected by climatic, economic, demographic and technological factors as well as the relative strength of the residential, commercial, financial, and industrial real estate markets. Additionally, to the extent that we possess junior or conditional water rights, during extreme climatic conditions, such as periods of low flow or drought, our water rights could be subordinated to superior water rights holders. The factors described above are not within our control.

One or more of the above factors in one or more of our operating segments could impact our revenue and profitability, negatively affect our financial condition and cash flows, cause our results of operations to be volatile, and could negatively impact our rate of return on our water assets and cause us to divest such assets for less than our intended return on our investment.

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* A downturn in the homebuilding and land development sectors in our markets would materially adversely affect our business, results of operations, and the demand for and the fair value of our assets.

The homebuilding industry experienced a significant and sustained downturn in recent years having been impacted by factors that include, but are not limited to, weak general economic and employment growth, a lack of consumer confidence, large supplies of resale and foreclosed homes, a significant number of homeowners whose outstanding principal balance on their mortgage loan exceeds the market value of their home, and tight lending standards and practices for mortgage loans that limit consumers' ability to qualify for mortgage financing to purchase a home. These factors resulted in an industry-wide weakness in demand for new homes and caused a material adverse effect on the growth of the local economies and the homebuilding industry in the southwestern United States ("U.S.") markets where a substantial amount of our water assets are located, including the states of Nevada, Arizona, Colorado, and New Mexico. The continuation of the recent improvement in residential and commercial real estate development process and activity is essential for our ability to generate operating income in our water resource and water storage business. We are unable to predict whether and to what extent this recovery will continue or its timing. Any future slow-down in real estate and homebuilding activity could adversely impact various development projects within the markets in which our water assets are located and this could materially affect the demand for and the fair value of these assets and our ability to monetize these assets. Declines and weak conditions in the U.S. housing market have reduced our revenues and created losses in our water resource and water storage, and land development and homebuilding businesses in prior years and could do so in the future. Additionally, the recent tax law changes limiting, among other things, deductibility of mortgage interest and of state and local income taxes may have an impact on the national housing market and in the markets in which we operate, although the Nevada market may be less impacted due to the lack of a state income tax.

We may not be able to realize the anticipated value of our water assets in our projected time frame, if at all.

We expect that the current rate of growth of the economy will continue to have an impact on real estate market fundamentals. Depending on how markets perform both in the short and long-term, the state of the economy, both nationally and locally in the markets where our assets are concentrated, could result in a decline in the value of our existing water assets, or result in our having to retain such assets for longer than we initially expected, which would negatively impact our rate of return on our water assets, cause us to divest such assets for less than our intended return on investment, or cause us to incur impairments on the book values of such assets to estimated fair value. Such events would adversely impact our financial condition, results of operations and cash flows.

The fair values of our water assets are linked to growth factors concerning the local markets in which our assets are concentrated and may be impacted by broader economic issues.

Both the demand for, and fair value of, our water assets are significantly affected by the growth in population and the general state of the local economies where our real estate and water assets are located. The local economies where our real estate and water assets are located, primarily in Arizona and northern Nevada, but also in Colorado and New Mexico, may be affected by factors such as the local level of employment, the availability and cost of financing for real estate development transactions, and affordability of housing. The unemployment rate in these states, as well as issues related to the credit markets, may prolong a slowdown of the local economies where our real estate and water assets are located. This could materially and adversely affect the demand for, and the fair value of, our real estate and water assets and, consequently, adversely affect our growth and revenues, results of operations, cash flows and the return on our investment from these assets.

The fair values of our water assets may decrease which could adversely affect our results of operations with losses from asset impairments.

The fair value of our water resource and water storage assets depends on market conditions. We acquired water resources and land for expansion into new markets and for replacement of inventory and expansion within our current markets. The valuation of real estate and water assets is inherently subjective and based on the individual characteristics of each asset. Factors such as changes in regulatory requirements and applicable laws, political conditions, the condition of financial markets, local and national economic conditions, change in efficiencies of water use, the financial condition of customers, potentially adverse tax consequences, and interest and inflation rate fluctuations subject valuations to uncertainties. In addition, our valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. If population growth and, as a result, water and/or housing demand in our markets fails to meet our expectations when we acquired our real estate and water assets, our profitability may be adversely affected and we may not be able to recover our costs when we sell our real estate and water assets. We regularly review the value of our water assets. These reviews have resulted in recording significant impairment losses in prior years to our water resource assets. Such impairments have adversely affected our results of operations and our financial condition in those years.

If future market conditions adversely impact the anticipated timing of and amount of sales of our water assets we may be required to record further significant impairments to the carrying value of our water assets, which would adversely affect our results of operations and our financial condition.

* The majority of our remaining assets and operations consist of our existing water resource and water storage operations that are concentrated in a limited number of assets and markets, making our cash flows, profitability and the fair value of those assets difficult to predict and vulnerable to conditions and fluctuations in a limited number of local economies.

We anticipate that a significant amount of our water resource and water storage revenue, results of operations and cash flows will come from a limited number of assets, which primarily consist of our water rights in Nevada and our water storage operations in Arizona. Our two most significant assets are our water storage operations in Arizona and our water rights to serve the north valleys area of Reno, Nevada. As a result of this concentration, we expect our invested capital and results of operations will be vulnerable to the conditions and fluctuations in these local economies, along with changes in local and regional government land use, zoning, permitting approvals and other regulatory action.

Our Arizona Recharge Facility is one of the few private sector water storage sites in Arizona. At December 31, 2017, we had approximately 251,000 acre-feet of water stored at the facility. In addition, we had approximately 53,800 acre-feet of water stored in the Phoenix Active Management Area at December 31, 2017. We have not stored any water on behalf of any customers and as of December 31, 2017, had not generated any material revenue from the recharge facility. We cannot be certain that we will ultimately be able to sell all of the stored water at a price sufficient to provide an adequate economic profit, if at all.

We constructed a pipeline approximately 35 miles long to deliver water from Fish Springs Ranch to the north valleys area of Reno, Nevada. As of December 31, 2017, the total cost of the pipeline project, including our water credits (net of impairment losses incurred to date) carried on our balance sheet was approximately $83.9 million. To date, we have sold only a small amount of the water credits and we cannot provide any assurance that the sales prices we may obtain in the future will provide an adequate economic return, if at all. Any prolonged weak demand or lack of permitting approvals for new homes, residential and commercial development, and, as a result, for our assets in Nevada and Arizona, would have a material adverse effect on our future revenues, results of operations, cash flows, and the return on our investment from those assets. Demand for these water credits is anticipated to primarily come from both local and national developers planning to construct new projects in the north valleys area of Reno, Nevada. The success of these projects is dependent on numerous factors beyond our control, including local government approvals, employment growth in the greater Reno area, and the ability of the developers to finance these projects.

We may suffer uninsured losses or suffer material losses in excess of insurance limits.

We could suffer physical damage to any of our assets at one or more of our different businesses and liabilities resulting in losses that may not be fully recoverable by insurance. In addition, certain types of risks, such as personal injury claims, may be, or may become in the future, either uninsurable or not economically insurable, or may not be currently or in the future covered by our insurance policies or otherwise be subject to significant deductibles or limits. Should an uninsured loss or a loss in excess of insured limits occur or be subject to deductibles, we could sustain financial loss or lose capital invested in the affected asset(s) as well as anticipated future income from that asset. In addition, we could be liable to repair damage or meet liabilities caused by risks that are uninsured or subject to deductibles.

We may not receive all of the permitted water rights we expect from the water rights applications we have filed in Nevada and New Mexico.

We have filed certain water rights applications in Nevada and New Mexico. In Nevada this is primarily as part of the water teaming agreement with Lincoln County. We deploy the capital required to enable the filed applications to be converted into permitted water rights over time as and when we deem appropriate or as otherwise required. We only expend capital in those areas where our initial investigations lead us to believe that we can obtain a sufficient volume of water to provide an adequate economic return on the capital employed in the project. These capital expenditures largely consist of drilling and engineering costs for water production, costs of monitoring wells, legal and consulting costs for hearings with the State Engineer, and other compliance costs. Until the State Engineer in the relevant state permits the water rights we are applying for, we cannot provide any assurance that we will be awarded all of the water that we expect based on the results of our drilling and our legal position and it may be a considerable period of time before we are able to ascertain the final volume of water rights, if any, that will be permitted by the State Engineers. Any significant reduction in the volume of water awarded to us from our original base expectation of the amount of water that may be permitted may result in the write down of capitalized costs which could adversely affect the return on our investment from those assets, our revenues, results of operations, and cash flows.

Variances in physical availability of water, along with environmental and legal restrictions and legal impediments, could impact profitability.

We value our water assets, in part, based upon the volume (as measured in acre-feet) of water we anticipate from water rights applications and our permitted water rights. The water and water rights held by us and the transferability of these rights to other uses, persons, and places of use are governed by the laws concerning water rights in the states of Arizona, Colorado, Nevada, and New Mexico. The volumes of water actually derived from the water rights applications or permitted rights may vary considerably based upon physical availability and may be further limited by applicable legal restrictions.

As a result, the volume of water anticipated from the water rights applications or permitted rights may not in every case represent a reliable, firm annual yield of water, but in some cases describe the face amount of the water right claims or management’s best estimate of such entitlement. Additionally, we may face legal restrictions on the sale or transfer of some of our water assets, which may affect their commercial value. If the volume of water yielded from our water rights applications is less than our expectations, or we are unable to transfer or sell our water assets, we may lose some or all of our anticipated returns, which may adversely affect our revenues, profitability and cash flows.

Purchasers of our real estate and water assets may default on their obligations to us and adversely affect our results of operations and cash flow.

In certain circumstances, we finance sales of real estate and water assets, and we secure such financing through deeds of trust on the property, which are only released once the financing has been fully paid off. Purchasers of our real estate and water assets may default on their financing obligations. Such defaults may have an adverse effect on our business, financial condition, and the results of operations and cash flows.

Our sale of water assets may be subject to environmental regulations which would impact our revenues, profitability, and cash flows.

The quality of the water assets we lease or sell may be subject to regulation by the United States Environmental Protection Agency acting pursuant to the United States Safe Drinking Water Act along with other federal, state and local regulations. While environmental regulations may not directly affect us, the regulations regarding the quality of water distributed affects our intended customers and may, therefore, depending on the quality of our water, impact the price and terms upon which we may in the future sell our water assets. If we need to reduce the price of our water assets in order to make a sale to our intended customers, our balance sheet, return on investment, results of operations and financial condition could suffer.

Our water assets may be impacted by legal and political opposition in certain locations.

The water assets we hold and the transferability of these assets and rights to other uses, persons, or places of use are governed by the laws and regulations concerning water rights in the states of Arizona, Nevada, Colorado and New Mexico and may be directly or indirectly affected by other federal, state and local laws and regulations related to water and land use. Our development and sale of water assets is subject to the risks of delay associated with receiving all necessary regulatory approvals and permits. Additionally, the transfer of water resources from one use to another may affect the economic base or impact other issues of a community including development, and will, in some instances, be met with local opposition. Moreover, municipalities who will likely regulate the use of any water we might sell to them in order to manage growth could create additional requirements that we must satisfy to sell and convey water assets.

If we are unable to effectively transfer, sell and convey water resources, our ability to monetize these assets will suffer and our return on investment, revenues and financial condition would decline.

If our businesses or investments otherwise fail or decline in value, our financial condition and the return on our investment could suffer.

Historically, we have acquired and invested in businesses and assets that we believed were undervalued or that would benefit from additional capital, restructuring of operations, strategic initiatives, or improved competitiveness through operational efficiencies. If any previously acquired business, investment or asset fails or its fair value declines, we could experience a material adverse effect on our business, financial condition, the results of operations and cash flows. If we are not successful managing our previous acquisitions and investments, our business, financial condition, results of operations and cash flows could be materially affected. Such business failures, declines in fair values, and/or failure to manage acquisitions or investments, could result in a negative return on equity. We could also lose part or all of our capital in these businesses and experience reductions in our net income, cash flows, assets and equity.

Future dispositions of our businesses, assets, operations and investments, if unsuccessful, could reduce the value of our common shares. Any future dispositions may result in significant changes in the composition of our assets and liabilities. Consequently, our financial condition, results of operations and the trading price of our common shares may be affected by factors different from those historically affecting our financial condition, results of operations and trading price at the present time.

* We may need additional capital in the future to fund our business and financing may not be available on favorable terms, if at all, or without dilution to our shareholders.

We currently anticipate that our available capital resources and operating cash flows will be sufficient to meet our expected working capital and capital expenditure requirements for at least the next 12 months. However, we cannot provide any assurance that such resources will be sufficient to fund our business. We may raise additional funds through public or private debt, equity or hybrid securities financings, including, without limitation, through the issuance of securities.

We may experience difficulty in raising necessary capital in view of the recent volatility in the capital markets and increases in the cost of finance, especially for a small capitalization company like ours. Increasingly stringent rating standards could make it more difficult for us to obtain financing. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing shareholders. Indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. The additional financing we may need may not be available to us, or on favorable terms. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations or otherwise execute our strategic plan would be significantly limited. In any such case, our business, operating results or financial condition could be materially adversely affected.

* Our ability to utilize net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, if our Company undergoes an “ownership change” (generally defined as a greater than 50% change (by value) in our equity ownership over a three year period), the ability to use our pre-change net operating loss carryforwards and other pre-change tax attributes to offset our post-change income may be limited. Notwithstanding our adoption of a tax benefit preservation plan which is subject to ratification by our shareholders at our 2018 annual meeting, it is possible that we could experience ownership changes in the future as a result of shifts in our stock ownership. As of December 31, 2017, we had federal and state net operating loss carryforwards of approximately $185.5 million and $174.7 million, respectively, which, depending on our value at the time of any ownership changes, could be limited.

We may not be able to retain key management personnel we need to succeed, which could adversely affect our ability to successfully operate our businesses.

To run our day-to-day operations and to successfully manage our businesses we must, among other things, continue to retain key management. We rely on the services of a small team of key executive officers. If they depart, it could have a significant adverse effect upon our business. Also, increased competition for skilled management and staff employees in our businesses could cause us to experience significant increases in operating costs and reduced profitability.

Analysts and investors may not be able to evaluate us adequately, which may negatively influence the price of our stock.

We own assets that are unique, complex in nature, and difficult to understand. In particular, our water resource business is a developing industry in the United States with very little historical and comparable data, very complex valuation issues and a limited following of analysts. Because our assets are unique, analysts and investors may not be able to adequately evaluate our operations and enterprise as a going concern. This could cause analysts and investors to make inaccurate evaluations of our stock, or to overlook PICO in general. As a result, the trading volume and price of our stock could suffer and may be subject to excessive volatility.

Fluctuations in the market price of our common stock may affect your ability to sell your shares.

The trading price of our common stock has historically been, and we expect will continue to be, subject to fluctuations. The market price of our common stock may be significantly impacted by:

- quarterly variations in financial performance and condition of our various businesses;
- shortfalls in revenue or earnings from estimates forecast by securities analysts or others;
- changes in estimates by such analysts;
- the ability to monetize our water assets for an adequate economic return, including the length of time any such monetization may take;
- our competitors' announcements of extraordinary events such as acquisitions;
- litigation; and
- general economic conditions and other matters described herein.

Our results of operations have been subject to significant fluctuations, particularly on a quarterly basis, and our future results of operations could fluctuate significantly from quarter to quarter and from year to year. Causes of such fluctuations may include one time transactions, and impairment losses. Statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we do business or relating to us specifically could result in an immediate and adverse effect on the market price of our common stock. Such fluctuations in the market price of our common stock could affect the value of your investment and your ability to sell your shares.

Litigation may harm our business or otherwise distract our management.

Substantial, complex or extended litigation could cause us to incur large expenditures and distract our management. For example, lawsuits by employees, shareholders or customers could be very costly and substantially disrupt our business. Additionally, from time to time we or our subsidiaries will have disputes with companies or individuals which may result in litigation that could necessitate our management's attention and require us to expend our resources. We may be unable to accurately assess our level of exposure to specific litigation and we cannot provide any assurance that we will always be able to resolve such disputes out of court or on terms favorable to us. We may be forced to resolve litigation in a manner not favorable to us, and such resolution could have a material adverse impact on our consolidated financial condition or results of operations.

* We have been the subject of shareholder activism efforts that could cause a material disruption to our business.

In the past, certain investors took steps to involve themselves in the governance and strategic direction of our Company due to governance and strategic-related disagreements with us. While we have formally settled with certain of such activists, other investors could take steps to involve themselves in the governance and strategic direction of our Company. Such shareholder activism efforts could result in substantial costs and diversion of management's attention and resources, harming our business and adversely affecting the market price of our common stock.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us more complicated and the removal and replacement of our directors and management more difficult.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders. These provisions may also make it difficult for stockholders to remove and replace our board of directors and management. For example, these provisions limit who may call a special meeting of stockholders and establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings. In addition, on July 24, 2017, our board of directors adopted a tax benefits preservation plan designed to preserve our ability to utilize our net operating losses as a result of certain stock ownership changes, which may have the effect of discouraging transactions involving an actual or potential change in our ownership.

If equity analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts may publish about us and our business. We do not control these analysts. The price of our stock could decline if one or more equity analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

Our business could be negatively impacted by cyber security threats.

In the ordinary course of our business, we use our data centers and our networks to store and access our proprietary business information. We face various cyber security threats, including cyber security attacks to our information technology infrastructure and attempts by others to gain access to our proprietary or sensitive information. The procedures and controls we use to monitor these threats and mitigate our exposure may not be sufficient to prevent cyber security incidents. The result of these incidents could include disrupted operations, lost opportunities, misstated financial data, liability for stolen assets or information, increased costs arising from the implementation of additional security protective measures, litigation and reputational damage. Any remedial costs or other liabilities related to cyber security incidents may not be fully insured or indemnified by other means.

THE FOREGOING FACTORS, INDIVIDUALLY OR IN AGGREGATE, COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS AND CASH FLOWS AND FINANCIAL CONDITION AND COULD MAKE COMPARISON OF HISTORICAL FINANCIAL STATEMENTS, INCLUDING RESULTS OF OPERATIONS AND CASH FLOWS AND BALANCES, DIFFICULT OR NOT MEANINGFUL.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease office space in La Jolla, California where our principal executive office is located, and office space in Carson City, Nevada. We continually evaluate our current and future space capacity in relation to our business needs. We believe that our existing office space is adequate to meet our current business requirements and that suitable replacement and additional space will be available in the future on commercially reasonable terms.

We have significant holdings of real estate and water assets in the southwestern United States as described in"Item 1 - Business."

ITEM 3. LEGAL PROCEEDINGS

Neither we nor our subsidiaries are parties to any potentially material pending legal proceedings.

We are subject to various litigation matters that arise in the ordinary course of our business. Based upon information presently available, management is of the opinion that resolution of such litigation will not likely have a material effect on our consolidated financial position, results of operations, or cash flows. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, we may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against us may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of our potential liability. We regularly review contingencies to determine the adequacy of our accruals and related disclosures. The amount of ultimate loss may differ from these estimates, and it is possible that cash flows or results of operations could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies. Whether any losses finally determined in any claim, action, investigation or proceeding could reasonably have a material effect on our business, financial condition, results of operations or cash flows will depend on a number of variables, including: the timing and amount of such losses; the structure and type of any remedies; the significance of the impact any such losses, damages or remedies may have on our consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "PICO." The following table sets out the quarterly high and low sales prices for the past two years as reported on the NASDAQ Global Select Market. These reported prices reflect inter-dealer prices, without adjustments for retail markups, markdowns, or commissions.

	2017		2016	
	High	Low	High	Low
First Quarter	$15.74	$13.05	$11.03	$7.82
Second Quarter	$17.95	$13.35	$10.72	$8.47
Third Quarter	$17.60	$16.05	$11.92	$9.35
Fourth Quarter(1)	$20.20	$12.30	$16.20	$10.51

(1)The lowest stock price during the fourth quarter reflected the $5.00 per share special dividend paid to shareholders on November 21, 2017, while prior periods prices have not been adjusted to reflect the special dividend.

Any future decision to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon, among other factors, our ability to monetize assets, our results of operations, financial condition, capital requirements, and other factors our board of directors may deem relevant.

On February 20, 2018, the closing sale price of our common stock was $12.40 and there were approximately 375 holders of record.

Company Stock Performance Graph

This graph compares the total return on an indexed basis of a $100 investment in PICO common stock, the Standard & Poor's 500 Index, and the Russell 2000 Index. The measurement points utilized in the graph consist of the last trading day in each calendar year, which closely approximates the last day of our fiscal year in that calendar year.

The stock price performance shown on the graph is not necessarily indicative of future price performance. Additionally, the graph assumes that the $5.00 per share cash dividend paid to shareholders during the fourth quarter of 2017 was reinvested in PICO stock.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total number of shares purchased	Average Price Paid per Share	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [1]
10/1/2017 - 10/31/17	—	—	47,450	$ 49,310
11/1/2017 - 11/30/17	—	—	47,450	$ 49,310
12/1/2017 - 12/31/17	—	—	47,450	$ 49,310

[1] The stock repurchase program was announced on March 2, 2017. Our Board of Directors authorized up to $50 million to be used under this program and there is no set expiration date.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents our selected consolidated financial data. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and the related notes thereto included elsewhere in this document.

		Year Ended December 31,			
	2017	2016	2015	2014	2013
Operating Results		(In thousands, except per share data)			
Revenues and other income:					
Sale of real estate and water assets	$26,388	$633	$3,856	$1,220	$24,050
Sale of software					13,649
Impairment loss on investment in unconsolidated affiliate		(2,170)	(20,696)	(1,078)	
Other income	9,888	9,471	4,472	1,077	29,435
Total revenues and other income (loss)	$36,276	$7,934	$(12,368)	$1,219	$67,134
Income (loss) from continuing operations	$7,259	$(25,153)	$(37,841)	$(35,905)	$(1,778)
Net income (loss) from discontinued operations, net of tax	(5,645)	12,124	(43,038)	(23,700)	(27,418)
Net (income) loss attributable to noncontrolling interests	(1,150)	(8,836)	(979)	7,180	6,896
Net loss attributable to PICO Holdings, Inc.	$464	$(21,865)	$(81,858)	$(52,425)	$(22,300)
Net loss per common share – basic and diluted:					
Income (loss) from continuing operations	$0.31	$(1.09)	$(1.64)	$(1.34)	$0.10
Income (loss) from discontinued operations	(0.29)	$0.14	$(1.92)	$(0.96)	$(1.08)
Net loss per common share – basic and diluted	$0.02	$(0.95)	$(3.56)	$(2.30)	$(0.98)
Weighted average shares outstanding – basic and diluted	23,122	23,054	23,014	22,802	22,742

		As of December 31,			
	2017	2016	2015	2014	2013
Financial Condition		(In thousands, except per share data)			
Total assets [(1)]	$214,402	$235,105	$233,279	$271,177	$335,055
Net assets of discontinued operations		$233,123	$231,352	$272,675	$284,762
Total liabilities [(1)]	$7,239	$40,659	$30,627	$32,307	$54,974
Total PICO Holdings, Inc. shareholders’ equity	$207,163	$327,994	$346,412	$425,481	$472,889
Book value per share [(2)]	$8.95	$14.22	$15.04	$18.50	$20.79

[(1)] Excludes balances classified as discontinued operations.

[(2)] Book value per share is computed by dividing total PICO Holdings, Inc. shareholders’ equity by the net of total shares issued less shares held as treasury shares. At December 31, 2017, book value per share reflected the $5.00 per share cash special dividend paid to shareholders during 2017.

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

INTRODUCTION

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand our Company. The MD&A should be read in conjunction with our consolidated financial statements and the accompanying notes, presented later in this Annual Report on Form 10-K. The MD&A includes the following sections:

- Company Summary, Recent Developments, and Future Outlook — a brief description of our operations, the critical factors affecting them, and their future prospects;
- Critical Accounting Policies, Estimates and Judgments — a discussion of accounting policies which require critical judgments and estimates. Our significant accounting policies, including the critical accounting policies discussed in this section, are summarized in the notes to the consolidated financial statements;
- Results of Operations — an analysis of our consolidated results of operations for the past three years, presented in our consolidated financial statements; and
- Liquidity and Capital Resources — an analysis of cash flows, sources and uses of cash, contractual obligations and a discussion of factors affecting our future cash flow.

COMPANY SUMMARY, RECENT DEVELOPMENTS, AND FUTURE OUTLOOK

Recent Developments:

Northern Nevada

The majority of our water resource assets is located in northern Nevada at FSR and our Carson / Lyon project. FSR’s water credits are able to provide a sustainable water supply in the North Valleys region of Reno, Washoe County, Nevada and the Carson / Lyon water rights are able to provide a sustainable water supply in Lyon County, Nevada. As a result, we are dependent on new residential or commercial development occurring in these regions in order for us to monetize our water resources in northern Nevada. In turn, new development in these regions is highly dependent on the continued robust economic and job growth that is occurring in northern Nevada.

The economic development in the greater Reno region has been concentrated in the Tahoe Reno Industrial Center business park (“TRIC”) which is a 107,000 acre industrial park proximate to Interstate 80 and 15 miles east of Reno, Nevada. Tesla Motors, Inc. (“Tesla”) built its Gigafactory facility in this business park with initial estimates that 6,500 jobs would be created by the Gigafactory project. Currently, the forecast is that more than 10,000 jobs will be created by the project. Many other technology companies have also moved to the area including Apple, Google, Jet.com, and Switch.

The Economic Development Authority of Western Nevada (“EDAWN”), comprised of Reno, Sparks, and Tahoe areas, estimated that the region would generate 52,400 direct and indirect jobs from 2015 to 2020. As of the most recent tracking data provided by EDAWN in November 2017, the actual job growth is ahead of this forecast with 52,514 new jobs created since December 2014; a total increase of 15.1% as compared to the forecasted total job growth in that period of 11.1%. This job growth leads to population growth. The Nevada State Demographer, in the most recent Nevada County population projections report dated October 1, 2017, estimated that the population growth of Washoe County will grow to 526,090 residents by the year 2035 from the current estimate of 448,316 residents (an increase of approximately 17.3% of the total population in Washoe County). We believe that this increased employment and population growth will create demand for new residential, commercial and industrial development specifically in the greater Reno area and in Lyon County.

Current economic conditions have manifested into new business openings, fewer apartment vacancies and the greater absorption of existing housing inventory. This activity has resulted in multiple new housing projects entering the approval process with local governments in Reno, Sparks, Carson City, Lyon County and Fernley. Residential housing projects have to demonstrate sustainable water supply to get final map approval and many projects in the North Valleys of Nevada are currently in the process or have obtained master plan amendment / zone change approvals. The next step for these developers is to obtain tentative map and then final map approvals. Within the Reno-Sparks and Washoe County area of Nevada, according to EDAWN, as of October 2017 there were 4,457 new housing permits pulled since January 1, 2017. EDAWN's goal was for at least 6,000 new housing permits for 2017 to meet the projected demand for housing. In the year to date as of October 2017, total new permits in Reno / Sparks / Washoe County increased approximately 24% over the total number of new building permits for single-family and multi-family homes combined for all of 2016, and increased approximately 61% over the total number of new building permits for all of 2015. We believe this increase in activity will lead to demand for our water resources as developers pursue their projects to provide housing for the population growth in the region. However, the increased activity has strained governmental agencies and has caused delays in processing permits as well as new projects' planning approval process. The timing of future monetization of our water resources in northern Nevada is directly correlated to the timing that residential developers pursue their projects in the areas that our FSR and Carson / Lyon assets are located and the time it takes for those developers to get the requisite planning approvals prior to obtaining final map or, in the case of commercial development projects, final regulatory approvals.

Arizona

During 2017 we sold 102,500 AF of LTSC for $25.9 million. Several market catalysts with respect to our LTSCs continued to emerge including the recent drought in the western United States, continued structural deficits on the Colorado River system, Indian Firming and Settlement obligations by the state of Arizona and increased water demand from overall growth in Arizona. These supply and demand dynamics led to the sales in 2017 and continued to increase interest from other parties contemplating buying our LTSCs at prices that we believe reflect the true value of our LTSCs.

Arizona has an obligation to "firm" Indian water supplies as negotiated through various Indian Water Settlement Agreements. Section 105 of the Settlements Act (S. 437) titled "Firming of Central Arizona Project Indian Water," authorizes the Secretary of Interior and the State of Arizona to develop a firming program to ensure that of the total 197,500 acre-feet of non-indian agricultural water reallocated to the Arizona Indian Tribes, 60,648 acre-feet must be delivered in the same manner as water with a municipal and industrial priority during water shortages, over a 100 year period. It is estimated that over the 100 year period, the total shortfall of the Indian Firming obligation is approximately 550,000 acre-feet. To date approximately 140,000 acre-feet has been secured by Arizona for the firming obligations shortfall. We believe our LTSCs can be used to help Arizona meet this obligation.

A shortage on the Colorado River system will be declared by the Secretary of the Interior when on January 1, of any year, Lake Mead's surface water elevation is at or below 1075 ft. When Lake Mead is at an elevation of 1075 ft. and at or above 1050 ft., Nevada's share of the shortage is 13,000 acre-feet and Arizona's cut-back to its allocation is 320,000 acre-feet. In contrast, California suffers no loss to their allocation from the Colorado River. When Lake Mead is at an elevation of 1050 ft. and at or above 1025 ft., Nevada will suffer a loss of 17,000 acre-feet from their allocation, Arizona will suffer a cut-back to their allocation of 400,000 acre-feet, and California will not suffer any cut-back to their allocation. If Lake Mead's surface water elevation level is below 1025 ft., then Nevada will suffer a loss to its allocation of 20,000 acre-feet and Arizona will suffer a loss to its allocation of 480,000 acre-feet. To put this in context, Arizona's annual allocation of Colorado River water is 2.8 million acre-feet. As such, the cut back in allocation of just 320,000 acre-feet represents over 11% of Arizona's annual allocation.

It is not only drought which impacts the level of Lake Mead. The Colorado River system has been determined to suffer from a structural deficit of 1.2 million acre-feet annually. This means that on an average annual water year, Lake Mead will lose 1.2 million acre-feet to the system, due to evaporation, treaty obligations with Mexico and allocations of water to Arizona, Nevada and California that exceeds what the system yields. We believe that Vidler's LTSCs are well positioned to buffer Arizona through times of water shortage and our LTSCs could be purchased by state entities to be used directly or to help sustain levels in Lake Mead.

Discontinued Real Estate Operations and Assets and Liabilities Held-for-Sale

On April 10, 2017, our then majority owned subsidiary, UCP, Inc. ("UCP"), entered into a merger agreement with Century Communities, Inc. ("Century") whereby each outstanding share of UCP common stock outstanding was converted into $5.32 in cash and 0.2309 of a newly issued share of Century common stock. The merger transaction closed on August 4, 2017 and consequently, we deconsolidated UCP as of the closing date. The assets and liabilities of UCP qualified as held-for-sale and its results of operations have been classified as discontinued operations as of the earliest period presented. Consequently, prior periods presented have been recast from amounts previously reported to reflect UCP as discontinued operations.

In July 2015, we sold substantially all of the assets used in our agribusiness segment to CHS Inc. ("CHS"). As a result of the transaction, the assets and liabilities of our agribusiness segment qualified as held-for-sale and have been classified as discontinued operations in the accompanying consolidated financial statements as of the earliest period presented.

See Note 11,"Discontinued Operations" for additional information about these transactions.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGEMENTS

This section describes the most important accounting policies affecting our assets and liabilities, and the results of our operations. Since the estimates, assumptions, and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, we consider these to be our critical accounting policies:

- how we determine the fair value and carrying value of our tangible and intangible water assets, and real estate;
- how and when we recognize revenue when we sell water assets and real estate; and
- how we determine our income tax provision, deferred tax assets and liabilities, and reserves for unrecognized tax benefits, as well as the need for valuation allowances on our deferred tax assets.

We believe that an understanding of these accounting policies will help the reader to analyze and interpret our financial statements.

Our consolidated financial statements, and the accompanying notes, are prepared in accordance with GAAP, which requires us to make estimates, using available data and our judgment, for things such as valuing assets, accruing liabilities, recognizing revenues, and estimating expenses. Due to the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our estimates on historical experience, and various other assumptions, which we believe to be reasonable under the circumstances.

The following are the significant subjective estimates used in preparing our financial statements:

1. Fair value and carrying value of our tangible and intangible water assets and real estate

Our primary long-lived assets include tangible and intangible water assets and real estate. At December 31, 2017, the total carrying value of such assets was $171.5 million, or approximately 80% of our total assets. These assets are carried at cost, less any recorded impairments.

Tangible water assets and real estate

We review our long-lived tangible water assets and real estate as facts and circumstances change, or if there are indications of impairment present, to ensure that the estimated undiscounted future cash flows, excluding interest charges, from the use and eventual disposition of these assets will at least recover their carrying value. Cash flow forecasts are prepared for each discrete asset. We engage in a rigorous process to prepare and review the cash flow models which utilize the most recent information available to us. However, the process inevitably involves the use of significant estimates and assumptions, especially the estimated current and future demand for these assets, the estimated future market values of our assets, the timing of the disposition of these assets, the ongoing cost of maintenance and improvement of the assets, and the current and projected income earned and other uncertain future events. As a result, our estimates are likely to change from period to period. In addition, our estimates may change as unanticipated events transpire which would cause us to reconsider the current and future use of the assets.If we use different assumptions, if our plans change, or if the conditions in future periods differ from our forecasts, our financial condition and results of operations could be materially impacted.

There were no material impairment losses recorded on our tangible water assets or real estate during the three years ended December 31, 2017, 2016 or 2015.

Intangible water assets

Our intangible water assets are accounted for as indefinite-lived intangible assets. Accordingly, until the asset is sold, they are not amortized, that is, their value is not charged as an expense in our consolidated statement of operations and comprehensive income or loss over time, but the assets are carried at cost and reviewed for impairment, at least annually during the fourth quarter, and more frequently if a specific event occurs or there are changes in circumstances which suggest that the asset may be impaired. Such events or changes may include lawsuits, court decisions, regulatory mandates, and economic conditions, including interest rates, demand for residential and commercial real estate, changes in population, and increases or decreases in prices of similar assets. Once the assets are sold, the value is charged to cost of real estate and water assets sold in our consolidated statement of operations and comprehensive income or loss.

When we calculate the fair value of intangible water assets, we use a discounted cash flow model, under which the future net cash flows from the asset are forecasted and then discounted back to their present value using a weighted average cost of capital approach to determining the appropriate discount rate. Preparing these cash flow models requires us to make significant assumptions about revenues and expenses as well as the specific risks inherent in the assets. If the carrying value exceeds the fair value, an impairment loss is recognized equal to the difference. We conduct extensive reviews utilizing the most recent information available to us; however, the review process inevitably involves the use of significant estimates and assumptions, especially the estimated current asset pricing, potential price escalation, income tax rates, discount rates, absorption rates and timing, and demand for these assets. These models are sensitive to minor changes in any of the input variables.

In summary, the cash flow models for our most significant indefinite-lived intangible assets forecast initial sales to begin within approximately one year, and then increase until the assets are mostly sold over the next four decades. We have assumed sale proceeds for the assets that are based on our estimates of the likely future sales price per acre-foot. These per-unit sale prices are estimated based on the demand and supply fundamentals in the markets which these assets serve. If we use different assumptions, if our plans change, or if the conditions in future periods differ from our forecasts, our financial condition and results of operations could be materially impacted.

There were no material impairment losses recorded on our intangible water assets during the three years ended December 31, 2017, 2016 or 2015.

2. Revenue recognition

Sale of real estate and water assets

We recognize revenue when there is a legally binding sale contract, the profit is determinable (the collectability of the sales price is reasonably assured, or any amount that will not be collectible can be estimated), the earnings process is virtually complete (we are not obliged to perform significant activities after the sale to earn the profit, meaning we have transferred all risks and rewards to the buyer), and the buyer's initial and continuing investment are adequate to demonstrate a commitment to pay for the property.

Unless all of these conditions are met, we use the deposit method of accounting. Under the deposit method of accounting, until the conditions to fully recognize a sale are met, payments received from the buyer are recorded as a liability on our balance sheet, and no gain is recognized.

3. Income taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect our best assessment of estimated future taxes to be paid. We are subject to federal and various state income taxes. We have multiple state filing groups with different income tax generating abilities. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, tax planning strategies and recent financial operating results. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including recent cumulative earnings experience by taxing jurisdiction, expectations of future transactions, the carryforward periods available to us for tax reporting purposes, our historical use of tax attributes, and availability of tax planning strategies. These assumptions require significant judgment about future events however, they are consistent with the plans and estimates we use to manage our underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income or loss.

As a result of the analysis of all available evidence as of December 31, 2011, we recorded a full valuation allowance on PICO's net deferred tax assets. Our evaluation at December 31, 2017 resulted in the same conclusion and we therefore continue to hold a full valuation allowance on our reported consolidated net deferred tax assets. If our assumptions change and we determine we will be able to realize these attributes, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets at December 31, 2017 will be recognized as a reduction of income tax expense. If our assumptions do not change, each year we could record an additional valuation allowance on any increases in the deferred tax assets.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. As a result of recent changes in tax law and rates, that are effective for tax years starting on January 1, 2018, we revalued our deferred tax assets and liabilities using a 21% tax rate for our federal deferred income tax balances. The resulting decrease in our net deferred tax asset was offset by a reduction in our recorded valuation allowance which resulted in no net effect on our results of operations, cash flows or financial position. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions.

The accounting guidance for income taxes provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The guidance also provides information on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We recognize tax liabilities in accordance with accounting guidance on income taxes and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. Currently, we have no material unrecognized tax benefits on any open tax years.

RESULTS OF OPERATIONS -- YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

Overview of Economic Conditions and Impact on Results of Operations

The economies in the markets in which are major water assets are located and serve, primarily northern Nevada and Arizona, are exhibiting robust growth which we believe will lead to demand for our water assets in those markets. We believe that current trends in employment, housing inventory, home prices, and historically low interest rates, will have a positive impact on our operating performance. There has been an increase in real estate development activity in the markets where our assets will ultimately be used, and we believe that will lead to increased demand for our intangible and tangible water assets. Individual markets continue to experience varying results, as local home inventories, affordability, and employment factors strongly influence each local market. Deterioration in economic conditions in the markets where we operate, and/or if we fail to generate revenue, incur expenses beyond expectations, or incur operating losses, could cause additional impairment losses on our water assets.

Our objective is to maximize long-term shareholder value. Currently, we believe the highest potential return to shareholders is from a return of capital. As we monetize assets, rather than reinvest the proceeds, we intend to return capital back to shareholders through a stock repurchase program or by other means such as special dividends, such as the special dividend of $5 per share paid to shareholders in the fourth quarter of 2017.

Our revenues and results of operations fluctuate from period to period. For example, we recognize revenue from the sale of water assets when specific transactions close, and as a result, sales of water assets for any individual period are not necessarily indicative of revenues for future periods or the full financial year.

PICO Holdings, Inc. Shareholders' Equity (in thousands):

	December 31,			Change	
	2017	2016	2015	2016 to 2017	2015 to 2016
Shareholders' equity	$207,163	$327,994	$346,412	$(120,831)	$(18,418)
Shareholders' equity per share	$8.95	$14.22	$15.04	$(5.27)	$(0.82)

The primary decrease in shareholders' equity during 2017 was due to the $115.9 million special dividend paid during the year and the loss on the sale of our discontinued real estate operations.

The decrease in shareholders' equity during 2016 was due to the comprehensive loss of $20.2 million. The most significant transactions that contributed to the loss for the period were severance and other expenses related to the termination of our former CEO in October 2016.

Total Assets and Liabilities (in thousands):

	December 31, 2017	December 31, 2016	Change
Total assets	$ 214,402	$ 675,794	$(461,392)
Total liabilities	$ 7,239	$ 248,225	$(240,986)

Total assets and liabilities decreased during the year ended December 31, 2017, primarily due to the deconsolidation of the assets owned in UCP in conjunction with the sale of our real estate operations. Additionally, we paid a special dividend during the fourth quarter of 2017 which in part, reduced our cash and cash equivalents balance to approximately $37.1 million at the end of the year.

Results of Operations (in thousands):

	Year Ended December 31,			Change	
	2017	2016	2015	2016 to 2017	2015 to 2016
Total revenue and other income (loss)	$36,276	$7,934	$(12,368)	$28,342	$20,302
Total costs and expenses	$25,935	$34,222	$25,012	$(8,287)	$9,210

Revenue and other income (loss)

The majority of our revenue recorded for the year ended December 31, 2017 was from the sale of 102,500 long-term storage credits for $25.9 million. We also reported realized gains on the sale of investments of $8.8 million recognized on the sale of investments from our deferred compensation accounts in conjunction with the distribution of such assets to our former CEO.

During 2016, revenues primarily included a gain of $8.7 million which resulted from the sale of the majority of the assets used in our oil and gas operations. The assets sold had previously been significantly reduced by impairment losses recorded in 2015 and 2014. There was no corresponding gain recorded during 2015. We recorded an impairment loss of $2.2 million on our investment in Synthonics in 2016 due to continuing losses and deteriorating market conditions. This is compared to a $20.7 million impairment loss on our investment in Mindjet during 2015 which was recorded due to deteriorating financial conditions that had adversely affected the value of our investment. During 2016, we ceased further operations in our 51% owned subsidiary, Klablab, Inc. ("Klablab") and recorded a $2 million loss on abandonment during the fourth quarter of 2016.

In 2015, revenue primarily included the $20.7 million impairment loss on our investment in Mindjet, as described above. We also sold 258 acres of real estate and approximately 774 acre-feet of water rights in the Harquahala Valley area of Arizona for cash proceeds of $3.4 million, which generated a gross margin of $2.4 million.

Costs and Expenses

During the year ended December 31, 2017 we recorded $12.8 million in cost of real estate and water assets sold related to our sale of 102,500 water credits. No similar sales were recorded during 2016 or 2015.

General, Administrative and Other:

During 2017 we continued implementing cost saving measures primarily intended to realign our organizational structure due to the changes in roles and workforce resulting from selling our interest in our real estate operations.

During the year ended December 31, 2017 and 2016 we recorded general and administrative costs of $12.4 million and $32.8 million, respectively, a decrease of $20.4 million year-over-year. The decrease in general and administrative costs was primarily due to a $10.4 million decrease in severance and related expense incurred in conjunction with the termination of our former CEO in 2016, a decrease of $3.2 million in deferred compensation expenses, a decrease of $1.6 million in stock-based compensation as discussed below, a $687,000 decrease in employee compensation and related payroll and benefits related to executive compensation and headcount, and a combined decrease of $1.8 million in fees paid to our directors, audit fees, rent and shareholder related costs. We also realized a $1.2 million reduction in expenses within our oil and gas operations as we wind-down those operations.

General and administrative costs were $20 million in 2015. The increase in costs and expenses from 2015 to 2016 was primarily related to the $10.4 million severance expense discussed above, a $2.1 million increase in deferred compensation expense, a $1.5 million increase in legal and other expenses related to shareholder activism and a $943,000 increase in stock-based compensation expense. These increases were offset by a $1.5 million decrease in employee compensation and related payroll and benefits due to reductions in executive compensation and headcount.

Stock-Based Compensation Expense

Stock-based compensation expense is calculated based on the fair value of the award on the grant date and is recognized over the vesting period of the awards. As of December 31, 2017, there was $178,000 of unrecognized stock-based compensation expense related to restricted stock units ("RSU"), which we expect to record ratably until the last award vests.

The stock-based compensation expense consisted primarily of the following awards (in thousands):

	Year Ended December 31,		
	2017	2016	2015
PBO - Officers	$427	$1,412	$1,029
RSU - Officers	204	1,205	533
RSU - Directors	613	179	269
RSU - Management	50	54	76
Total stock-based compensation expense	$1,294	$2,850	$1,907

Income Taxes

The Tax Cuts and Jobs Act of 2017 (the "Tax Act") enacted on December 22, 2017, resulted in significant changes to the U.S. corporate income tax system. The changes that are effective beginning in 2018 include a federal statutory rate reduction from 35% to 21%, the elimination or reduction of certain domestic deductions and credits and limitations on the deductibility of interest expense and executive compensation as well as limitations on the use of future net operating losses. Changes in tax rates and tax laws are accounted for in the period of enactment and consequently during the year ended December 31, 2017, we recorded a reduction in our net deferred tax asset to reduce the value of each deferred tax attribute to 21% which was offset by a reduction in the recorded valuation allowance resulting in no net effect to the current period income tax provision. We continued to record a full valuation allowance on our net deferred tax assets, however, as a result of recognizing realized gains on the sale of certain investments that were included in unrealized gains reported in other comprehensive income in previous periods, we recorded $3.1 million in tax expense during the year ended December 31, 2017 and a tax benefit of $1.1 million and $3 million during the years ended December 31, 2016 and 2015, respectively. Our effective tax rate for the years ended December 31, 2017, 2016, and 2015, was 29.8%, 4.3% and 7.9%, respectively. The effective tax rate differed from our federal corporate income tax rate of 35% due primarily to the valuation allowance changes recorded on our net deferred tax assets in each of the years. Additionally, during 2015, we recorded a $2.8 million tax benefit due to the reversal of the taxable temporary difference related to our investment in Mindjet that reversed during the year due to the impairment loss recorded on the investment. Such temporary difference was originally recorded in an earlier year which contributed to the significant effective tax rate for that year and was not expected to reverse within a period that would have allowed us to offset with existing deductible temporary differences. There were minimal income taxes reported during 2015.

Equity in Loss of Unconsolidated Affiliates

We previously accounted for our investment in common stock of Mindjet using the equity method of accounting, which resulted in recording our proportional share of Mindjet's losses in the consolidated statement of operations and comprehensive income or loss. During 2015, we lost significant influence over Mindjet and discontinued the equity method of accounting as our voting ownership declined in conjunction with Mindjet issuing additional voting stock in an offering that we did not participate in and the resulting loss of our seat on its board. Consequently, we do not anticipate recording any additional equity method losses related to our investment in Mindjet.

DISCONTINUED OPERATIONS

During the years ended December 31, 2017, results from discontinued operations included income or loss from UCP's operations and the loss recorded on the sale of such operations. During the year ended December 31, 2016, results from discontinued operations included the income or loss from UCP's operations and additional losses recorded related to the sale of our agribusiness operations. During the year ended December 31, 2015, results from discontinued operations included income or loss from our agribusiness operations and the loss recorded on the sale of such operations.

Real Estate:

On April 10, 2017, UCP entered into a merger agreement with Century whereby each outstanding share of UCP common stock was converted into $5.32 in cash and 0.2309 of a newly issued share of Century common stock. The transaction closed on August 4, 2017 and we received $55.3 million in cash and approximately 9% of the then outstanding common stock of Century. The transaction resulted in a loss on sale of $8.7 million, which was recorded during the year ended December 31, 2017. In October 2017, we sold our entire position of Century common stock for $59.2 million and realized a loss on the sale of $842,000.

During 2017, we made certain estimates of the taxable income that would be allocated to us from UCP for the 2017 tax year and received related cash distributions from UCP as a result. At December 31, 2017, such estimates appear to have overstated taxable income. Consequently, we expect to refund to UCP $356,000 once final taxable income of UCP attributable to us is determined. Any difference between our revised estimates and the actual results would impact the loss recorded on the sale of UCP.

Agribusiness:

In February 2017, we received the final $6 million that had been held in escrow for general indemnification claims related to the sale of our discontinued agribusiness operations. We guaranteed up to $8 million for any environmental indemnification claims in excess of the $6 million general indemnification escrow pursuant to the terms of the sale. This guaranty will remain in force until July 31, 2020. The guaranty has been recorded at estimated fair value that reflects our expectation that no significant amounts will be paid out under the guaranty. However, any amounts paid by us under the guaranty in excess of this estimate will result in additional loss on the sale.

See Note 11,"Discontinued Operations" for additional information about these transactions.

LIQUIDITY AND CAPITAL RESOURCES -- YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

A substantial portion of our historical revenue and cash flow has, and is expected in the future, to come from one-time sales of our assets which are primarily long-term water resource development projects that we expect to support economic growth in the local markets where the assets are located. The timing and amount of sales and cash flows depend on a number of factors which are difficult to predict, and cannot be directly compared from one period to another. However, given our cash balances at December 31, 2017, we currently believe that we have sufficient resources to cover our expenses for at least the next 12 months. In the long-term, we estimate that cash from operations will provide us with adequate funding for future operations. However, if additional funding is needed we could defer significant expenditures, obtain a line of credit, or complete a debt or equity offering. Any additional equity offerings may be dilutive to our shareholders and any additional debt offerings may include operating covenants that could restrict our business.We are currently not subject to any debt covenants which might limit our ability to obtain additional financing through debt or equity offerings. We classify the sale of and costs incurred to acquire and develop our water assets as operating activities in our consolidated statement of cash flows.

Our Operations

On October 26, 2017 our board of directors declared a special dividend of $5.00 per share, amounting to approximately $115.9 million. The record date was November 6, 2017, payment was made on November 20, 2017 and the ex-dividend date was November 21, 2017. The entire cash distribution was classified as a return of capital for U.S. federal income tax purposes. Generally, such a cash distribution would reduce the tax basis of a shareholder's common shares of our shares; however, if such a distribution is in excess of a shareholder's tax basis, a portion of the distribution may be treated as a capital gain under current tax law.

The majority of our revenue recorded for the year ended December 31, 2017 was from the sale of 102,500 long-term storage credits for $25.9 million. We also reported realized gains on the sale of investments of $8.8 million recognized on the sale of investments from our deferred compensation accounts in conjunction with the distribution of $23.3 million of such assets to our former CEO. We also paid our former CEO $10.4 million in severance benefits, settled certain stock-based compensation, and paid other related severance expenses. See Note 10, "Related-Party Transactions" for additional information.

During 2016, we sold a majority of our oil and gas assets for gross proceeds of $9.6 million. After certain holdbacks and consideration of liabilities assumed by the buyer, we received $9 million in cash proceeds. We also sold certain of our other remaining oil and gas leases early in 2017. We expect to completely cease operations and dispose of the legal entities formed to operate this business in a final transaction with our service agent early in 2018. To that end, at December 31, 2017, we accrued what we believe to be the final expenses related to these operations. See Note 10, "Related-Party Transactions" for additional information.

Discontinued Operations

During 2016 we sold our real estate operations and during 2015 we sold our agribusiness operations.

During 2017, we made certain estimates of the taxable income that would be allocated to us from UCP for the 2017 tax year and received related cash distributions from UCP as a result. At December 31, 2017, such estimates appear to have overstated taxable income. Consequently, we have accrued what we expect to refund to UCP once final taxable income of UCP attributable to us is determined. Any difference between our revised estimates and the actual results would impact the loss recorded on the sale of UCP.

We guaranteed up to $8 million for any indemnification claims related to the agribusiness operations in excess of a $6 million general indemnification escrow pursuant to the terms of a guaranty agreement with the buyer that will remain in force until July 31, 2020.

Consolidated Cash and Securities

We have adequate working capital reserves and generally hold our cash in money market funds. At December 31, 2017 and 2016, we had unrestricted and available cash and securities of $34.9 million and $18.7 million, respectively, which could be used for general corporate purposes.

At December 31, 2017, we forecast that our 2018 annual net operating cash burn was approximately $6.2 million which was comprised of expected expenditures of approximately $7.1 million offset by recurring revenue and other certain receipts of approximately $879,551.

Cash Flow

Our cash flows from operating, investing, and financing activities were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Cash provided by (used in):			
Operating activities - continuing operations	$(345)	$(15,074)	$(10,825)
Operating activities - discontinued operations	(9,728)	8,722	(38,098)
Total operating activities	(10,073)	(6,352)	(48,923)
Investing activities - continuing operations	67,908	9,072	4,400
Investing activities - discontinued operations	47,173	(1,455)	102,193
Total investing activities	115,081	7,617	106,593
Financing activities - continuing operations	(117,222)	—	(153)
Financing activities - discontinued operations	(11,638)	2,315	(63,095)
Total financing activities	$(128,860)	$2,315	$(63,248)
Increase (decrease) in cash and cash equivalents	$(23,852)	$3,580	$(5,578)

Cash Flows From Operating Activities

During 2017, we used cash of $345,000 in our continuing operations which was derived primarily from the $26.3 million sale of long term storage credits, offset by cash used of $12.2 million for general and administrative expenses and various project costs and $18.3 million for payment of severance benefits and deferred compensation payment of cash related to the termination of our former CEO. Through the closing date of the merger, our discontinued operations used cash of $9.7 million primarily generated from $246 million in sales of residential real estate and lots offset by cash of $216.9 million used for the acquisition and development of real estate, and $37 million for overhead.

During 2016, we used $15.1 million in cash from continuing operations. The cash outflow primarily related to $15.4 million for overhead and various project expenses. Our discontinued operations generated $350 million during 2016 from the sale of residential real estate lots and used cash of $301.4 million in acquisition and development of real estate and $43.5 million for overhead.

During 2015, we used $10.8 million in cash from continuing operations. We used $18.4 million for overhead expenses, primarily for salaries, benefits, marketing expenses, professional fees, and various project and other expenses. Partially offsetting the uses of cash was $3.9 million from the sale of water assets, and $1.4 million from sales of oil and gas. Our discontinued operations used cash of $38 million. Discontinued real estate operations used $266.3 million to acquire and develop residential homes and lots $33.3 million for overhead expenses. Offsetting the uses of cash from our discontinued real estate operations were $278.8 million in cash received from the sale of residential homes and lots. Our discontinued agribusiness operations used $74.3 million to purchase canola seed, $36.5 million for overhead and operating expenses, and $3.3 million in cash paid for interest. Partially offsetting the uses of cash was $82.1 million generated from the sales of canola oil and meal.

Cash Flows From Investing Activities

Our continuing investing activities provided $67.9 million of cash during 2017 primarily from the $59.2 million in cash we received when we sold our investment in Century common stock, and approximately $8.2 million in cash from the sale of various other debt and equity investments out of the deferred compensation plans. During the year we purchased $270 million of U.S. Treasuries, which was offset by related sales and maturities of $198 million and $140 million, respectively. Our discontinued operations generated $47.2 million of net cash during 2017 which was comprised of the $55.3 million received on the sale of UCP less UCP's cash balance as of the date of the sale, and $6 million in cash received from the escrow account for general indemnification claims related to the sale of our discontinued agribusiness operations.

During 2016, the primary cash inflows from investing activities of continuing operations included $9 million from the sale of the majority of our oil and gas assets, and $1.1 million from the sale and maturity of debt and equity securities, offset by $1.5 million used to purchase debt and equity securities. Our discontinued operations investing cash flows were primarily comprised of a $1.3 million increase in restricted cash.

During 2015, the primary cash inflows from investing activities of continuing operations included $9.3 million from the sale and maturity of debt and equity securities, offset by $2.3 million used to purchase debt and equity securities and $2.8 million used to purchase property, plant, and equipment. During 2015, investing activities from our discontinued agribusiness operations provided $97.5 million in net proceeds from the sale of our discontinued agribusiness operations, which was comprised of gross proceeds from the sale of $105.3 million less $7.8 million currently held back in escrow, and $5 million in cash released from the restricted debt service reserve account.

Cash Flows From Financing Activities

During 2017, we paid a special dividend of $115.9 million. Our discontinued operations received cash of $86.7 million during 2017 provided from draws on its debt arrangements, which was used primarily to fund the acquisition and development of various real estate projects offset by payments of $96.5 million which was used to repay debt when certain real estate properties were sold.

During 2016, our discontinued operations did not generate net cash, however, we had borrowings of $154 million provided by the debt arrangements, offset by repayments of debt of $150 million and UCP purchases of its own stock of $1 million.

During 2015, financing activities, including discontinued agribusiness operations, used cash of $63.2 million, primarily due to repayments of $96.6 million paid on debt arrangements in our discontinued agribusiness operations and $112.4 million of mortgage debt repaid when certain real estate properties were sold in our discontinued real estate operations. These uses of cash were offset by cash proceeds including $12.7 million from our working capital line of credit within our discontinued agribusiness operations and $134.5 million used primarily to fund the acquisition and development of our discontinued real estate operations.

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.

Off-Balance Sheet Arrangements

As of December 31, 2017, we had no off-balance sheet arrangements, other than those discussed throughout this document, 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.

Aggregate Contractual Obligations:

The following table provides a summary of our contractual cash obligations and other commitments and contingencies as of December 31, 2017 (in thousands):

	Payments Due by Period				
Contractual Obligations	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Operating leases	351	522			873

Other[1]	4,112				4,112
Total	$4,463	$522	$—	$—	$4,985

[1] Amount represents deferred compensation that is expected to be paid to plan participants no earlier than July 2018.

We had no liabilities or potential interest for unrecognized tax benefits associated with uncertain tax positions at December 31, 2017.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our balance sheets include certain assets whose fair value is 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 investments in debt securities, and equity price risk as it relates to our marketable equity securities. The estimated fair value of our debt is based on cash flow models discounted at the then-current interest rates and an estimate of the then-current spread above those rates at which we could borrow, which are Level 3 inputs in the fair value hierarchy.

At December 31, 2017, we had $683,000 of debt securities and $1.2 million of marketable equity securities, and at December 31, 2016, we had $4.4 million of debt securities and $20.7 million of marketable equity securities, which were subject to market risk.

Our debt securities principally consist of bonds with short and medium terms to maturity. The deferred compensation accounts have held both investment-grade and below investment-grade bonds. In the deferred compensation accounts, we managed interest rate risk by matching the maturities of the bonds to the participant's pre-selected payout schedule.

We use two models to report the sensitivity of our assets and liabilities subject to the above risks. For debt 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, or a 1% increase in interest rates and compares that to the current price of the security. At December 31, 2017 and 2016, the model did not calculate a material loss in fair value. For our marketable equity securities, we use a hypothetical 20% decrease in fair value to analyze the sensitivity. The hypothetical 20% decrease in fair value of our marketable equity securities would produce a loss in fair value at December 31, 2017 and 2016, of $244,000 and $4.1 million, respectively, that would reduce our unrealized appreciation in shareholders' equity.

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 both factors related to the individual securities (e.g. credit concerns about a bond issuer) and general market conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and the Report of the Registered Independent Public Accounting Firm are included in this report as listed in the index.

SELECTED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data (in thousands, except per share amounts) for 2017 and 2016 are shown below. In management's opinion, the interim financial statements from which the following data has been derived contain all adjustments necessary for a fair presentation of results for such interim periods and are of a normal recurring nature.

	Three Months Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Sale of real estate and water assets	$25,097	$43	$136	$1,112
Other	1,096	8,591	69	132
Total revenue and other income	$26,193	$8,634	$205	$1,244
Gross profit - real estate and water assets	$12,565	$26	$81	$500
Income (loss) from continuing operations	$9,293	$2,803	$(3,109)	$(1,728)
Net income (loss) from discontinued operations, net of tax	$(3,259)	$177	$(3,175)	$612
Net income (loss)	$6,034	$2,980	$(6,284)	$(1,116)
Net income (loss) attributable to PICO Holdings, Inc.	$4,643	$1,575	$(4,639)	$(1,116)
Net income (loss) per common share – basic and diluted:				
Income (loss) from continuing operations	$0.40	$0.12	$(0.13)	$(0.08)
Income (loss) from discontinued operations	$(0.20)	$(0.05)	$(0.07)	$0.03

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	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016[1]
Sale of real estate and water assets	$98	$33	$476	$26
Impairment loss on investment in unconsolidated affiliate				(2,170)
Other	687	817	689	7,278
Total revenue and other income	$785	$850	$1,165	$5,134
Gross profit - real estate and water assets	$53	$14	$224	$16
Loss from continuing operations	$(4,790)	$(4,400)	$(4,569)	$(11,394)
Net income (loss) from discontinued operations, net of tax	$(2,052)	$1,678	$2,712	$9,786
Net loss	$(6,842)	$(2,722)	$(1,857)	$(1,608)
Net loss attributable to PICO Holdings, Inc.	$(6,801)	$(3,397)	$(2,900)	$(8,767)
Net income (loss) per common share – basic and diluted:				
Loss from continuing operations	$(0.21)	$(0.19)	$(0.20)	$(0.49)
Income (loss) from discontinued agribusiness operations	$(0.08)	$0.04	$0.07	$0.11

[1] During 2017, we sold our real estate segment. As a result of the transaction, the assets and liabilities of our real estate operations qualified as held-for-sale and have been classified as discontinued operations in the accompanying consolidated financial statements as of the earliest period presented. Consequently, while we recast the first three quarters of 2016 in our 2017 filings to reflect the change, this particular prior period had not been presented as recast from amounts previously reported to reflect the real estate segment as discontinued operations. See Note 11, "Discontinued Operations," in the accompanying consolidated financial statements for additional information.

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017 AND 2016
AND FOR EACH OF THE
THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
PICO Holdings, Inc.
La Jolla, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PICO Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income or loss, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
March 1, 2018

We have served as the Company’s auditors since 1997.

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016
(In thousands)

	2017	2016
Assets		
Cash and cash equivalents	$37,128	$19,611
Investments ($1,902 and $25,071 measured at fair value at December 31, 2017 and 2016, respectively)	3,214	26,383
Tangible water assets and real estate, net	44,675	57,691
Intangible assets	126,785	126,796
Other assets	2,600	4,624
Assets held-for-sale		440,689
Total assets	$214,402	$675,794
Liabilities and shareholders' equity		
Deferred compensation	4,112	27,322
Other liabilities	2,431	12,322
Accounts payable and accrued expenses	696	1,015
Liabilities held-for-sale		207,566
Total liabilities	7,239	248,225
Commitments and contingencies		
Preferred stock, $0.001 par value; authorized 10,000 shares, none issued		
Common stock, $0.001 par value; authorized 100,000 shares, 23,153 issued and 23,152 outstanding at December 31, 2017, and 23,125 issued and 23,070 outstanding at December 31, 2016	23	23
Additional paid-in capital	379,388	495,468
Accumulated deficit	(172,767)	(173,231)
Accumulated other comprehensive income	544	6,661
Treasury stock, at cost (common shares: 1 and 55 at December 31, 2017 and December 31, 2016, respectively)	(25)	(927)
Total PICO Holdings, Inc. shareholders' equity	207,163	327,994
Noncontrolling interest in subsidiaries		99,575
Total equity	207,163	427,569
Total liabilities and equity	$214,402	$675,794

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME OR LOSS
For the years ended December 31, 2017, 2016, and 2015
(In thousands, except per share data)

	2017	2016	2015
Revenues and other income:			
Sale of real estate and water assets	$26,388	$633	$3,856
Impairment loss on investment in unconsolidated affiliate		(2,170)	(20,696)
Other income, net	9,888	9,471	4,472
Total revenues and other income (loss)	36,276	7,934	(12,368)
Cost of sales and expenses:			
Cost of water assets and real estate sold	13,216	326	1,239
General, administrative, and other	12,414	32,830	20,028
Impairment loss on intangible and long-lived assets		201	2,085
Depreciation and amortization	305	865	1,660
Total costs and expenses	25,935	34,222	25,012
Income (loss) from continuing operations before income taxes and equity in loss of unconsolidated affiliates	10,341	(26,288)	(37,380)
Benefit (provision) for federal and state income taxes	(3,082)	1,135	2,961
Equity in loss of unconsolidated affiliate			(3,422)
Income (loss) from continuing operations	7,259	(25,153)	(37,841)
Income (loss) from discontinued operations, net of tax	3,053	13,899	(24,309)
Loss on sale of discontinued operations, net of tax	(8,698)	(1,775)	(18,729)
Net income (loss) from discontinued operations, net of tax	(5,645)	12,124	(43,038)
Net income (loss)	1,614	(13,029)	(80,879)
Net income attributable to noncontrolling interests	(1,150)	(8,836)	(979)
Net income (loss) attributable to PICO Holdings, Inc.	$464	$(21,865)	$(81,858)

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME OR LOSS, CONTINUED
(In thousands, except per share data)

	2017	2016	2015
Other comprehensive loss:			
Net income (loss)	$1,614	$(13,029)	$(80,879)
Other comprehensive loss, net of tax:			
Unrealized gain (loss) on securities, net of deferred income tax and reclassification adjustments	(6,193)	1,671	292
Foreign currency translation	76	29	(48)
Total other comprehensive income (loss), net of tax	(6,117)	1,700	244
Comprehensive loss	(4,503)	(11,329)	(80,635)
Comprehensive income attributable to noncontrolling interests	(1,150)	(8,836)	(979)
Comprehensive loss attributable to PICO Holdings, Inc.	$(5,653)	$(20,165)	$(81,614)
Net income (loss) per common share – basic and diluted:			
Income (loss) from continuing operations	$0.31	$(1.09)	$(1.64)
Income (loss) from discontinued operations	(0.29)	0.14	(1.92)
Net income (loss) per common share – basic and diluted	$0.02	$(0.95)	$(3.56)
Weighted average shares outstanding	23,122	23,054	23,014

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, 2015
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Non-controlling Interest	Total
Beginning balance, December 31, 2014	23,083	$ 23	$491,662	$(69,508)	$ 4,717	78	$(1,413)	$ 86,064	$511,545
Stock-based compensation expense			2,882					734	3,616
Exercise of restricted stock units	33								—
Withholding taxes paid on vested restricted stock units at UCP, Inc.			(337)					(159)	(496)
Distribution to noncontrolling interest								(26)	(26)
Net income (loss)				(81,858)				979	(80,879)
Unrealized gain on investments, net of deferred income tax of $173 and reclassification adjustments of $741					292				292
Foreign currency translation					(48)				(48)
Ending balance, December 31, 2015	23,116	$ 23	$494,207	$(151,366)	$ 4,961	78	$(1,413)	$ 87,592	$434,004

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, 2016
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Non-controlling Interest	Total
Beginning balance, December 31, 2015	23,116	$ 23	$494,207	$(151,366)	$ 4,961	78	$(1,413)	$ 87,592	$434,004
Stock-based compensation expense			3,507					498	4,005
Exercise of restricted stock units	9								—
Withholding taxes paid on vested restricted stock units at UCP, Inc.			(26)					(20)	(46)
Changes in ownership of noncontrolling interest			(1,951)					1,951	—
UCP, Inc.'s acquisition of its class A common stock								(1,250)	(1,250)
Distribution of treasury stock to deferred compensation plan participants			(269)			(23)	486		217
Abandonment of consolidated subsidiary								1,968	1,968
Net income (loss)				(21,865)				8,836	(13,029)
Unrealized gain on investments, net of deferred income tax of $900 and reclassification adjustments of $297					1,671				1,671
Foreign currency translation					29				29
Ending balance, December 31, 2016	23,125	$ 23	$495,468	$(173,231)	$ 6,661	55	$(927)	$ 99,575	$427,569

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, 2017
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Non-controlling Interest	Total
Beginning balance, December 31, 2016	23,125	$ 23	$495,468	$(173,231)	$ 6,661	55	$(927)	$ 99,575	427,569
Stock-based compensation expense			1,872					299	2,171
Exercise of restricted stock units	76								—
Withholding taxes paid on vested restricted stock units			(831)					(121)	(952)
Changes in ownership of noncontrolling interest			(465)					465	—
Distributions to noncontrolling interest								(26)	(26)
Purchases of treasury stock						47	(690)		(690)
Retirement of treasury stock	(47)		(690)			(47)	690		—
Distribution of treasury stock to deferred compensation plan participant (former CEO)			(106)			(54)	902		796
Deconsolidation of noncontrolling interest in conjunction with sale of consolidated subsidiary								(101,342)	(101,342)
Special dividend paid			(115,860)						(115,860)
Net income				464				1,150	1,614
Unrealized gain on investments, net of deferred income tax of $3,483 and reclassification adjustments of $9,781					(6,193)				(6,193)
Foreign currency translation					76				76
	23,154	$ 23	$379,388	$(172,767)	$ 544	1	$(25)	$ —	$207,163

Ending balance,
December 31, 2017

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017, 2016, and 2015
(In thousands)

	2017	2016	2015
Operating activities:			
Net income (loss)	$1,614	$(13,029)	$(80,879)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision (benefit) for deferred income taxes	3,442	(2,160)	(2,817)
Depreciation and amortization expense	303	899	1,624
Stock-based compensation expense	1,295	2,850	1,907
Impairment loss on investment in unconsolidated affiliate		2,170	20,696
Impairment loss on intangible and long-lived assets		201	2,085
Gain on sale of available-for-sale investments	(8,722)	(133)	(1,101)
Loss on abandonment or liquidation of consolidated subsidiary		1,968	—
Net (income) loss from discontinued operations, net	5,645	(12,124)	43,038
Gain on sale of property, plant and equipment	(165)	(8,605)	
Equity in loss of unconsolidated affiliate			3,422
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Notes and other receivables	1,619	486	253
Real estate, water, and intangible assets	13,027	(477)	(390)
Income taxes	(275)	1,234	41
Other assets	32	179	468
Deferred compensation	(7,500)	2,685	909
Accounts payable and accrued expenses	(10,714)	8,768	(211)
Other operating activities, net	54	14	130
Cash used in operating activities - continuing operations	(345)	(15,074)	(10,825)
Cash provided by (used in) operating activities - discontinued operations	(9,728)	8,722	(38,098)
Net cash used in operating activities	(10,073)	(6,352)	(48,923)
Investing activities:			
Proceeds from the sale of investments	197,848	1,068	7,938
Proceeds from maturity of investments	139,912	18	1,343
Purchases of investments	(270,317)	(1,511)	(2,316)
Proceeds from the sale of property, plant and equipment	470	8,988	
Purchases of property, plant and equipment	(5)	(152)	(2,777)
Other investing activities, net		661	212
Cash provided by investing activities - continuing operations	67,908	9,072	4,400
Cash provided by (used in) investing activities - discontinued operations	47,173	(1,455)	102,193
Net cash provided by investing activities	115,081	7,617	106,593
Financing activities:			
Special dividend paid	(115,860)		
Payment of withholding taxes on exercise of restricted stock units	(672)		(126)
Purchases of treasury stock	(690)		
Other financing activities, net			(27)
Cash provided by (used in) financing activities - continuing operations	(117,222)	—	(153)
Cash provided by (used in) financing activities - discontinuing operations	(11,638)	2,315	(63,095)
Net cash provided by (used in) financing activities	(128,860)	2,315	(63,248)

Net increase (decrease) in cash and cash equivalents	(23,852)	3,580	(5,578)
Cash and cash equivalents, beginning of year	60,980	57,400	62,978
Cash and cash equivalents, end of year	37,128	60,980	57,400
Less cash and cash equivalents of discontinued operations, end of year		41,369	41,417
Cash and cash equivalents of continuing operations, end of year	$37,128	$19,611	$15,983

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PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the years ended December 31, 2017, 2016 and 2015
(In thousands)

	2017	2016	2015
Supplemental disclosure of cash flow information:			
Cash paid (received) during the year for:			
Payment (refund) of federal and state income taxes	$(367)	$(220)	$(67)
Non-cash investing and financing activities:			
Issuance of common stock for vested restricted stock units	$1,824	$85	$559
Fair value of common stock of Century received in the sale of UCP, Inc.	$60,044		
Unpaid liability incurred for construction costs			$388
Distribution of debt and equity securities in satisfaction of deferred compensation liability (including 53,996 and 22,644 shares of treasury stock in 2017 and 2016, respectively)	$15,709	$856	

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations:

PICO Holdings, Inc., together with its subsidiaries (collectively, “PICO” or the “Company”), is a holding company. As of December 31, 2017, the Company has presented its consolidated financial statements and the accompanying notes to the consolidated financial statements using the guidelines prescribed for real estate companies, as the majority of the Company’s assets and operations are primarily engaged in real estate and related activities.

The Company’s most significant operating subsidiary as of December 31, 2017 was Vidler Water Company, Inc. (“Vidler”), a Nevada corporation. Vidler owns water resources and water storage in the southwestern United States, with assets and operations in Nevada, Arizona, Colorado and New Mexico. Currently, Vidler is primarily focused on selling its existing water rights and storage credits.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned, majority-owned and controlled subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of Financial Statements:

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 intangibles, 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 were appropriate as of December 31, 2017 and December 31, 2016, it is reasonably possible that actual results could differ from the estimates upon which the carrying values were based.

Reincorporation:

In May 2017, the Company changed its state of incorporation from California to Delaware. The reincorporation was approved by the requisite vote of shareholders at the Company's Annual Meeting of Shareholders on May 4, 2017. Other than the change in the state of incorporation, the reincorporation did not result in any change in the business, physical location, management, assets, liabilities or net worth of the Company, nor did it result in any change in location of the Company's employees, including the Company's management and board of directors. Furthermore, the Company's common stock continues to trade on the Nasdaq Global Market. The reincorporation did not alter any shareholder's percentage ownership interest or number of shares owned in the Company. In conjunction with the reincorporation, the Company authorized 10 million shares of preferred stock, par value $0.001 per share. Shares of preferred stock may be issued from time to time in one or more series which may be by distinguishing number, letter or title. However, without shareholder approval, the Company's board of directors is only authorized to designate and/or issue, out of the unissued shares of preferred stock, one or more series of preferred stock in connection with the adoption of a tax benefit preservation plan. The issuance of preferred stock could, among other things, have the effect of delaying, deferring, discouraging or preventing a change in control of the Company and may adversely affect the market price of the Company's common stock and the voting and other rights of the holders of common stock.

Special Dividend:

In October 2017, the Company declared a special cash dividend of $5.00 per share, which amounted to approximately $115.9 million. The distribution was paid on November 20, 2017, with an ex-dividend date of November 21, 2017.

Tax Benefit Preservation Plan:

In July 2017, the Company's board of directors adopted a tax benefit preservation plan (the "Plan") designed to preserve the Company's ability to utilize its net operating loss carryforwards as a result of certain stock ownership changes. Consequently, any person or group, together with its affiliates and associates (the "acquiring person"), acquiring beneficial ownership of 4.99% or more of the Company's common stock after August 4, 2017 without the approval of the Company's board of directors would be subjected to significant dilution in its holdings. Such dilution would occur as a consequence of each holder of a Right, other than Rights that are beneficially owned by the acquiring person, obtaining the right to purchase, upon exercise of a Right and payment of the purchase price, a number of shares of the Company's common stock having a market value of two times the exercise price of the Right. Pursuant to the Plan, which is subject to ratification by the Company's shareholders at the 2018 annual meeting, the Company issued one Right for each outstanding share of the Company's common stock to shareholders of record at the close of business on August 4, 2017. Prior to exercise, a Right does not give its holder any rights as a shareholder of the Company, including any dividend, voting or liquidation rights.

Segment Reporting:

Historically, the Company organized its reportable segments by line of business. As a result of the disposition of the Company's real estate operations and other significant dispositions and recent events, currently the only major line of business that constitutes an operating and reportable segment is the water resource and water storage operations. Furthermore, the allocation of resources, and assessment of financial performance is now completed on a consolidated basis as the Company monetizes its assets and returns such proceeds to shareholders. Consequently, as of December 31, 2017, the Company no longer reports segment results as part of its consolidated financial statements.

Tangible Water Assets and Real Estate:

Tangible water assets and real estate include the cost of certain tangible water assets, water storage credits and related storage facilities, real estate, including raw land and improvements. The Company capitalizes pre-acquisition costs, the purchase price of real estate, development costs and other allocated costs, including any interest, during development and construction. Pre-acquisition costs, including non-refundable land deposits, are expensed to cost of sales when the Company determines continuation of the related project is not probable.

Additional costs to develop or otherwise get tangible water and real estate assets ready for their intended use are capitalized. These costs typically include direct construction costs, legal fees, engineering, consulting, direct cost of drilling wells or related construction, and any interest costs capitalized on qualifying assets during the development period. The Company expenses all maintenance and repair costs. The types of costs capitalized are consistent across periods presented. Tangible water assets consist of various water interests in development or awaiting permitting. Amortization of real estate improvements is computed on the straight-line method over the estimated useful lives of the improvements ranging from five to 15 years.

Intangible Water Assets:

Intangible water assets include the costs of indefinite-lived intangible assets and is comprised of water rights and the exclusive right to use two water transportation pipelines. The Company capitalizes development and entitlement costs and other allocated costs, including any interest, during the development period of the assets to tangible water assets and transfers the costs to intangible water assets when water rights are permitted. Water rights consist of various water interests acquired or developed independently or in conjunction with the acquisition of real estate. When the Company purchases intangible water assets that are attached to real estate, an allocation of the total purchase price, including any direct costs of the acquisition, is made at the date of acquisition based on the estimated relative fair values of the water rights and the real estate.

Intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset may be impaired, by comparing the fair value of the assets to their carrying amounts. The fair value of the intangible assets is calculated using discounted cash flow models that incorporate a wide range of assumptions including current asset pricing, price escalation, discount rates, absorption rates, timing of sales, and costs. These models are sensitive to minor changes in any of the input variables.

Investments:

The Company’s investment portfolio at December 31, 2017 and 2016 was comprised of corporate bonds and equity securities. Corporate bonds are purchased based on the maturity and yield-to-maturity of the bond and an analysis of the fundamental characteristics of the issuer. The Company’s investments in equity securities primarily consisted of common stock of publicly traded and private small-capitalization companies in the United States (“U.S.”).

The Company classifies its marketable securities as available-for-sale investments. Such investments are reported at fair value, with unrealized gains and losses, net of tax effects, recorded in accumulated other comprehensive income. Investments in private companies are generally held at the lower of cost or fair value, unless the Company has the ability to exercise significant influence. The Company reports the amortization of premium and accretion of discount on the level yield method relating to bonds acquired at other than par value and realized investment gains and losses in other income. The cost of any equity security sold is determined using an average cost basis and specific identification for bond cost. Sales and purchases of investments are recorded on the trade date.

Investment in Unconsolidated Affiliate:

Investments where the Company owns at least 20% but not more than 50% of the voting interest, or has the ability to exercise significant influence, but not control, over the investee are accounted for under the equity method of accounting. Accordingly, the Company’s share of the income or loss of the affiliate is included in the Company’s consolidated results. Any impairment losses recorded against investments accounted for under the equity method of accounting are included in impairment loss on investment in unconsolidated affiliates.

Other-than-Temporary Impairment:

All of the Company’s debt and equity investments are subject to a periodic impairment review. The Company recognizes an impairment loss when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary.

Factors considered in determining whether a loss is temporary on an equity security includes the length of time and extent to which the investments fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, extent of the loss related to credit of the issuer, the expected cash flows from the security, the Company's intent to sell the security and whether or not the Company will be required to sell the security before the recovery of its cost. If a security is impaired and continues to decline in value, additional impairment losses are recorded in the period of the decline if deemed other-than-temporary. Subsequent recoveries of the value are reported as unrealized gains and are part of other comprehensive income or loss.

The Company will recognize an impairment loss on debt securities if the Company (a) intends to sell or expects to be required to sell the security before its amortized cost is recovered, or (b) does not expect to ultimately recover the amortized cost basis even if the Company does not intend to sell the security. Impairment losses on debt securities that are expected to be sold before the amortized cost is recovered are recognized in earnings. For debt securities that the Company does not expect to recover the amortized costs basis, credit losses are recognized in earnings and the difference between fair value and the amortized cost basis net of the credit loss is recognized in other comprehensive income.

Impairment of Long-Lived Assets:

The Company records an impairment loss when the condition exists where the carrying amount of a long-lived asset or asset group is not recoverable. Impairment of long-lived assets is triggered when the estimated future undiscounted cash flows, excluding interest charges, for the lowest level for which there is identifiable cash flows that are independent of the cash flows of other groups of assets do not exceed the carrying amount. The Company prepares and analyzes cash flows at appropriate levels of grouped assets. If the events or circumstances indicate that the remaining balance may be impaired, such impairment will be measured based upon the difference between the carrying amount and the fair value of such assets determined using the estimated future discounted cash flows, excluding interest charges, generated from the use and ultimate disposition of the respective long-lived asset.

Noncontrolling Interests:

The Company reports the share of the results of operations that are attributable to other owners of its consolidated subsidiaries that are less than wholly-owned as noncontrolling interest in the accompanying consolidated financial statements. In the consolidated statement of operations and comprehensive income or loss, the income or loss attributable to the noncontrolling interest is reported separately and the accumulated income or loss attributable to the noncontrolling interest, along with any changes in ownership of the subsidiary, is reported within shareholders' equity.

Cash and Cash Equivalents:

Cash and cash equivalents include short-term, highly liquid instruments, purchased with original maturities of three months or less.

Other Assets:

Other assets include the following significant account balances:

Property, Plant and Equipment, Net:

Property, plant and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated lives of the assets. Buildings and leasehold improvements are depreciated over the shorter of the useful life or lease term and range from 15 to 30 years, office furniture and fixtures are generally depreciated over seven years, and computer equipment is depreciated over three years. Maintenance and repairs are charged to expense as incurred, while significant improvements are capitalized. Gains or losses on the sale of property, plant and equipment are included in other income.

Accounts payable and accrued expenses:

Accounts payable and accrued expenses includes trade payables and accrued construction payables.

Deferred Compensation:

The Company reports the investment returns generated in the deferred compensation accounts in other income with a corresponding increase in the trust assets (except in the case of PICO stock, which is reported as treasury stock, at cost). There is an increase in the deferred compensation liability when there is appreciation in the market value of the assets held, with a corresponding expense recognized in operating and other costs. In the event the trust assets decline in value, the Company reverses previously expensed compensation. The assets of the plan are held in rabbi trust accounts. Such accounts hold various investments that are consistent with the Company's investment policy, and are accounted for and reported as available-for-sale securities in the accompanying consolidated balance sheets. Assets of the trust will be distributed according to predetermined payout elections established by each participant. In July 2017, the Company’s board of directors elected to terminate the Company’s deferred compensation plans. Consequently, while participant compensation remains deferred at December 31, 2017, the plan is no longer active. In accordance with applicable regulations, distribution of the remaining assets and settlement of the deferred compensation obligation will be made to the participants no earlier than one year from the date the plans were terminated.

Other Liabilities:

Other liabilities includes primarily employee benefits, unearned revenues, option payments and deposits received.

Revenue Recognition:

Sale of Real Estate and Water Assets:

Revenue recognition on the sale of real estate and water assets conforms with accounting literature related to the sale of real estate, and is recognized in full when there is a legally binding sale contract, the profit is determinable (the collectability of the sales price is reasonably assured, or any amount that will not be collectible can be estimated), the earnings process is virtually complete (the Company is not obligated to perform significant activities after the sale to earn the profit, meaning the Company has transferred all risks and rewards to the buyer), and the buyer's initial and continuing investment is adequate to demonstrate a commitment to pay for the property. If these conditions are not met, the Company records the cash received as deferred revenue until the conditions to recognize full profit are met.

Other Income, Net:

Included in other income are various transactional results including realized gains and losses from the sale of investments and property, plant and equipment, interest income, sales of oil and gas, and other sources not considered to be the core focus of the existing operating entities within the group.

Cost of Sales:

Cost of Real Estate and Water Assets:

Cost of real estate and water assets sold includes direct costs of the acquisition of the asset less any impairment losses previously recorded against the asset, development costs incurred to get the asset ready for use, and any capitalized interest costs incurred during the development period.

General, Administrative, and Other:

General, administrative, and other costs include salaries and benefits, stock-based compensation, consulting, audit, tax, legal, insurance, property taxes, rent and utilities, and other general operating expenses.

Stock-Based Compensation:

Stock-based compensation expense is measured at the grant date based on the fair values of the awards, calculated using the closing stock price on the date of grant, and is recognized as expense over the period in which the share-based compensation vests using the straight-line method. When an employee Restricted Stock Award ("RSU") vests, the recipient receives a new share of PICO common stock for each RSU, less the number of shares of common stock equal in value to applicable withholding taxes. When an RSU is forfeited, all previously recognized expense is reversed during the respective forfeiture year and the remaining unamortized expense is canceled.

Accounting for Income Taxes:

The Company's provision for income tax expense includes federal and state 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 asset and 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.

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. At December 31, 2017, the Company concluded that it is likely that not all of its deferred tax assets will be realized, and accordingly, a valuation allowance was recorded against the deferred tax assets that are not expected to be realized.

The Company recognizes any uncertain income tax positions on income tax returns at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized unless it has a greater than a 50% likelihood of being sustained. The Company recognizes any interest and penalties related to uncertain tax positions in income tax expense.

The Tax Cuts and Jobs Act of 2017 (the “Tax Act”), enacted in December 2017, resulted in significant changes to the U.S. corporate income tax system. These changes, that are effective beginning in 2018, include a federal statutory rate reduction from 35% to 21%, the elimination or reduction of certain domestic deductions and credits, and limitations on the deductibility of interest expense and executive compensation as well as limitations on the use of future net operating. Changes in tax rates and tax laws are accounted for in the period of enactment and consequently during the year ended December 31, 2017, the Company remeasured its net deferred tax asset and reduced the value of each deferred tax attribute using a tax rate of 21%, which was offset by a reduction in the recorded valuation allowance resulting in no net effect to the income tax provision for the year ended December 31, 2017.

Loss per Share:

Basic earnings or loss per share was computed by dividing net earnings by the weighted average number of shares outstanding during the period. Diluted earnings or loss per share was 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 stock appreciation rights (“SAR”), performance-based price-contingent stock options (“PBO”), 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 years ended December 31, 2017, the Company’s common stock equivalents were excluded from the diluted per share calculation because their effect on earnings per share was anti-dilutive.

Recently Issued Accounting Pronouncements:

In May of 2014, the Financial Accounting Standards Board (“FASB”) issued guidance regarding revenue from contracts with customers, which provides a consistent revenue accounting model across industries. The Company has reviewed this update and other guidance that was subsequently issued to further clarify the implementation guidance. Under this guidance, revenue is recognized as the transfer of goods and services to customers takes place and in amounts that reflect the payment or payments that are expected to be received from the customers for those goods and services and requires new disclosures about revenue. The Company will adopt the guidance effective January 1, 2018. We have analyzed our revenues and contracts and have concluded that the implementation will not have a material impact on our consolidated financial statements upon adoption.

In March 2016, the FASB issued guidance on accounting for share-based payments to employees. The guidance clarifies income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company implemented this guidance during the three months ended March 31, 2017 and it did not have a material effect on the consolidated financial statements.

2. TANGIBLE WATER ASSETS AND REAL ESTATE, NET

The cost assigned to the various components of tangible water and real estate assets were as follows (in thousands):

	December 31,	
	2017	2016
Tangible water assets	$29,655	$42,498
Real estate and improvements held and used, net of accumulated amortization of $12,003 at December 31, 2017 and December 31, 2016	9,469	9,469
Other real estate inventories	5,551	5,724
Total tangible water and real estate assets, net	$44,675	$57,691

The Company's real estate improvements were fully depreciated at December 31, 2016. Amortization of such improvements was approximately $225,000 and $879,000 for December 31, 2016 and 2015, respectively.

3. INTANGIBLE ASSETS

The Company's carrying amounts of its intangible assets were as follows (in thousands):

	December 31,	
	2017	2016
Pipeline rights and water credits at Fish Springs Ranch	$83,897	$83,897
Pipeline rights and water rights at Carson-Lyon	25,569	25,569
Other	17,319	17,330
Total intangible assets	$126,785	$126,796

Fish Springs Ranch Pipeline Rights and Water Credits:

There are 13,000 acre-feet per-year of permitted water rights at Fish Springs Ranch. The existing permit allows up to 8,000 acre-feet of water per year to be exported to support the development in the Reno, Nevada area. Under a settlement agreement signed in 2007, the Pyramid Lake Paiute Tribe (the "Tribe") agreed to not oppose any permitting activities for the pumping and export of groundwater in excess of 8,000 acre-feet of water per year, and in exchange, Fish Springs Ranch will pay the Tribe 12% of the gross sales price for each acre-foot of additional water that Fish Springs Ranch sells in excess of 8,000 acre-feet per year, up to 13,000 acre-feet per year. The obligation to expense and pay the 12% fee is due only if and when the Company sells water in excess of 8,000 acre-feet, and accordingly, Fish Springs Ranch will record the liability for such amounts as they become due upon the sale of any such excess water. Currently, Fish Springs Ranch does not have regulatory approval to export any water in excess of 8,000 acre-feet per year from Fish Springs Ranch to support further development in northern Reno, and it is uncertain whether such regulatory approval will be granted in the future.

Impairment Losses:

There were no impairment losses recognized on intangible assets during the years ended December 31, 2017 or December 31, 2016.

4. INVESTMENTS

The cost and carrying value of available-for-sale investments were as follows (in thousands):

December 31, 2017	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Debt securities: corporate bonds	$700	$ 6	$ (22)	$ 684
Marketable equity securities	513	710	(5)	1,218
Total	$1,213	$ 716	$ (27)	$ 1,902

December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Debt securities: corporate bonds	$4,306	$ 82	$ (6)	$4,382
Marketable equity securities	10,400	10,327	(38)	20,689
Total	$14,706	$ 10,409	$ (44)	$25,071

The amortized cost and carrying value of investments in debt securities, by contractual maturity, are shown below. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	December 31, 2017		December 31, 2016	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
Due in one year or less	$ 225	$ 204	$ 182	$ 183
Due after one year through five years	475	480	4,124	4,199
	$ 700	$ 684	$ 4,306	$ 4,382

Included in other income, net in the accompanying consolidated financial statements is the net realized gain or loss on investments (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Gross realized gains:			
Debt securities	$ 77		$ 419
Equity securities and other investments	9,746	$ 610	1,010
Total gain	9,823	610	1,429
Gross realized losses:			
Debt securities	(87)	(90)	(4)
Equity securities and other investments [1]	(1,014)	(4,525)	(21,020)
Total loss	(1,101)	(4,615)	(21,024)
Net realized gain (loss)	$ 8,722	$ (4,005)	$ (19,595)

[1] Included within this caption for the years ended December 31, 2016 and 2015 is $2.2 million and $20.7 million, respectively, that is reported in a separate line, impairment loss on unconsolidated affiliate, within the Company's consolidated statements of operations and comprehensive income or loss for the years then ended.

Significant Realized Gains and Losses:

During the year ended December 31, 2016, the Company's 51% owned subsidiary, Klablab, Inc. ("Klablab"), ceased further operations and the Company recorded a $2 million loss which is included within other income, net within the Company's consolidated statements of operations and comprehensive income or loss for the year then ended and also reported in the gross realized loss on equity securities in the table above.

The realized losses reported in 2015 were primarily due to the $20.7 million impairment loss on the common and preferred stock investment in Mindjet, Inc. ("Mindjet") a privately held company located in San Francisco, California that provides business innovation software, as discussed below.

Debt and Marketable Equity Securities

At December 31, 2017, there were no material unrealized losses on the Company's investments in debt or marketable equity securities. Furthermore, there were no impairment losses recorded on debt or equity securities during the three years ended December 31, 2017.

Other Investments:

Investment in Synthonics:

Synthonics, Inc. (“Synthonics”) is a private company co-founded by a previous member of the Company’s board of directors. The Company’s investment consists of preferred shares with an 18.3% voting interest. During 2016, the Company recorded an impairment loss of $2.2 million on the investment when the estimated fair value dropped below the carrying value due to continuing losses reported by Synthonics, the resulting liquidity issues, and decreased market conditions that have adversely affected the value. The loss was recorded within impairment loss on investment in unconsolidated affiliate in the Company’s consolidated statements of operations and comprehensive income or loss for the year ended December 31, 2016 and also reported in the gross realized loss on equity securities in the table above. The fair value approach relied primarily on Level 3 unobservable inputs, whereby the enterprise value was determined using book value multiples that included assumptions regarding an entity’s risks and uncertainties. The estimates were based upon assumptions believed to be reasonable, but which by their nature are uncertain and unpredictable.

Investment in Mindjet:

The Company owns a convertible note receivable (which is recorded within other assets in the consolidated financial statements) and common stock and nonvoting preferred stock representing a voting ownership of 19.3% of Mindjet. The Company determined it currently does not have significant influence over the operating and financial policies of Mindjet and records the investment at cost. The carrying value of the investment, including the convertible note receivable and associated interest, was approximately $2.3 million at December 31, 2017 and 2016.

The Company had previously accounted for the investment in common stock using the equity method of accounting when it did have significant influence over Mindjet. This resulted in recording a loss within equity in loss of unconsolidated affiliate in the consolidated statement of operations and comprehensive income or loss of $3.4 million for the year ended December 31, 2015. The Company’s share of the losses reported by Mindjet during 2015 was allocated to the carrying value of the common stock investment until it reached zero and then to the preferred stock and convertible debt.

During 2015, the Company recorded a $20.7 million impairment loss on the investment in Mindjet common and preferred shares when the estimated fair value dropped below the carrying value due to significantly increased, and continuing operating losses and resulting liquidity issues at the company, actual financial results significantly less than projections, and unfavorable market conditions that have adversely affected the value of Mindjet. Such loss was recorded in impairment loss on investment in unconsolidated affiliate in the consolidated statement of operations and comprehensive income or loss. The fair value of the investment in Mindjet was based on an analysis of the financial and operational aspects of the company, including consideration of business enterprise value-to-revenue ratios for comparable public companies to current revenue metrics for the company. Determination of the business enterprise value based on the foregoing was then considered in an analysis of the distribution of equity value to the various classes of debt and equity issued by Mindjet in order to reflect differences in value due to differing liquidation preferences, dividend and voting rights. The fair value approach relied primarily on Level 3 unobservable inputs, whereby expected future cash flows were determined using revenue multiples that included assumptions regarding an entity’s assumptions about risk and uncertainties. The estimates were based upon assumptions believed to be reasonable, but which by their nature are uncertain and unpredictable.

It is reasonably possible that the Company’s ownership percentage in Mindjet will continue to decline as other shareholders fund the ongoing operations with additional equity capital and upon conversion of notes. The Company does not anticipate investing any additional capital into Mindjet.

The carrying value of the Company’s investment in Mindjet is subject to impairment testing at each reporting period, or more frequently if facts and circumstances indicate the investment may be impaired. It is reasonably possible that circumstances may continue to deteriorate which could require the Company to record additional impairment losses on the remaining investment balances.

5. DISCLOSURES ABOUT FAIR VALUE

Recurring Fair Value Measurements

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. The following tables set forth the Company's assets and liabilities that were measured at fair value, on a recurring basis, by level within the fair value hierarchy. There were no significant transfers between Level 1 and Level 2 during the years ended December 31, 2017 and 2016. The Company's policy is to recognize transfers between levels at the end of the reporting period.

At December 31, 2017 (in thousands):

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2017
Assets				
Available-for-sale equity securities [1]	$ 975	$ 244		$ 1,219
Available-for-sale debt securities [1]	$ 683			$ 683
Total	$ 1,658	$ 244		$ 1,902

At December 31, 2016 (in thousands):

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Available-for-sale equity securities [1]	$ 12,545	$ 8,144		$ 20,689
Available-for-sale debt securities [1]	$ 4,382			$ 4,382
Total	$ 16,927	$ 8,144		$ 25,071

[1] 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 investments 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. All Level 2 available-for-sale securities are one class because they all contain similar risks and 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. Level 3 available-for-sale securities would 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.

Non-Recurring Fair Value Measurements

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.

There were no non-financial assets that were measured at fair value, on a non-recurring basis during the year ended December 31, 2017.

The following table sets forth the Company’s non-financial assets that were measured at fair value, on a non-recurring basis, by level within the fair value hierarchy during the year Ended December 31, 2016 (in thousands):

Asset Description	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Oil and gas wells [1]			$ —	$201
Investment in unconsolidated affiliate [2]			$ —	$2,170

[1] The Company recorded an impairment loss to write down the value of certain oil and gas wells. The loss was reported in the consolidated statements of operations and comprehensive income or loss within impairment loss on intangible and long-lived assets and was included in the results of operations of the corporate segment.

[2] The Company had a non-recurring fair value measurement on its investment in Synthonics that resulted in an impairment loss discussed in Note 4 “Investments.”

Estimated Fair Value of Financial Instruments Not Carried at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The level within the fair value hierarchy in which the fair value measurements are classified include measurements using quoted prices in active markets for identical assets or liabilities (Level 1), quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active (Level 2), and significant valuation assumptions that are not readily observable in the market (Level 3).

As of December 31, 2017 and 2016, the fair values of cash and cash equivalents, accounts payable, and accounts receivable approximated their carrying values because of the short-term nature of these assets or liabilities. The estimated fair value of the Company’s investments in unconsolidated affiliates approximated their carrying values. The estimated fair value of certain of the Company’s other investments, which included investments in preferred stock of private companies, cannot be reasonably estimated on a recurring basis.

6. COMMITMENTS AND CONTINGENCIES

The Company leases some of its offices under non-cancelable operating leases that expire at various dates through 2020. Rent expense for the years ended December 31, 2017, 2016, and 2015, for office space was $388,000, $696,000, and $571,000, respectively.

Future minimum payments under all operating leases were as follows (in thousands):

Year ended December 31,	
2018	$351
2019	356
2020	166
Thereafter	—
Total	$873

Neither PICO nor its subsidiaries are parties to any potentially material pending legal proceedings.

The Company is subject to various litigation matters that arise in the ordinary course of its business. Because litigation is inherently unpredictable and unfavorable resolutions could occur, assessing contingencies is highly subjective and requires judgments about future events. When evaluating contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation against the Company may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of the Company’s potential liability. The Company regularly reviews contingencies to determine the adequacy of accruals and related disclosures. The amount of ultimate loss may differ from these estimates, and it is possible that the Company’s consolidated financial statements could be materially affected in any particular period by the unfavorable resolution of one or more of these contingencies.

Whether any losses finally determined in any claim, action, investigation or proceeding could reasonably have a material effect on the Company’s business, financial condition, results of operations or cash flows will depend on a number of variables, including: the timing and amount of such losses; the structure and type of any remedies; the significance of the impact any such losses, damages or remedies may have on the consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

7. STOCK-BASED COMPENSATION

At December 31, 2017, the Company had one stock-based payment arrangement outstanding, the PICO Holdings, Inc. 2014 Equity Incentive Plan (the “2014 Plan”).

The 2014 Plan provides for the issuance of up to 3.3 million shares of common stock in the form of PBO, RSU, SAR, non-statutory stock options, restricted stock awards (“RSA”), performance shares, performance units, deferred compensation awards, and other stock-based awards to employees, directors, and consultants of the Company (or any present or future parent or subsidiary corporation or other affiliated entity of the Company). The 2014 Plan allows for broker assisted cashless exercises and net-settlement of income taxes and employee withholding taxes. Upon exercise of a PBO, RSU, and SAR, the employee will receive newly issued shares of PICO common stock with a fair value equal to the in-the-money value of the award, less applicable federal, state and local withholding and income taxes (however, the holder can elect to pay withholding taxes in cash).

The Company recorded total stock based compensation expense of $1.3 million, $2.9 million and $1.9 million during the years ended December 31, 2017, 2016 and 2015, respectively.

Performance-Based Options (PBO):

At various times, the Company has awarded PBO to various members of management. All of the PBO issued contain a market condition based on the achievement of a stock price target during the contractual term and vest monthly over a three year period. The vested portion of the options may be exercised only if the 30-trading-day average closing sales price of the Company’s common stock equals or exceeds 125% of the grant date stock price. The stock price contingency may be met any time before the options expire and it only needs to be met once for the PBO to remain exercisable for the remainder of the term. Compensation expense is amortized on a straight-line basis over the requisite service period for the entire award, which is the vesting period of the award. However, any unrecognized compensation expense for unvested awards can be accelerated if the vesting period is modified.

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The estimated fair value of the Company's PBO was determined using a Monte Carlo model, which incorporated the following assumptions:

	2014 10-Year Option	
Grant date	11/14/2014	
Expiration date	11/14/2024	
Grant date stock price	$19.51	
Historical volatility	35.00	%
Risk-free rate (annualized)	2.38	%
Dividend yield (annualized)	—	%
PBO granted	167,619	
Weighted average grant date fair value	$6.51	
Fair value of award on grant date	$1,475,705	

The determination of the fair value of PBO using an option valuation model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. The volatility is calculated through an analysis based on historical daily returns of PICO's stock over a look-back period equal to the PBO contractual term. The risk-free interest rate assumption is based upon a risk-neutral framework using the 10-year and 4.58-year zero-coupon risk-free interest rates derived from the treasury constant maturities yield curve on the grant date, for the 10-year PBO award and the 4.58-year PBO award, respectively. The dividend yield assumption is based on the expectation of no future dividend payouts by the Company.

A summary of PBO activity was as follows:

	Performance-Based Options	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2015 and 2016	453,333	$ 19.51
Forfeited	(285,714)	$ 19.51
Outstanding at December 31, 2017 [(1)]	167,619	$ 14.51

[(1)] In November 2017, the exercise price per share of the PBO was reduced to reflect the special dividend paid to shareholders.

On January 8, 2017, 285,714 PBO expired and were canceled in conjunction with the termination of the Company's former CEO. The remaining 167,619 PBO outstanding are exercisable for up to 10 years from the grant date.

	Performance-Based Options	Weighted-Average Exercise Price Per Share	Weighted-Average Contractual Term Remaining (Years)	Aggregate Intrinsic Value
Vested at December 31, 2015	163,704			
Vested	238,413			
Vested at December 31, 2016	402,117	$ 19.51	4.5	—
Vested	51,216			
Forfeited	(285,714)			
Vested at December 31, 2017 [(1)]	167,619	$ 14.51	6.9	—

(1) In November 2017, the exercise price per share of the PBO was reduced to reflect the special dividend paid to shareholders.

During the year ended December 31, 2016, the Company accelerated the vesting of 87,302 PBO and recorded $428,000 of additional stock-based compensation expense in conjunction with the termination of the Company's former CEO.

As of December 31, 2017 and December 31, 2016, there were no PBO exercisable as the market condition had not been met. The was no unrecognized compensation cost related to unvested PBO at December 31, 2017 and at December 31, 2016 there was $428,000 of unrecognized compensation cost.

Restricted Stock Units (RSU):

RSU awards the recipient, who must be continuously employed by the Company until the vesting date, unless the employment contracts stipulate otherwise, the right to receive one share of the Company's common stock. RSU issued to management do not vote and are not entitled to receive dividends, however the RSU issued to the Company's director's are entitled to dividends.

A summary of RSU activity was as follows:

	RSU Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding and unvested at December 31, 2014	142,131	$ 19.81
Granted	23,300	$ 15.68
Vested	(45,753)	$ 20.43
Forfeited	(11,020)	$ 15.72
Outstanding and unvested at December 31, 2015	108,658	$ 19.07
Granted	24,326	$ 10.28
Vested	(76,152)	$ 19.14
Forfeited	(8,600)	$ 17.30
Outstanding and unvested at December 31, 2016	48,232	$ 14.85
Granted	54,186	$ 15.01
Vested	(71,944)	$ 14.58
Forfeited	(19,999)	$ 13.82
Outstanding and unvested at December 31, 2017	10,475	$ 19.51

The unrecognized compensation cost related to unvested RSU for the years ended December 31, 2017 and 2016 was $178,000 and $508,000, respectively.

During the year ended December 31, 2016, the Company accelerated the vesting of 35,714 RSU and recorded $651,000 of additional stock-based compensation expense in conjunction with the termination of the Company's former CEO.

Stock-Settled Stock Appreciation Right (SAR):

The 466,470 previously outstanding SAR with an exercise price of $42.71 expired during the year ended December 31, 2017. Consequently, there are no such awards outstanding.

8. FEDERAL AND STATE CURRENT AND DEFERRED INCOME TAX

As a result of the Tax Act, the Company remeasured its net deferred tax assets and corresponding valuation allowance using a federal rate of 21% during the year ended December 31, 2017, which resulted in no net impact to the income tax provision. The Company and its subsidiaries file a consolidated federal income tax return. Companies that are less than 80% owned corporations, or entities that are treated as partnerships for federal income tax purposes, file separate federal income tax returns. All of the Company’s pre-tax loss from continuing operations in each of the three years ended December 31, 2017, 2016 and 2015 was generated in the U.S. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company's income tax (provision) benefit for federal and state income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Current tax (provision) benefit	$360	$(47)	$48
Deferred tax (provision) benefit	(3,442)	1,182	2,913
Total income tax (provision) benefit	$(3,082)	$1,135	$2,961

The difference between income taxes provided at the Company's federal statutory rate and effective tax rate was as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Federal income tax (provision) benefit at statutory rate	$(3,620)	$9,201	$13,083
Change in valuation allowance	36,055	(7,664)	(16,026)
Impact of U.S. tax reform	(35,570)		
State taxes, net of federal benefit	319	225	280
Nondeductible compensation			(530)
Equity in loss of unconsolidated affiliate			2,766
Research and development credit			2,248
Other	(266)	(627)	1,140
Total income tax (provision) benefit	$(3,082)	$1,135	$2,961

The significant components of deferred income tax assets and liabilities were as follows (in thousands):

	December 31,	
	2017	2016
Deferred tax assets:		
Net operating losses, capital losses, and tax credit carryforwards	$55,852	$67,838
Deferred compensation	1,212	10,908
Impairment loss on securities	36	1,221
Impairment loss on water assets	10,791	17,277
Impairment loss on real estate		1,847
Capitalized expenses		9,788
Employee benefits, including stock-based compensation	745	9,945
Excess tax basis in affiliate	5,743	7,676
Fixed assets	811	469
Other, net	1,011	3,528
Total deferred tax assets	76,201	130,497
Deferred tax liabilities:		
Unrealized appreciation on securities	122	4,138
Revaluation of real estate and water assets	3,251	5,247
Excess book basis in affiliate		5,770
Other, net	520	2,113
Total deferred tax liabilities	3,893	17,268
Valuation allowance	(72,308)	(113,229)
Net deferred income tax asset	$—	$—

Deferred tax assets and liabilities and federal income tax expense in future years can be significantly affected by changes in circumstances that would influence management's conclusions as to the ultimate realization of deferred tax assets. Valuation allowances are established and maintained for deferred tax assets on a "more likely than not" threshold. At December 31, 2011, the Company considered it more likely than not that the deferred tax assets would not be realized and a full valuation allowance was provided. At December 31, 2017, after evaluating the positive and negative evidence, management concluded to maintain a full valuation allowance against its deferred tax assets. The Company has considered the following possible sources of taxable income when assessing the realization of the deferred tax assets: (1) future reversals of existing taxable temporary differences; (2) taxable income in prior carryback years; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards. Reliance on future U.S. taxable income as an indicator that a valuation allowance is not required is difficult when there is negative evidence such as the Company's cumulative losses in recent years. In considering the evidence as to whether a valuation allowance is needed, the existence, magnitude and duration of such cumulative losses are factors that are accorded significant weight in the Company's assessment. As a result, a determination was made that there was not sufficient positive evidence to enable the Company to conclude that it was "more likely than not" that certain of these deferred tax assets would be realized. Therefore, the Company has provided a full valuation allowance against the Company's net deferred tax assets balances as discussed above. This assessment will continue to be undertaken in the future. The Company's results of operations may be impacted in the future by the Company's inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets.

The Company's results of operations might be favorably impacted in the future by reversals of valuation allowances if the Company is able to demonstrate sufficient positive evidence that the Company's deferred tax assets will be realized.

The Company had operating loss carryforwards, federal tax credit carryforwards, and state capital loss carryforwards as of December 31, 2017, that will expire if not utilized. The following table summarizes such carryforwards and their expiration as follows (in thousands):

	Federal Net Operating Losses	Federal Tax Credits	State Net Operating Losses	State Capital Losses
Expire 2018 through 2020		$ 2,751	$ 14,161	$ 8,500
Expire 2021 through 2025		782	6,819	5,655
Expire 2026 through 2030			17,009	
Expire 2031 through 2037	$ 185,494	3,970	136,730	
Total	$ 185,494	$ 7,503	$ 174,719	$ 14,155

Utilization of the Company's U.S. federal and certain state net operating loss and tax credit carryovers may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2017, the Company believes that utilization of its federal net operating losses and federal tax credits are not limited under any ownership change limitations provided under the Internal Revenue Code. The tax benefit preservation plan adopted during 2017, which is subject to ratification by the Company's shareholders at the 2018 annual meeting, provides protections to preserve the Company's ability to utilize its net operating loss carryforwards as a result of certain stock ownership changes in the future.

The Company is subject to taxation in the U.S. and various state jurisdictions. As of December 31, 2017, the Company's statute is open from 2014 and 2013 forward for federal and for state tax purposes, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	December 31,	
	2017	2016
Net unrealized gain on available-for-sale investments [1]	$544	$6,736
Foreign currency translation		(75)
Accumulated other comprehensive income	$544	$6,661

[1] The unrealized gain on available-for-sale investments is net of a deferred income tax liability of $145,000 at December 31, 2017 and $3.6 million at December 31, 2016.

The following table reports amounts that were reclassified from accumulated other comprehensive income and included in earnings (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Accumulated other comprehensive income - January 1	$6,661	$4,961	$4,717
Unrealized gain reclassified and recognized in net loss, net of tax[1]	(6,358)	(193)	(481)
Foreign exchange reclassified and recognized in net loss, net of tax[1]	2	20	361
Total reclassified and recognized in net loss, net of tax	(6,356)	(173)	(120)
Unrealized gain on marketable securities, net of tax	164	1,864	773
Accumulated currency, net of tax	75	9	(409)
Net change in other comprehensive income, net of tax	(6,117)	1,700	244
Accumulated other comprehensive income - December 31	$544	$6,661	$4,961

[1] Amounts reclassified from this category are included in other income in the consolidated statement of operations and comprehensive income or loss.

10. RELATED-PARTY TRANSACTIONS

Deferred Compensation

In July 2017, the Company's board of directors terminated the Company's deferred compensation plans. Consequently, while participant compensation remains deferred at December 31, 2017, the plan is no longer active. In accordance with applicable regulations, distribution of the remaining assets and settlement of the deferred compensation obligation will be made to the participants no earlier than one year from the date the plans were terminated. The total value of the deferred compensation obligation for all participants at December 31, 2017 and December 31, 2016 was $4.1 million and $27.3 million, respectively, and is included in the accompanying consolidated balance sheets.

In conjunction with the termination of the Company's former CEO, assets valued at $23.3 million were distributed from the trust accounts during 2017.

Within these accounts, the following individuals are the beneficiaries of the following number of PICO common shares and fair value:

	December 31, 2017	December 31, 2016
Former CEO		53,996
Mr. Webb, CEO	1,375	1,375
Number of shares held	1,375	55,371

Fair value of PICO stock held in deferred compensation accounts	$ 17,600	$ 839,000

The trustee for the accounts is U.S. Bank. The accounts are subject to the claims of outside creditors, and the cost of the shares of PICO common stock held in the accounts are reported as treasury stock in the consolidated financial statements.

Employment Agreements:

During 2016, the Company entered into employment agreements with Mr. Webb and Mr. Perri, effective as of January 1, 2017, that stipulated their annual salary and participation in the standard benefits package, subject to an annual cost of living adjustment that is subject to Compensation Committee approval, certain termination benefits, and participation in a revised bonus plan and an executive change in control bonus plan, as described below.

Executive Bonus Plan:

The bonus plan is effective from January 1, 2016 through December 31, 2020 and replaced and superseded the previous bonus plan maintained by the Company. Such arrangement awards an annual bonus only if 1) there is a net gain derived from a sale or other disposal of assets, as defined, and 2) cash proceeds from such transactions are distributed directly to the Company’s shareholders during the same year.

The agreement establishes a bonus pool that is calculated as 8.75% of the adjusted total net gain from assets sold or otherwise disposed. The plan defines the total net gain as the difference between the cash received in sale or other disposal transactions less (a) the invested capital of each such asset as of the sale date, as determined in accordance with U.S. GAAP, subject to adjustment by the Compensation Committee to the extent necessary to reflect the capitalization of costs with respect to such assets as required by GAAP; (b) any bonus paid or payable to the Company’s management for the sale or other disposition of each such asset, other than any bonus under the bonus plan; and (c) administrative expenses specified in the bonus plan. Such total net gain is then also multiplied by an adjustment factor resulting in an adjusted total net gain. The adjustment factor is a fraction, the numerator of which is the total amount of cash distributed or committed to be distributed to the Company’s shareholders with respect to all such assets sold or otherwise disposed of during the year, and the denominator, which is the total amount of cash received after payment of all selling costs, including any fees and commissions for which all such assets were sold or otherwise disposed of during the year. For assets distributed directly to the Company’s shareholders, the adjustment factor is 100%. The resulting bonus pool is allocated 55% to Mr. Webb, 32.5% to Mr. Perri, and 12.5% to other employees of the Company who are designated by the Compensation Committee as eligible to participate in the bonus plan with respect to the applicable bonus plan year, in amounts designated by the Compensation Committee, in each case based on the recommendation of the Mr. Webb. Each individual will be entitled to his allocated portion of the bonus pool for the year if employed by the Company on the last day of the year. However, in the event that Mr. Webb’s or Mr. Perri’s employment with the Company is terminated in certain circumstances as provided in their employment agreements such terminated individual will be entitled to payment of an amount under the bonus plan for a portion of the year in which such termination occurs.

For assets sold or otherwise disposed of entirely or partially for non-cash consideration by the Company, the calculation of total net gain with respect to the non-cash consideration will instead be made in the year in which the non-cash consideration is ultimately sold or otherwise disposed of for cash by the Company. For assets distributed directly to the Company’s shareholders, other than an asset resulting from a previous sale or other disposal of an asset for non-cash consideration as described in the preceding sentence, the total net gain will be determined by deducting items (a) through (c) above from the value of such assets upon such distribution, as determined in accordance with U.S. GAAP.

For the year ended December 31, 2017, a bonus pool of $88,000 was calculated based on the Company’s financial results for 2017. Such total will be allocated according to the specifics discussed above with 70% of the award distributed in cash during 2018 and 30% of the award issued in RSU that will vest immediately, but will not be stock settled for three years from the grant date.

Executive Change in Control Bonus Plan:

In connection with exploring strategic alternatives, the Compensation Committee approved a change in control bonus plan during 2017. In summary, if a change in control occurs during the term of the agreement and the participants are terminated without cause in connection with such change in control, then a pool of funds will be made available for the payment of bonuses under the plan. The change in control bonus plan terminates at December 31, 2018 if no transaction is consummated.

Under the plan, a change in control occurs when any person (as defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) becomes the beneficial owner, directly or indirectly, of securities of the Company representing more than 50% of the total combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors of the Company; provided, however, that a change in control transaction shall not be deemed to have occurred if such degree of beneficial ownership results from any acquisition directly from the Company, any acquisition by the Company or any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or either the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of securities of the Company representing more than 50% of the total combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors of the Company or a merger or consolidation in which the Company is a party (collectively, a "Transaction") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding securities entitled to vote generally in the election of directors of the Company.

The bonus is calculated as the sum of the total purchase price for the Company's securities, less all cash and cash equivalents of the Company as of the closing date of the transaction, other than any cash remaining as of the closing date that is attributable to the sale or disposal of assets prior to the closing date but had not yet been distributed or committed to be distributed to shareholders and less all selling costs of the transaction. The sum of those three amounts is multiplied by 0.8% to calculate the bonus pool. Such bonus pool will be allocated two-thirds to Mr. Webb and one-third to Mr. Perri.

Termination of the Company's CEO and Other Related Changes in Executive Management During 2016:

During 2016, the Company terminated its CEO. In connection with the termination, the Company's board of directors appointed Mr. Webb as President and Chief Executive Officer and as a class III director of the Company and appointed Mr. Perri as Chief Financial Officer. Mr. Webb and Mr. Perri irrevocably and unconditionally waived their right to receive any bonus payment that would have otherwise been payable pursuant to the terms of the Company's then existing executive bonus plan.

The Company's former CEO received severance benefits as set forth in Section 4(b) of his Amended and Restated Employment Agreement with the Company, dated March 11, 2016 and filed with the SEC on March 14, 2016. Such benefits included certain severance and vacation differential payments totaling approximately $10.4 million, certain medical benefits that are on-going, and immediate vesting of the outstanding RSU and PBO previously granted. The Company's former CEO was also entitled to the balance of his accrued vacation and personal days valued at $338,000.

Incentive Compensation

Certain officers of Vidler are eligible to receive an annual incentive award based on the combined net income, after certain adjustments, of Vidler. The compensation earned and accrued under this plan during the year ended December 31, 2017 was $414,000. There was no compensation earned during the years ended December 31, 2016 or 2015.

Sale of Oil and Gas Assets

In conjunction with exiting our residual oil and gas operations, during 2017, the Company sold the majority of the remaining oil and gas lease assets to the service agent the Company had contracted with to operate and manage such oil and gas operations. The Company received book value for the majority of the assets sold resulting in no significant gain or loss on the transaction. The Company expects to sell the legal business entities that were created to operate the oil and gas operations to its service agent. Consequently, at December 31, 2017, the Company had accrued $150,000 of disposal expense related to the final sale.

11. DISCONTINUED OPERATIONS

The Company's agribusiness and real estate segment qualified as held-for-sale at December 31, 2017 and has been classified as discontinued operations in the accompanying consolidated financial statements as of the earliest period presented.

During 2017, UCP entered into a merger agreement with Century whereby each outstanding share of UCP common stock was converted into $5.32 in cash and 0.2309 of a newly issued share of Century common stock representing 9% of Century's common stock then outstanding. The transaction closed on August 4, 2017 and as a result the Company deconsolidated UCP as of the closing date. In October 2017, the Company sold its entire position of Century common stock for $59.2 million and recorded a realized loss of $842,000.

During 2015, the Company sold substantially all of the assets used in its agribusiness segment for a net selling price of $105.3 million. After repayment of $80.9 million of outstanding debt and $5.9 million in selling and other related costs of the sale, the Company received net proceeds of $18.4 million on the date of close. After resolution of certain operation escrow matters and all selling and related costs of the sale, the Company received final proceeds of $16.4 million.

The Company has guaranteed up to $8 million for any indemnification claims in excess of the $6 million escrow pursuant to the terms of a guaranty agreement with the buyer. The guaranty will remain in force until July 31, 2020. The guaranty has been recorded at estimated fair value that reflects the Company's expectation that no significant amounts will be paid out under the guaranty. However, any amounts paid by the Company in excess of the estimate will result in additional loss on the sale.

The following table presents the details of the Company's results from all discontinued operations included in the consolidated statement of operations and comprehensive income or loss (in thousands):

	2017	2016	2015
Revenue and other income:			
Sale of real estate	$247,213	$354,368	$278,826
Sale of canola oil and meal			82,267
Other	506	866	173
Total revenue and other income	247,719	355,234	361,266
Cost of goods sold:			
Cost of real estate sold	200,789	290,412	226,476
Cost of canola oil and meal sold			90,061
Total cost of goods sold	200,789	290,412	316,537
Impairment loss on intangible and long-lived assets	102	6,811	3,072
Interest			3,259
Selling expenses	13,784	19,774	21,596
General, administrative and other	29,631	29,554	41,111
Total expenses	244,306	346,551	385,575
Income (loss) from discontinued operations	3,413	8,683	(24,309)
Benefit (provision) for federal and state income taxes	(360)	5,216	
Loss on sale of discontinued operations, net of tax	(8,698)	(1,775)	(18,729)
Net loss from discontinued operations, net of tax	(5,645)	12,124	(43,038)
Net loss from discontinued operations attributable to noncontrolling interests	(1,150)	(8,836)	(979)
Net loss from discontinued operations attributable to PICO Holdings, Inc.	$(6,795)	$3,288	$(44,017)

The following table presents the details of the Company's discontinued assets and liabilities classified as held-for-sale in the consolidated balance sheet (in thousands):

	December 31, 2016
Assets:	
Cash and cash equivalents	$ 40,931
Real estate	373,207
Accounts receivable	5,628
Other assets	14,418
Real estate assets held-for-sale	$ 434,184
Agribusiness assets held-for-sale	6,505
Total assets held-for-sale	$ 440,689
Liabilities:	
Debt	$ 160,994
Accounts payable and accrued expenses	34,025
Other	12,271
Real estate liabilities held-for-sale	$ 207,290
Agribusiness liabilities held-for-sale	276
Total liabilities held-for-sale	$ 207,566

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms.

These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive and Chief Financial Officers, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2017. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2017.

Management’s Annual Report on Internal Control over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes of accounting principles generally accepted in the United States and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company’s assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this assessment, management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2017, the Company’s internal control over financial reporting was effective based on the COSO criteria (2013).

Deloitte & Touche LLP, the independent registered public accounting firm who audited the Company's consolidated financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
PICO Holdings, Inc.
La Jolla, California

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PICO Holdings, Inc. and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2017 of the Company and our report dated March 1, 2018, expressed an unqualified opinion on those financial statements and financial statement schedule.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
March 1, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding directors will be set forth in the section headed “Election of Directors” in our definitive proxy statement with respect to our 2018 annual meeting of shareholders (the “2018 proxy statement”), to be filed on or before April 30, 2018 and is incorporated herein by reference. The information required by this item regarding the Company’s code of ethics will be set forth in the section headed “Code Of Ethics” in the 2018 proxy statement and is incorporated herein by reference. Information regarding executive officers is set forth in Item 1 of Part 1 of this Report under the caption “Executive Officers.” Other information required by this item will be set forth in the sections headed “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2018 proxy statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the section headed “Executive Compensation and Related Information” in the 2018 proxy statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND RELATED STOCKHOLDER MATTERS

The information required by this item will be set forth in the sections headed “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the 2018 proxy statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the section headed “Certain Relationships and Related Persons Transactions” and “Compensation Committee, Interlocks and Insider Participation” in the 2018 proxy statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be set forth in the sections headed “Independent Registered Public Accounting Firm Fees” and “Audit Committee Pre-Approval Policy” in the 2018 proxy statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) FINANCIAL SCHEDULES AND EXHIBITS

1. Exhibits

Exhibit Number	Description
2.1	Asset Purchase Agreement dated July 13, 2015, by and between PICO Northstar Hallock, LLC and CHS Hallock, LLC. (1)
3.1	Certificate of Incorporation of PICO Holdings, Inc. (2)
3.2	Bylaws of PICO Holdings, Inc. (2)
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of PICO Holdings, Inc. (3)
4.1	Section 382 Rights AGreement, dated as of July 24, 2017, by and between PICO Holdings, Inc. and Computershare Trust Company N.A. (3)
4.2	PICO Holdings, Inc. Stock Certificate. (4)
10.1	Guaranty, dated July 31, 2015, between PICO Holdings, Inc. and CHS Hallock, LLC. (6)
10.2	Restrictive Covenant Agreement, dated July 31, 2015, between CHS Hallock, LLC and PICO Holdings, Inc. (6)
10.1†	PICO Holdings, Inc. 2014 Equity Incentive Plan, Stock Option Grant Notice, Stock Option Award Agreement, Stock Option Notice of Exercise, Restricted Stock Unit Grant Notice, Restricted Stock Unit Award Agreement, and Restricted Stock Deferral Election Form. (7)
10.2†	Trust for PICO Deferred Holdings, LLC Executive Deferred Compensation dated November 25, 2008 between PICO Deferred Holdings, LLC and U.S. Bank (as successor to Union Bank of California, N.A.) relating to a Deferred Compensation Plan originally established in December 7, 2004. (8)
10.3†	Infrastructure Dedication Agreement between Fish Springs Ranch, LLC, and Washoe County, Nevada dated October 16, 2007. (10)
10.4†	Employment Agreement, dated December 14, 2016, by and between PICO Holdings, Inc. and Maxim C.W. Webb. (9)
10.5†	Employment Agreement, dated December 14, 2016, by and between PICO Holdings, Inc. and John T. Perri. (9)
10.6†	PICO Holdings, Inc. Executive Bonus Plan. (9)
10.7†	PICO Holdings, Inc. Executive Change in Control Bonus Plan. (5)
10.8†	PICO Holdings, Inc. Amended and Restated Nonemployee Director Compensation Policy
10.9	Form of Indemnity Agreement with directors and executive officers of PICO Holdings, Inc. and each of its subsidiaries. (4)
10.10†	Directorship Letter Agreement with Eric Speron dated December 18, 2015. (11)
10.11	Agreement dated January 27, 2017, by and among PICO Holdings, Inc., Bandera Partners LLC, Bandera Master Fund L.P., Gregory Bylinsky and Jefferson Gramm. (12)
21.1	Subsidiaries of PICO Holdings, Inc.
23.1	Consent of Independent Registered Public Accounting Firm - Deloitte & Touche LLP.
31.1	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.
31.2	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.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

Exhibit Number	Description
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Indicates compensatory plan, contract or arrangement in which directors or executive officers may participate.
(1) Incorporated by reference to Form 8-K filed with the SEC on July 17, 2015.
(2) Incorporated by reference to Form 8-K filed with the SEC on June 1, 2017.
(3) Incorporated by reference to Form 8-A filed with the SEC on July 24, 2017.
(4) Incorporated by reference to Form 10-Q filed with the SEC on August 9, 2017.
(5) Incorporate by reference to Form 8-K filed with the SEC on October 2, 2017.
(6) Incorporated by reference to Form 8-K filed with the SEC on August 6, 2015.
(7) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on November 10, 2014.
(8) Incorporated by reference to the Annual Report on Form 10-K filed with the SEC on March 1, 2010.
(9) Incorporated by reference to Form 8-K filed with the SEC on December 15, 2016.
(10) Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on November 7, 2007.
(11) Incorporated by reference to Form 8-K filed with the SEC on December 22, 2015.
(12) Incorporated by reference to Form 8-K filed with the SEC on January 30, 2017.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the 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:	March 1, 2018	By: /s/ Maxim C. W. Webb Maxim C. W. Webb Chief Executive Officer President and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on March 1, 2018 by the following persons on behalf of the Registrant and in the capacities indicated.

/s/ Maxim C. W. Webb Maxim C. W. Webb	Chief Executive Officer, President and Chairman of the Board (Principal Executive Officer)
/s/ John T. Perri John T. Perri	Chief Financial Officer and Secretary (Principal Financial Officer)
/s/ Daniel B. Silvers Daniel B. Silvers	Lead Independent Director
/s/ Eric H. Speron Eric H. Speron	Director
/s/ Gregory E. Bylinsky Gregory E. Bylinsky	Director