

PICO HOLDINGS INC /NEW  
Form 10-Q  
May 11, 2015  
UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 033-36383

PICO HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

California 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)

(858) 456-6022  
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

On May 4, 2015, the registrant had 23,004,618 shares of common stock, \$0.001 par value per share outstanding.

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PICO Holdings, Inc.

Form 10-Q  
For the Three Months Ended March 31, 2015

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## Part I: Financial Information

## Item 1: Condensed Consolidated Financial Statements (Unaudited)

PICO Holdings, Inc. and Subsidiaries  
 Condensed Consolidated Balance Sheets - Unaudited  
 (In thousands, except par value)

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$47,971	\$62,978
Investments (\$24,155 and \$28,370 measured at fair value at March 31, 2015 and December 31, 2014, respectively)	50,973	55,671
Real estate and tangible water assets, net	397,718	392,239
Property, plant and equipment, net	118,802	121,017
Intangible assets	128,139	126,612
Other assets	38,916	45,927
Total assets	\$782,519	\$804,444
Liabilities and shareholders' equity		
Debt		
Accounts payable and accrued expenses	\$223,328	\$219,496
Deferred compensation	25,094	32,777
Other liabilities	24,954	24,584
Total liabilities	16,355	16,042
	289,731	292,899
Commitments and contingencies		
Common stock, \$0.001 par value; authorized 100,000 shares, 23,083 issued and 23,005 outstanding at March 31, 2015 and December 31, 2014	23	23
Additional paid-in capital	492,495	491,662
Accumulated deficit	(86,333)	(69,508)
Accumulated other comprehensive income	4,675	4,717
Treasury stock, at cost (common shares: 78 at March 31, 2015 and December 31, 2014)	(1,413)	(1,413)
Total PICO Holdings, Inc. shareholders' equity	409,447	425,481
Noncontrolling interest in subsidiaries	83,341	86,064
Total shareholders' equity	492,788	511,545
Total liabilities and shareholders' equity	\$782,519	\$804,444

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

## PICO Holdings, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations and Comprehensive Income or Loss - Unaudited

(In thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Revenues and other income:		
Sale of real estate and water assets	\$43,610	\$25,646
Sale of canola oil and meal	39,432	34,859
Other income	1,608	771
Total revenues and other income	84,650	61,276
Cost of sales:		
Cost of real estate and water assets sold	36,333	21,055
Cost of canola oil and meal sold	42,893	34,174
Total cost of sales	79,226	55,229
Expenses:		
Operating and other costs	20,049	16,854
Impairment loss on intangible and long-lived assets	2,964	2,865
Interest	1,439	1,477
Depreciation and amortization	537	542
Total costs and expenses	104,215	76,967
Loss before income taxes and equity in loss of unconsolidated affiliates	(19,565	) (15,691
Benefit for federal, foreign, and state income taxes	(239	) (265
Equity in loss of unconsolidated affiliate	(483	) (479
Net loss	(19,809	) (15,905
Net loss attributable to noncontrolling interests	2,984	2,658
Net loss attributable to PICO Holdings, Inc.	\$(16,825	) \$(13,247

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

## PICO Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income or Loss - Unaudited, Continued  
(In thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
Other comprehensive loss:		
Net loss	\$(19,809	) \$(15,905
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities, net of deferred income tax and reclassification adjustments	(51	) 487
Foreign currency translation	9	40
Total other comprehensive income (loss), net of tax	(42	) 527
Comprehensive loss	(19,851	) (15,378
Comprehensive loss attributable to noncontrolling interests	2,984	2,658
Comprehensive loss attributable to PICO Holdings, Inc.	\$(16,867	) \$(12,720
Net loss per common share – basic and diluted:		
Net loss per common share	\$(0.73	) \$(0.58
Weighted average shares outstanding	23,005	22,747

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

## PICO Holdings, Inc. and Subsidiaries

## Condensed Consolidated Statements of Shareholders' Equity - Unaudited

Three Months Ended March 31, 2015 And 2014

(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	Noncontrolling Interest	Total
Beginning balance, January 1, 2015	23,083	\$ 23	\$ 491,662	\$ (69,508 )	\$ 4,717	78	\$(1,413)	\$ 86,064	\$ 511,545
Stock-based compensation expense			845					270	1,115
Withholding taxes paid on vested restricted stock units at UCP, Inc.			(12 )					(9 )	(21 )
Net loss				(16,825 )				(2,984 )	(19,809 )
Unrealized loss on investments, net of deferred income tax of \$28 and reclassification adjustments of \$484					(51 )				(51 )
Foreign currency translation					9				9
Ending balance, March 31, 2015	23,083	\$ 23	\$ 492,495	\$ (86,333 )	\$ 4,675	78	\$(1,413)	\$ 83,341	\$ 492,788
	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	Noncontrolling Interest	Total
Beginning balance, January 1, 2014	25,821	\$ 26	\$ 546,307	\$ (17,083 )	\$ 232	3,073	\$(56,593)	\$ 91,956	\$ 564,845
Stock-based compensation expense			1,385					587	1,972
Withholding taxes paid on vested restricted stock units at UCP, Inc.			(113 )					(700 )	(813 )
Net loss				(13,247 )				(2,658 )	(15,905 )
Unrealized gain on investments, net of deferred income tax of \$262 and					487				487



reclassification adjustments of \$20									
Foreign currency translation					40				40
Ending balance, March 31, 2014	25,821	\$ 26	\$547,579	\$ (30,330 )	\$ 759	3,073	\$(56,593)	\$ 89,185	\$550,626

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

PICO Holdings, Inc. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows - Unaudited  
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net cash used in operating activities	\$(19,249	) \$(41,382 )
Investing activities:		
Purchases of investments	(721	) (2,880 )
Proceeds from sale of investments	5,626	4,326
Purchases of property, plant and equipment	(1,975	) (2,374 )
Increase in margin deposits	(2,328	) (1,271 )
Other investing activities, net		287
Net cash provided by (used in) investing activities	602	(1,912 )
Financing activities:		
Repayment of debt	(26,521	) (19,554 )
Payment of withholding taxes on exercise of RSU	(21	) (814 )
Debt issuance costs	(171	)
Proceeds from debt	30,353	18,182
Net cash provided by (used in) financing activities	3,640	(2,186 )
Effect of exchange rate changes on cash		(151 )
Decrease in cash and cash equivalents	(15,007	) (45,631 )
Cash and cash equivalents beginning of the period	62,978	138,039
Cash and cash equivalents end of the period	\$47,971	\$92,408
Supplemental cash flow information:		
Refunds of federal, foreign, and state income taxes	\$(59	) \$(2,108 )
Interest paid, net of amounts capitalized	\$1,267	\$1,521

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

PICO Holdings, Inc. and Subsidiaries  
 Notes to the Condensed Consolidated Financial Statements  
 (Unaudited)

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1. Basis of Presentation and Summary of Significant Accounting Policies

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

In the opinion of management, all adjustments and reclassifications considered necessary for a fair and comparable presentation of the financial statements presented have been included and are of a normal recurring nature. Operating results presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC.

Use of Estimates in Preparation of Financial Statements:

The preparation of condensed consolidated 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 condensed consolidated 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 condensed consolidated financial statements relate to the assessment of other-than-temporary impairments, the application of the equity method of accounting, goodwill and intangibles, real estate and water assets, deferred income taxes, stock-based compensation, fair value of derivatives, and contingent liabilities. While management believes that the carrying value of such assets and liabilities are appropriate, it is reasonably possible that actual results could differ from the estimates upon which the carrying values were based.



## Recent Accounting Pronouncements:

In April 2015, the Financial Accounting Standards Board (“FASB”) issued guidance on the balance sheet presentation requirements for debt issuance costs. The guidance will require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company is currently evaluating the effect this guidance will have on the consolidated financial statements.

## 2. Real Estate and Tangible Water Assets

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

	March 31, 2015	December 31, 2014
Real estate and improvements held and used, net of accumulated depreciation of \$11,118 and \$10,899 at March 31, 2015 and December 31, 2014, respectively	\$ 15,169	\$ 16,463
Residential real estate and home construction inventories	329,710	322,938
Other real estate inventories completed or under development	10,308	10,308
Tangible water assets	42,531	42,530
Total real estate and tangible water assets	\$ 397,718	\$ 392,239

Amortization of real estate improvements was approximately \$220,000 for the three months ended March 31, 2015 and 2014, respectively.

## Impairment Losses for the Three Months Ended March 31, 2015:

During the three months ended March 31, 2015, the Company recorded an impairment loss of \$1.9 million to write down the value of certain real estate in Oklahoma and associated capitalized development costs to their estimated fair value of \$1.3 million which was based on the estimated selling price of the assets. The loss was reported in the condensed consolidated statement 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 agribusiness operations segment.

## Impairment Losses for the Year Ended December 31, 2014:

During 2014, certain water rights applications were denied by the New Mexico State Engineer and as a result, the Company recorded an impairment loss of \$3.5 million by writing down the project’s capitalized costs to zero.

During 2014, the Company decided to sell a property “as-is” as opposed to performing development activities as originally planned and has therefore written down the carrying value of the asset to the estimated fair value. The Company has reduced the carrying value of the real estate balance to \$1.4 million by recording an impairment loss of \$2.9 million.

## 3. Intangible Assets

The Company owns the following intangible assets, which primarily represent indefinite-lived intangible water assets within its water resource and water storage operations segment (in thousands):

	March 31, 2015	December 31, 2014
Pipeline rights and water credits at Fish Springs Ranch	\$83,897	\$83,897
Pipeline rights and water rights at Carson-Lyon	24,831	24,804
Other, net of accumulated amortization	19,411	17,911
Total intangible assets	\$128,139	\$126,612

## Impairment Losses for the Three Months Ended March 31, 2015:

There were no impairment losses recognized on intangible assets during the three months ended March 31, 2015.

## Impairment Losses for the Year Ended December 31, 2014:

As a result of the Company's annual review of indefinite-lived intangible assets, using a discounted cash flow model, it was determined that the estimated fair values of other intangible assets of approximately \$3.3 million were below the carrying value of \$5.6 million, resulting in an impairment loss of \$2.3 million. This was the first such impairment recorded on these assets.

## 4. Investments

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

March 31, 2015	Cost	Gross	Gross	Carrying Value
		Unrealized Gains	Unrealized Losses	
Debt securities: corporate bonds	\$8,194	\$239	\$(20)	) \$8,413
Marketable equity securities	11,358	7,136	(91)	) 18,403
Total	\$19,552	\$7,375	\$(111)	) \$26,816

  

December 31, 2014	Cost	Gross	Gross	Carrying Value
		Unrealized Gains	Unrealized Losses	
Debt securities: corporate bonds	\$8,909	\$198	\$(65)	) \$9,042
Marketable equity securities	14,780	7,335	(125)	) 21,990
Total	\$23,689	\$7,533	\$(190)	) \$31,032

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

Less than 12 months	March 31, 2015		December 31, 2014	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities: corporate bonds	\$1,996	\$20	\$3,228	\$65
Marketable equity securities	843	91	1,807	122
Total	\$2,839	\$111	\$5,035	\$187

  

Greater than 12 months	March 31, 2015		December 31, 2014	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Debt securities: corporate bonds				
Marketable equity securities			\$9	\$3
Total	\$—	\$—	\$9	\$3

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):

	March 31, 2015		December 31, 2014	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
Due in one year or less	\$3,781	\$3,941	\$3,786	\$3,958
Due after one year through five years	2,549	2,548	3,310	3,255
Due after five years	1,864	1,924	1,813	1,829
	\$8,194	\$8,413	\$8,909	\$9,042

#### Debt Securities

The Company owns corporate bonds and other debt securities, which are purchased based on the maturity and yield-to-maturity of the bond and an analysis of the fundamental characteristics of the issuer. At March 31, 2015, and December 31, 2014, there were unrealized losses on certain bonds in the portfolio. The Company does not consider those bonds to be other-than-temporarily impaired because the Company expects to hold, and will not be required to sell, these particular bonds, and it expects to recover the entire amortized cost basis at maturity. There were no impairment losses recorded on debt securities during the three months ended March 31, 2015 and 2014.

#### Marketable Equity Securities

The Company's investment in marketable equity securities was \$18.4 million at March 31, 2015, and principally consisted of common stock of publicly traded small-capitalization companies in the U.S. and select foreign markets. At March 31, 2015, the Company reviewed its equity securities in an unrealized loss position and concluded certain of such securities were not other-than-temporarily impaired as the declines were not of sufficient duration and severity, and publicly-available financial information, collectively, did not indicate impairment. The primary cause of the loss on those securities was normal market volatility. No material impairment losses were recorded during the three months ended March 31, 2015 and 2014.

#### Other Investments

The Company owned the following investments that are not classified as available-for-sale (in thousands):

	March 31, 2015		December 31, 2014		
	Carrying Value	Voting Interest	Carrying Value	Voting Interest	
Investment in Synthomics, cost method	\$2,170	18.3	% \$2,170	19.6	%
Investment in Mindjet:					
Investment in common stock, equity method	\$6,128	15.0	% \$6,611	15.0	%
Investment in preferred stock, cost method	15,858	13.4	% 15,858	13.4	%
	\$21,986	28.4	% \$22,469	28.4	%
Total	\$24,156		\$24,639		

#### Investment in Synthomics:

Synthomics, Inc. ("Synthomics") is a private company co-founded by a member of the Company's board of directors. The Company's investment consists of preferred shares as discussed in Note 11 "Related-Party Transactions."





#### Investment in Mindjet:

At March 31, 2015, and December 31, 2014, the Company's equity investment in Mindjet, Inc. ("Mindjet") represented 28.4% of the voting interest, which was comprised of 15% from common shares and 13.4% from preferred shares. The Company accounts for the investment in common stock using the equity method of accounting, which resulted in recording a loss of \$483,000 and \$479,000 in the condensed consolidated statement of operations and comprehensive income or loss for the three months ended March 31, 2015 and 2014, respectively. The investment in preferred stock is held at cost in the accompanying condensed consolidated balance sheets.

During 2014, the Company purchased \$2.7 million of convertible debt of Mindjet. The debt security is reported in investments in the condensed consolidated balance sheets. The debt was scheduled to mature in March 2015, bears interest at 10% per year, and will convert to additional common or preferred equity, or potentially cash equal to three times the face value of the debt depending on the nature and valuation of certain future transactions including an offering of Mindjet's securities in a private or initial public offering, or sale of the company. In March 2015, the Company agreed to extend the maturity date on the debt until April 30, 2015. However, the debt was not repaid by the extended date, or converted into preferred equity. The Company intends to convert the debt into preferred equity during the second quarter of 2015.

At March 31, 2015, the total carrying value of the Company's debt and equity investment in Mindjet was \$24.6 million and 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 given the volatile nature of software businesses that circumstances may change in the future which could require the Company to write down the investment to fair value.

During the fourth quarter of 2014, the Company recorded a \$1.1 million impairment loss on the preferred shares as the estimated fair value of such shares was less than the carrying value. The fair value was determined using a 50/50 weighting of the guideline public company method (market approach) and a discounted cash flow method (income approach).

During 2014 the Company was notified by Mindjet that they were asserting a breach in the representations and warranties made by Spigit, Inc. ("Spigit") in the September 10, 2013 merger agreement. As part of the notification, Mindjet made a claim against the Mindjet shares held by the former Spigit shareholders, including the Company. A partial settlement was reached by the parties in November 2014 and the Company expects final resolution in 2015. The partial settlement was not material to the Company and was paid in shares of Mindjet. The maximum damages to the Company for the remaining claim is estimated between zero and \$1.2 million and any settlement would be paid by the Company in shares of Mindjet. The Company is unable to provide a more meaningful estimate due to the ongoing development of information important to resolving the matter. Consequently, the Company has not accrued any liability related to the claim.

#### 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. During the three months ended March 31, 2015 and year ended December 31, 2014, there were \$1.6 million of equity securities transferred from level 2 to level 1 and \$5.6 million in equity securities transferred from level 1 to level 2, respectively.



At March 31, 2015 (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 March 31, 2015
Assets				
Available-for-sale equity securities <sup>(1)</sup>	\$10,858	\$7,546		\$18,404
Available-for-sale debt securities <sup>(1)</sup>	\$5,751			\$5,751
Readily marketable inventory <sup>(2)</sup>	\$1,546	\$2,817		\$4,363
Derivative instruments <sup>(3)</sup>	\$723	\$630		\$1,353
Liabilities				
Derivative instruments <sup>(3)</sup>	\$1,385	\$501		\$1,886
Contingent Consideration <sup>(4)</sup>			\$3,745	\$3,745

At December 31, 2014 (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, 2014
Assets				
Available-for-sale equity securities <sup>(1)</sup>	\$10,892	\$11,098		\$21,990
Available-for-sale debt securities <sup>(1)</sup>	\$6,380			\$6,380
Readily marketable inventory <sup>(2)</sup>	\$7,992	\$3,480		\$11,472
Derivative instruments <sup>(3)</sup>	\$121	\$1,580		\$1,701
Liabilities				
Derivative instruments <sup>(3)</sup>	\$1,181	\$365		\$1,546
Contingent Consideration <sup>(4)</sup>			\$3,902	\$3,902

<sup>(1)</sup> 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.

<sup>(2)</sup> Readily marketable inventory comprises commodity inventories that are reported at fair value based on commodity exchange quotations. Canola seed inventories are valued based on the quoted market price multiplied by the quantity of inventory and are classified as Level 1. Canola oil and meal inventories are classified as Level 2 because the inputs are directly observable, such as the quoted market price of the corresponding soybean commodity.

<sup>(3)</sup> Included in this caption are exchange traded futures and forward commodity purchase and sale contracts. The exchange traded futures contracts are valued based on quoted prices in active markets multiplied by the number of contracts and are classified as Level 1. Forward commodity purchase and sale contracts classified as derivatives are

valued using quantitative models that require the use of multiple inputs including quoted market prices and various other assumptions including time value. These contracts are categorized as Level 2 and are valued based on the difference between the quoted market price and the price in the contract multiplied by the undelivered notional quantity deliverable under the contract.

(4) Included in this caption is the contingent consideration that the Company entered into as part of the acquisition of Citizens Homes, Inc. (“Citizens”). The estimated fair value of the contingent consideration was estimated based on applying the income approach and a weighted probability of achievement of the performance milestones. The estimated fair value of the contingent consideration was calculated by using a Monte Carlo simulation model. The fair value of the contingent consideration was then estimated as the arithmetic average of all simulation paths. The model was based on forecast adjusted net income over the contingent consideration period. The measurement is based on significant inputs that are not observable in the market, which are defined as Level 3 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.

The following tables set forth the Company’s non-financial assets that were measured at fair value on a non-recurring basis for the three months ended March 31, 2015, and for the year ended December 31, 2014, by level within the fair value hierarchy.

#### Three Months Ended March 31, 2015 (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 <sup>(1)</sup>			\$—	\$(1,089 )
Real estate and development costs <sup>(2)</sup>			\$1,326	\$(1,875 )

(1) The Company had a non-recurring fair value measurement for oil and gas wells that resulted in an impairment loss discussed in Note 6 “Property, Plant, and Equipment, Net.”

(2) The Company had a non-recurring fair value measurement for real estate and capitalized development costs that resulted in an impairment loss discussed in Note 2 “Real Estate and Tangible Water Assets.”

#### Year Ended December 31, 2014 (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
Intangible water assets <sup>(1)</sup>			\$3,638	\$(2,282 )
Tangible water asset and other assets <sup>(2)</sup>			\$—	\$(3,509 )
Oil and gas wells <sup>(3)</sup>			\$1,730	\$(4,428 )
Real estate <sup>(4)</sup>			\$1,357	\$(2,865 )
Investments in unconsolidated affiliates equity securities held at cost <sup>(5)</sup>			\$15,858	\$(1,078 )

(1) The Company had a non-recurring fair value measurement for intangible assets that resulted in an impairment loss discussed in Note 3 “Intangible Assets.”

- (2) The Company had a non-recurring fair value measurement for a tangible water asset that resulted in an impairment loss discussed in Note 2 “Real Estate and Tangible Water Assets.”
- (3) The Company had a non-recurring fair value measurement for oil and gas wells that resulted in an impairment loss discussed in Note 6 “Property, Plant, and Equipment, Net.”
- (4) The Company had a non-recurring fair value measurement of a real estate asset discussed in Note 2 “Real Estate and Tangible Water Assets, Net.”

(5) The Company had a non-recurring fair value measurement of an investment in an unconsolidated affiliates equity securities held at cost 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 March 31, 2015 and December 31, 2014, 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 the Company's 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 the Company could borrow, which are level 3 inputs in the fair value hierarchy. 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.

The following table presents the carrying value and estimated fair value of the Company’s financial instruments which are not carried at fair value (in thousands):

	March 31, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Investments in unconsolidated affiliates equity securities held at cost	\$18,028	\$18,028	\$18,028	\$18,028
Investments in unconsolidated affiliates debt securities	\$2,662	\$7,964	\$2,662	\$7,964
Financial liabilities:				
Debt	\$223,328	\$243,613	\$219,496	\$240,800

#### Derivatives Notional Amounts

The following tables summarize the notional amount of open derivative positions (in thousands):

	March 31, 2015				Unit of Measure
	Exchange Traded		Non-Exchange Traded		
	(Short) <sup>(1)</sup>	Long <sup>(1)</sup>	(Short) <sup>(1)</sup>	Long <sup>(1)</sup>	
Futures					
Agricultural Commodities	(104,590	) 79,533			Tons
Natural Gas		600,000			MMBtus <sup>(2)</sup>
Forwards			(129,362	) 59,820	Tons



	December 31, 2014		Non-Exchange Traded		Unit of Measure
	Exchange Traded		Long <sup>(1)</sup>		
	(Short) <sup>(1)</sup>	Long <sup>(1)</sup>	(Short) <sup>(1)</sup>	Long <sup>(1)</sup>	
Futures					
Agricultural Commodities	(99,268	) 85,602			Tons
Natural Gas		690,000			MMBtus <sup>(2)</sup>
Forwards			(126,615	) 29,666	Tons

<sup>(1)</sup> Exchange and non-exchange traded futures, forwards, and swaps are presented on a gross (short) and long position basis.

<sup>(2)</sup> Million Metric British Thermal Units.

The gross derivative asset or liability is included within its respective other assets or liabilities account balance in the accompanying condensed consolidated balance sheets.

The table below summarizes the effect of derivative instruments on the condensed consolidated statements of operations and comprehensive income or loss (in thousands):

		Gain (Loss) Recognized in Income on Derivatives	
		Three Months Ended March 31,	
	Location	2015	2014
Futures	Cost of canola oil and meal sold	\$136	\$(1,054
Forwards	Cost of canola oil and meal sold	(180	) 1,474
Swaps	Cost of canola oil and meal sold	(630	) 3,675
		\$(674	) \$4,095
Futures <sup>(1)</sup>	Other income	\$(159	)

<sup>(1)</sup> Represents derivative transactions classified as trading.

## 6. Property, Plant, and Equipment, Net

The major classifications of the Company's property, plant, and equipment are as follows (in thousands):

	March 31, 2015	December 31, 2014
Plant, equipment, buildings and leasehold improvements	\$137,048	\$133,777
Construction in progress	1,109	6,432
Office furniture, fixtures and equipment	8,220	5,862
	146,377	146,071
Accumulated depreciation and amortization	(27,575	) (25,054
Property, plant and equipment, net	\$118,802	\$121,017

Depreciation and amortization expense was as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Total depreciation and amortization expense	\$2,683	\$2,605
Amount allocated to inventory and cost of canola oil and meal sold	(2,146	) (2,063
Total reported depreciation and amortization	\$537	\$542



## Impairment Losses for the Three Months Ended March 31, 2015:

During the three months ended March 31, 2015, the Company recorded an impairment loss of \$1.1 million to write down the value of capitalized development costs related to an oil and gas well the Company is currently drilling. The estimated fair value of the well was determined using a discounted cash flow model. The loss was reported in the condensed consolidated statement 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.

## Impairment Losses for the Year Ended December 31, 2014:

Due to the significant decline in crude oil prices during the fourth quarter of 2014, the Company completed an impairment analysis of the oil and gas wells using a discounted cash flow model. Based on the analysis, the Company wrote down the carrying value of oil wells capitalized to their estimated fair value, resulting in an impairment loss for the year ended December 31, 2014 of \$4.4 million.

## 7. Debt

The following table details the outstanding debt within the Company's real estate and agribusiness operations (in thousands):

	March 31, 2015	December 31, 2014
Agribusiness term loan:		
5.25% payments through 2017	\$76,075	\$77,567
Agribusiness working capital facility:		
6.5% payments through 2017	5,000	6,350
Other agribusiness debt:		
4.99% payments through 2018	121	128
Real estate debt:		
3% to 4.75% payments through 2017	60,977	52,379
5% to 5.5% payments through 2016	4,961	6,918
Senior Notes: 8.5% payments through 2017	74,590	74,550
10% payments through 2017	1,604	1,604
Total debt	\$223,328	\$219,496

## Debt Provisions, Restrictions, and Covenants on Real Estate Debt:

Certain of UCP's debt agreements contain various significant financial covenants, each of which UCP was in compliance with at March 31, 2015 as follows.

1) Certain of UCP's real estate debt include provisions that require minimum loan-to-value ratios. During the term of the loan, the lender may require UCP to obtain a third-party written appraisal of the underlying real estate collateral. If the appraised fair value of the collateral securing the loan is below the specified minimum, UCP may be required to make principal payments in order to maintain the required loan-to-value ratios. As of March 31, 2015, the lenders have not requested and UCP has not obtained any such appraisals.

2) The \$75 million of senior notes issued in 2014 by UCP limit UCP's ability to, among other things, incur or guarantee additional unsecured and secured indebtedness (provided that UCP may incur indebtedness so long as UCP's ratio of indebtedness to its consolidated tangible assets (on a pro forma basis) would be equal to or less than 45% and provided that the aggregate amount of secured debt may not exceed the greater of \$75 million or 30% of UCP's

consolidated tangible assets); pay dividends and make certain investments and other restricted payments; acquire unimproved real property in excess of \$75 million per fiscal year or in excess of \$150 million over the term of the notes, except to the extent funded with subordinated obligations or the proceeds of equity issuances; create or incur certain liens; transfer or sell certain assets; and merge or consolidate with other companies or transfer or sell all or substantially all of UCP's consolidated assets.

Additionally, the senior notes require UCP to maintain the following significant covenants, each of which UCP was in compliance with at March 31, 2015.

Minimum Unlevered Asset Pool: UCP must maintain \$50 million of consolidated tangible assets not subject to liens  
1) securing indebtedness. At March 31, 2015, UCP's consolidated tangible assets not subject to liens securing indebtedness was \$199.8 million.

2) Minimum Net Worth: UCP must maintain a minimum net worth of \$175 million. At March 31, 2015, UCP's minimum net worth was \$220.9 million.

3) Minimum Liquidity: UCP must maintain a minimum of \$15 million of unrestricted cash and/or cash equivalents. At March 31, 2015, UCP's unrestricted cash and/or cash equivalents was \$34.4 million.

4) Decrease in Consolidated Tangible Assets: UCP may not permit decreases in the amount of consolidated tangible assets by more than:

a) \$25 million in any fiscal year. For the three months ended March 31, 2015, UCP's consolidated tangible assets decreased \$690,000.

b) \$50 million at any time. Since October 21, 2014, UCP's consolidated tangible assets increased \$69.3 million.

#### Debt Covenants on Agribusiness Debt:

Northstar's debt agreement contains the following significant financial covenants, each of which Northstar was in compliance with at March 31, 2015.

1) Debt to Adjusted Capitalization Ratio: Northstar will not permit its debt to adjusted capitalization ratio as of the last day of any quarter to be more than 0.60 to 1.00. At March 31, 2015, Northstar's ratio was approximately 0.60.

2) Debt Service Coverage Ratio: Beginning on January 1, 2015, Northstar will not permit its debt service coverage ratio to be less than 1.25 to 1.00; provided, however, that if Northstar is not in compliance with the covenant, Northstar shall be considered in compliance if the debt service coverage ratio is not less than 1.00 to 1.00 as of the last day of any quarter. At March 31, 2015, Northstar's ratio was approximately 1.32 to 1.00.

3) Minimum Net Worth of Borrower: Northstar will not permit its net worth on any date to be less than \$50 million. At March 31, 2015, Northstar's net worth was approximately \$54.1 million.

#### Other:

As of March 31, 2015, the Company had approximately \$108.6 million of unused loan commitments within the real estate operations and \$22 million in the agribusiness operations.

The Company capitalized \$2.6 million and \$410,000 of interest during the three months ended March 31, 2015 and 2014, respectively, related to construction and real estate development costs.

#### 8. Commitments and Contingencies

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, 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 condensed consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors.

#### Lease Commitments

The Company leases some of its offices under non-cancelable operating leases that expire at various dates through 2020. Rent expense for the quarters ended March 31, 2015 and 2014, for office space was \$596,000 and \$397,000, respectively.

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

Year ended December 31,	
2015	\$2,015
2016	2,581
2017	2,415
2018	2,265
2019	1,437
Thereafter	159
Total	\$10,872

#### 9. Stock-Based Compensation

At March 31, 2015, PICO had one stock-based payment arrangement outstanding, the PICO Holdings, Inc. 2014 Equity Incentive Plan (the "2014 Plan"). UCP also issues stock-based compensation under its own long term incentive plan that provides for equity-based awards, which upon vesting results in newly issued shares of UCP Class A common stock.

The 2014 Plan provides for the issuance of up to 3.3 million shares of common stock in the form of performance-based price-contingent stock options ("Performance-Based Options"), restricted stock units ("RSU"), free standing stock-settled stock appreciation rights ("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 Performance-Based Option, 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.

The Company recorded total stock based compensation expense of \$1.1 million and \$2 million during the three months ended March 31, 2015 and 2014, respectively. Of the \$1.1 million in stock based compensation expense recorded during the three months ended March 31, 2015, \$631,000 related to RSU and stock options for UCP common stock granted to the officers of UCP, of which, \$270,000 was allocated to noncontrolling interest. Of the \$2 million in stock based compensation expense recorded during the three months ended March 31, 2014, \$1 million related to RSU for UCP common stock granted to the officers of UCP, of which \$587,000 was allocated to noncontrolling interest.

Performance-Based Options:

Performance-based options 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 performance-based option 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.



A summary of Performance-Based Options activity is as follows:

	Performance-Based Option Awards	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (In Years)
Outstanding and unvested at January 1, 2014			
Awards granted	453,333	\$ 19.51	6.6
Awards vested	(12,593 )	\$ 19.51	6.5
Outstanding and unvested at December 31, 2014	440,740	\$ 19.51	6.5
Awards vested	(37,778 )	\$ 19.51	6.3
Outstanding and unvested at March 31, 2015	402,962	\$ 19.51	6.3

As of March 31, 2015 and December 31, 2014, there were no Performance-Based Options exercisable as the market condition had not been met. The unrecognized compensation cost related to unvested Performance-Based Options was \$2.6 million and \$2.9 million at March 31, 2015 and December 31, 2014, respectively.

#### Restricted Stock Units (RSU)

RSU entitle 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 do not vote and are not entitled to receive dividends. Compensation expense for RSU is recognized ratably over the vesting period for each grant.

A summary of activity of PICO Holdings, Inc. common stock RSU is as follows:

	RSU Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding and unvested at January 1, 2014	469,435	\$ 30.43
Granted	142,131	\$ 19.81
Vested	(469,435 )	\$ 30.43
Outstanding and unvested at December 31, 2014	142,131	\$ 19.81
Outstanding and unvested at March 31, 2015	142,131	\$ 19.81

There were no RSU forfeited, vested, or granted during the three months ended March 31, 2015. There were no RSU forfeited during the year ended December 31, 2014. The unrecognized compensation cost related to unvested RSU was \$2.3 million and \$2.5 million at March 31, 2015 and December 31, 2014, respectively.

#### Stock-Settled Stock Appreciation Right (SAR)

Upon exercise, a SAR entitles the recipient to receive a newly issued share of the Company's common stock equal to the in-the-money value of the award, less applicable federal, state and local withholding and income taxes. SAR do not vote and are not entitled to receive dividends. Compensation expense for SAR was recognized ratably over the vesting period for each grant.

There were no unvested SAR and therefore no compensation expense was recognized during the three months ended March 31, 2015 or 2014. In addition, there were no SAR granted, exercised, or forfeited during the three months ended March 31, 2015.



A summary of SAR activity is as follows:

	SAR Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (In Years)
Outstanding and exercisable at January, 2014	1,616,625	\$36.45	2.5
Expired	(20,000	) \$33.76	
Outstanding and exercisable at December 31, 2014	1,596,625	\$36.49	1.5
Outstanding and exercisable at March 31, 2015	1,596,625	\$36.49	1.2

At March 31, 2015, none of the outstanding SAR were in-the-money.

For the three months ended March 31, 2015 and 2014, the Company's common stock equivalents were excluded from the diluted per share calculation because their effect on earnings per share was anti-dilutive.

#### 10. Accumulated Other Comprehensive Income or Loss

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

	March 31, 2015	December 31, 2014
Net unrealized gain on available-for-sale investments	\$4,722	\$4,773
Foreign currency translation	(47	) (56
Accumulated other comprehensive income	\$4,675	\$4,717

The unrealized gain on available-for-sale investments is net of a deferred income tax liability of \$2.5 million at March 31, 2015 and \$2.6 million at December 31, 2014. The foreign currency translation is net of a deferred income tax asset of \$25,000 at March 31, 2015 and \$93,000 at December 31, 2014.

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

	Three Months Ended March 31,	
	2015	2014
Beginning balance, January 1	\$4,717	\$232
Unrealized gain on marketable securities, net of tax	263	474
Unrealized (gain) loss reclassified and recognized in net loss, net of tax <sup>(1)</sup>	(314	) 13
Accumulated foreign currency translation reclassified and recognized in net loss, net of tax <sup>(2)</sup>	262	
Total reclassified and recognized in net loss, net of tax	(52	) 13
Change in accumulated foreign currency translation, net of tax	(253	) 40
Net change in other comprehensive income (loss), net of tax	(42	) 527
Accumulated other comprehensive income	\$4,675	\$759

<sup>(1)</sup>Amounts reclassified from unrealized gain or loss on marketable securities are included in other income in the condensed consolidated statement of operations and comprehensive income or loss.

<sup>(2)</sup> Amounts reclassified from unrealized gain or loss on foreign exchange are included in other income in the consolidated statement of operations and comprehensive income or loss.



## 11. Related-Party Transactions

### Deferred Compensation

At March 31, 2015 and December 31, 2014, the Company had \$25 million and \$24.6 million, respectively, recorded as deferred compensation payable to various members of management and certain non-employee members of the board of directors of the Company.

Compensation expense or recovery included in operating and other costs in the accompanying condensed consolidated statements of operations and comprehensive income or loss for the three months ended March 31, 2015 and 2014 was compensation expense of \$579,000 and \$599,000, respectively.

On January 20, 2015, the Company sold equity securities with a cost basis of \$2.3 million to certain deferred compensation Rabbi Trust accounts held by the Company, for the benefit of the Company's President and Chief Executive Officer, John R. Hart, for total proceeds of \$5 million, which represented the market value of these securities on the date of sale.

### Investment in Sythonics

The Company has an investment in preferred stock and an outstanding line of credit with Sythonics, a company co-founded by Mr. Slepicka, a director of the Company, who is currently the Chairman, Chief Executive Officer and acting Chief Financial Officer of Sythonics. As of March 31, 2015, the Company had invested \$2.2 million for 18.3% of the voting interest in Sythonics. In addition, the Company extended a \$450,000 line of credit to Sythonics during 2014, which bears interest at 15% per annum. As of March 31, 2015, \$280,000 was outstanding on the line of credit. The outstanding balance and accrued interest was repaid in April 2015.

## 12. Segment Reporting

PICO is a diversified holding company engaged in the following operating and reportable segments: Water Resource and Water Storage Operations, Real Estate Operations, Agribusiness Operations, and Corporate. The accounting policies of the reportable segments are the same as those described in the Company's 2014 Annual Report on Form 10-K filed with the SEC.

Management analyzes segments using the following information:

Segment assets (in thousands):

	March 31, 2015	December 31, 2014
Assets:		
Water resource and water storage operations	\$187,503	\$186,294
Real estate operations	384,802	384,855
Agribusiness operations	142,517	152,554
Corporate	67,697	80,741
Total assets	\$782,519	\$804,444

Segment revenues and loss before taxes (in thousands):

	Three Months Ended March 31,	
	2015	2014
Revenue and other income:		
Water resource and water storage operations	\$210	\$136
Real estate operations	43,680	25,766
Agribusiness operations	39,326	34,867
Corporate	1,434	507
Total revenues and other income	\$84,650	\$61,276
Loss before income taxes:		
Water resource and water storage operations	\$(1,492)	\$(1,985)
Real estate operations	(3,779)	(6,277)
Agribusiness operations	(10,482)	(4,192)
Corporate	(3,812)	(3,237)
Total loss before income taxes	\$(19,565)	\$(15,691)

### 13. Acquisition of Citizens Homes

On April 10, 2014, the Company completed the acquisition of the assets and liabilities of Citizens used in the purchase of real estate and the construction and marketing of residential homes in North Carolina, South Carolina and Tennessee, pursuant to a purchase and sale agreement, dated March 25, 2014 between UCP, LLC and Citizens.

The following table summarizes the calculation of the preliminary estimated fair value of the assets and liabilities assumed at the acquisition date (in thousands):

	Adjusted Total as of Acquisition Date
Assets Acquired	
Real estate	\$13,832
Other assets	\$1,363
	15,195
Less: Liabilities assumed	\$1,510
Net assets acquired	13,685
Goodwill	\$4,223
Consideration transferred	\$17,908

The acquisition was accounted for as a business combination with the acquired assets, assumed liabilities, and contingent consideration recorded by the Company at their estimated fair values. The assets that the Company acquired primarily included real estate and various other assets. To the extent the consideration transferred exceeded the fair value of net assets acquired; such excess was assigned to goodwill within the real estate segment.

Three former employees of Citizens who are now employees of the Company have minority interests in land and general contracting operations that are either under option or contract with Citizens which were disclosed and approved by the Company as part of the Citizens Acquisition.



## Contingent Consideration

The change in estimated fair value of the contingent consideration consisted of the following (in thousands):

Contingent Consideration - December 31, 2014	\$3,902	
Fair value adjustment for the three months ended March 31, 2015	(157	)
Contingent consideration - March 31, 2015	\$3,745	

The contingent consideration arrangement requires the Company to pay up to a maximum of \$6 million of additional consideration based upon achievement of various pre-tax net income performance milestones of the new business (“performance milestones”) over a five year period commencing on April 1, 2014. Payout calculations are made based on calendar year performance except for the 6th payout calculation which will be calculated based on the achievement of performance milestones from January 1, 2019 through March 25, 2019. Payouts are to be made on an annual basis. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is between zero and \$6 million. The fair value of the contingent consideration of \$3.7 million at March 31, 2015 was estimated based on applying the income approach and a weighted probability of achievement of the performance milestones. The estimated fair value of the contingent consideration was calculated by using a Monte Carlo simulation model.

The measurement is based on significant inputs that are not observable in the market, which are defined as Level 3 inputs. Key assumptions include: (1) forecasted adjusted net income over the contingent consideration period, (2) risk-adjusted discount rate reflecting the risk inherent in the forecasted adjusted net income, (3) risk-free interest rates, (4) volatility of adjusted net income, and (5) UCP’s credit spread. The risk adjusted discount rate for adjusted net income was 13.7% plus the applicable risk-free rate resulting in a combined discount rate ranging from 13.7% to 14.3% over the contingent consideration period. The volatility rate of 24.5% and a credit spread of 9.43% were applied to forecast adjusted net income over the contingent consideration period.

## Pro Forma Financial Information

The pro forma financial information in the table below summarizes the results of operations for the Company as though the acquisition was completed as of January 1, 2013. The pro forma financial information for all periods presented includes additional amortization charges from acquired intangible assets. The pro forma results do not reflect any cost savings, operating synergies or revenue enhancements that UCP may achieve as a result of the acquisition, the costs to integrate the operations of the assets acquired, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements. Certain other adjustments, including those related to conforming accounting policies and adjusting acquired real estate inventory to fair value, have not been reflected in the supplemental pro forma operating results due to the impracticability of estimating such impacts.

The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition was completed as of January 1, 2013, or indicative of the results that will be attained in the future (in thousands, except per share data):

	Three Months Ended March 31, 2014	
Total revenues and other income	\$71,175	
Net loss	\$(12,925	)
Net loss per common share – basic and diluted:	\$(0.57	)

Pro forma net loss for three months ended March 31, 2014, was adjusted to exclude approximately \$460,000 of acquisition-related costs incurred in this period.





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

The following discussion and analysis of financial condition and results of operations should be read together with the Unaudited Condensed Consolidated Financial Statements and accompanying Notes included elsewhere in this report, and the Consolidated Financial Statements and accompanying Notes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Note About "Forward-Looking Statements"

This Quarterly Report on Form 10-Q (including the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section) contains "forward-looking statements," as defined in Section 21E of the United States Securities Exchange Act of 1934, as amended, regarding our business, financial condition, results of operations, and prospects, including, without limitation, statements about our expectations, beliefs, intentions, anticipated developments, and other information concerning future matters. Words such as "may," "will," "could," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should," "target," "projects," "contemplates," "predicts," "potential," "co" similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report on Form 10-Q. Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on current expectations and assumptions. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and the actual results and outcomes could differ from what is expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, in "Item 1A: Risk Factors" of Part II of this Quarterly Report on Form 10-Q, and in other filings made from time to time with the United States Securities and Exchange Commission ("SEC") after the date of this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K and other filings with the SEC.

### Business Strategy and Goals

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

Our objective is to maximize long-term shareholder value and to manage our operations to achieve a superior return on net assets over the long term, as opposed to short-term earnings. We own and operate several diverse businesses and assets. Our portfolio of businesses is designed to provide a mix of revenues and income from both long-term assets that may require several years to develop and monetize and shorter-term operations that should generate recurring revenue each quarter.

As of March 31, 2015 our business was separated into the following operating segments:

- Water Resource and Water Storage Operations;
- Real Estate Operations;

- Agribusiness Operations; and
- Corporate

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As of March 31, 2015, our major consolidated subsidiaries were (wholly-owned unless noted):

- Vidler Water Company, Inc. (“Vidler”) which acquires and develops water resources and water storage operations in the southwestern United States, with assets and operations in Nevada, Arizona, Colorado and New Mexico;
- UCP, Inc. (“UCP”), a 57.2% owned subsidiary which is a homebuilder and land developer in markets located in California and Puget Sound area of Washington State, North Carolina, South Carolina and Tennessee; and
- PICO Northstar Hallock, LLC, an 87.7% owned subsidiary, doing business as Northstar Agri Industries (“Northstar”), which operates a canola seed crushing facility in Hallock, Minnesota.

Results of Operations — Three Months Ended March 31, 2015 and 2014

Overview of Economic Conditions, Other Recent Events, and Impact on Results of Operations

The economic environment and housing slow-down in the U.S. between 2007 and 2011 significantly decreased the rate of growth in the Southwest and the demand for our water and real estate assets in certain markets. Numerous factors can affect the performance of an individual market. However, we believe that trends in employment, housing inventory, affordability, interest rates, and home prices have a particularly significant impact. We expect that these market trends will have an impact on our operating performance. Trends in housing inventory, home affordability, employment, interest rates and home prices are the principal factors that affect our revenue and many of our costs and expenses. For example, when these trends are favorable, we expect our revenue, as well as our related costs and expenses, to generally increase; conversely, when these trends are negative, we expect our revenue and cost of sales to generally decline, although in each case the impact may not be immediate. There has been a recovery and improvement in the housing markets from levels seen during the slow-down (with seasonal fluctuations) which has led to increased levels of real estate development activity in the past two to three years, and we believe that a continuation of the housing recovery will lead to increased demand for our real estate, and intangible and tangible water assets (which are held in our real estate segment and water resource and water storage segment), respectively. Individual markets continue to experience varying results, as local home inventories, affordability, and employment factors strongly influence each local market and any deterioration in the markets in which we operate has the potential to cause additional impairment losses on our real estate and water assets. In addition, during the first quarter of 2014, we experienced weather-related disruptions in our agribusiness operation, which is located in Hallock, Minnesota. These disruptions negatively impacted our results of operations during the first three months of 2014. There was no such disruption during the three months ended March 31, 2015. However, we experienced a very low canola crush margin environment in the first quarter of 2015 which significantly impacted our agribusiness segment results of operations. If these economic conditions continue, we could record impairment losses in our agribusiness segment.

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

PICO Shareholders' Equity

Our shareholders' equity decreased \$16 million, or \$0.70 per share, during the three months ended March 31, 2015, from \$425.5 million, or \$18.50 per share, at December 31, 2014, to \$409.4 million, or \$17.80 per share, at March 31, 2015. The decrease in our shareholders' equity was primarily due to the comprehensive loss of \$16.9 million incurred during the period.

Total Assets and Liabilities

Total assets decreased by \$21.9 million from \$804.4 million at December 31, 2014 to \$782.5 million at March 31, 2015. The Company's cash and cash equivalents decreased \$15 million due to cash used for purchases of real estate and overhead expenses. Canola seed inventory decreased \$6.4 million due to reduced plant production during the quarter. These decreases were offset by an increase in real estate and water assets of \$5.5 million primarily due to the acquisition and development of real estate by UCP. Total liabilities decreased by \$3.2 million, from \$292.9 million at December 31, 2014 to \$289.7 million at March 31, 2015 primarily due to a \$4.1 million decrease in accounts payable and accrued expense of our agribusiness segment resulting from reduced inventory levels, and a \$3 million decrease in accounts payable and accrued expense in our real estate segment, offset by a net increase in debt of \$3.8 million, which increased \$6.7 million from borrowings for real estate acquisition and development and decreased \$2.8 million from net repayments of debt balances in our agribusiness segment.

### First Quarter Loss Before Income Taxes, Net Loss, and Income Taxes

Our reported loss before income taxes and loss on unconsolidated affiliate for the three months ended March 31, 2015, was \$19.6 million compared to a loss of \$15.7 million for the same period in 2014. For the three months ended March 31, 2015, we reported a net loss of \$16.8 million, or \$0.73 per share, compared to a net loss of \$13.2 million, or \$0.58 per share, which was reported for the three months ended March 31, 2014. The year-over-year increase in loss was primarily due to a \$6.3 million increase in the loss reported by our agribusiness segment, offset by a \$2.5 million decrease in loss reported by our real estate segment.

For the three months ended March 31, 2015, our investment in Mindjet, Inc. (“Mindjet”) common stock, which represented 15% of the common stock voting interest in that company, resulted in recording a loss of \$483,000 in the statement of operations within equity in loss of unconsolidated affiliate. Given Mindjet’s continued losses and the volatile nature of the software business, it is reasonably possible that we may be required to write down the investment in the future.

We recorded a full valuation allowance on our net deferred tax assets, which resulted in minimal income tax benefit reported during the first quarter of 2015 and 2014.

### Noncontrolling Interests

Noncontrolling interests reported a net loss of \$3 million and \$2.7 million for the three months ended March 31, 2015 and 2014, respectively. Of the loss reported during the three months ended March 31, 2015 and 2014, \$1.8 million and \$2 million, respectively, was attributable to the loss reported by UCP.

### Comprehensive Income or Loss

For the first quarter of 2015, we reported comprehensive loss of \$16.9 million, primarily due to the reported net loss of \$16.8 million for the period.

For the first quarter of 2014, we reported comprehensive loss of \$12.7 million, which consisted primarily of a net loss of \$13.2 million.

### Segment Results of Operations

Our segment revenue and loss before income taxes were as follows (in thousands):

	Three Months Ended March		
	31,		
	2015	2014	Change
Revenue:			
Water resource and water storage operations	\$210	\$136	\$74
Real estate operations	43,680	25,766	17,914
Agribusiness operations	39,326	34,867	4,459
Corporate	1,434	507	927
Total revenue	\$84,650	\$61,276	\$23,374
Loss before income taxes:			
Water resource and water storage operations	\$(1,492)	\$(1,985)	\$493
Real estate operations	(3,779)	(6,277)	2,498
Agribusiness operations	(10,482)	(4,192)	(6,290)

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Corporate	(3,812	)	(3,237	)	(575	)
Loss before income taxes	\$(19,565	)	\$(15,691	)	\$(3,874	)

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### First Quarter Revenue

The majority of our recurring revenue is generated in our real estate and agribusiness operations. Both of these segments generate revenue from volume sales of their products. Our first quarter revenue increased primarily due to a \$17.9 million increase in our real estate segment revenues resulting from an increase in the number of residential homes sold and a \$4.5 million increase in our agribusiness operations as a result of increased sales volumes.

### First Quarter Costs and Expenses

Our year-over-year first quarter costs and expenses increased primarily due to a \$15.2 million increase in cost of real estate sold due to increased sales of residential real estate year-over-year and an increase of \$8.7 million in cost of goods sold within our agribusiness operations, primarily from an increase in the volume of canola oil and meal sold.

### Water Resource and Water Storage Operations

Thousands of dollars	Three Months Ended March		
	31, 2015	2014	Change
Revenue and other income:			
Sale of real estate and water assets	\$87	\$25	\$62
Other	123	111	12
Total revenue and other income	210	136	74
Costs and expenses:			
Cost of real estate and water assets sold	(49	) (8	) (41
Interest expense		(5	) 5
Depreciation and amortization	(262	) (274	) 12
Overhead	(1,174	) (1,545	) 371
Project expenses	(217	) (289	) 72
Segment total expenses	(1,702	) (2,121	) 419
Loss before income taxes	\$(1,492	) \$(1,985	) \$493

Historically, our water and water resource segment revenue and results have been volatile. Since the date of closing generally determines the accounting period in which the sales revenue and cost of sales are recorded, reported revenue and income or loss fluctuate from period to period, depending on the dates when specific transactions close. Consequently, revenue in any one year is not necessarily indicative of likely revenue in future years.

### Segment Revenue

We did not generate any significant sales of real estate and water assets in the first quarter of 2015 or 2014. Revenue in both periods consisted primarily of lease income and option fees.

### Segment Expenses

Our total expenses in the first quarter of 2015, as compared to the first quarter of 2014, declined by \$419,000 from \$2.1 million in 2014 to \$1.7 million in 2015 primarily due to a year-over-year decline in overhead of \$371,000.





Project expenses consist of costs related to the development of existing water resources, such as maintenance and professional fees. Project costs are expensed as appropriate and fluctuate from period to period depending on activity in our water resource projects. Project expenses principally related to:

- the operation and maintenance of the Vidler Arizona Recharge Facility;
- certain costs related to intangible water rights in the Tule Desert groundwater basin and the Dry Lake Valley (both part of the Lincoln County, Nevada agreement); and
- certain costs for water resource development in Nevada and New Mexico.

#### Real Estate Operations

Thousands of dollars	Three Months Ended March		
	31, 2015	2014	Change
Revenue and other income:			
Sale of real estate	\$43,523	\$25,621	\$17,902
Other	157	145	12
Total revenue and other income	43,680	25,766	17,914
Costs and expenses:			
Cost of real estate sold	(36,284	) (21,047	) (15,237
Impairment loss on intangible and long-lived assets		(2,865	) 2,865
Operating expenses	(11,175	) (8,131	) (3,044
Segment total expenses	(47,459	) (32,043	) (15,416
Loss before income taxes	\$(3,779	) \$(6,277	) \$2,498

As of March 31, 2015, our businesses in the real estate operations segment were primarily conducted through our 57.2% owned subsidiaries UCP, Inc. and UCP, LLC, and its homebuilding and land development operations in California, Washington, North Carolina, South Carolina and Tennessee.

During the first quarter of 2015, the overall U.S. housing market continued to show signs of improvement, driven by factors such as decreasing home inventories, high home affordability, and improving employment.

Additionally, we believe that seasonal factors affect the broader housing market as well as our markets (see “Seasonality” in the “Liquidity and Capital Resources” section below). Individual markets continue to experience varying results, as local home inventories, home affordability, and employment factors strongly influence each local market.

Numerous factors can affect the performance of an individual market, however, we believe that trends in employment, housing inventory, home affordability, interest rates, and home prices have a particularly significant impact. We expect that these market trends will have an impact on our operating performance and community count. Trends in housing inventory, home affordability, employment, interest rates and home prices are the principal factors that affect our revenues and many of our costs and expenses. For example, when these trends are favorable, we expect our revenues from homebuilding and land development, as well as our related costs and expenses, to generally increase; conversely, when these trends are negative, we expect our revenue and costs and expenses to generally decline, although in each case the impact may not be immediate. When trends are favorable, we would expect to increase our community count by opening additional communities and expanding existing communities; conversely, when these trends are negative, we would expect to maintain our community count or decrease the pace at which we open additional communities and expand existing communities.



## Owned and Controlled Lots

As of March 31, 2015, and December 31, 2014, we owned or controlled, pursuant to purchase or option contracts, an aggregate of 6,886 and 6,368 lots, respectively. The following tables present certain information with respect to our owned and controlled lots:

	As of March 31, 2015		
	Owne d	Controlle d <sup>(1)</sup>	Total
West	4,340	517	4,857
Southeast	1,041	988	2,029
Total	5,381	1,505	6,886

	As of December 31, 2014		
	Owne d	Controlle d <sup>(1)</sup>	Total
West	4,410	469	4,879
Southeast	1,033	456	1,489
Total	5,443	925	6,368

<sup>(1)</sup>Controlled lots are those subject to a purchase or option contract.

Our wholly-owned subsidiary, Bedrock Land Development, Inc. (“Bedrock”) also owns real estate in Fresno, California that is tentatively approved for the development of 167 lots. Bedrock is not a part of UCP’s operations.

## Summary Results of UCP Revenue and Gross Margin for Homes and Lots

	Three Months Ended March		
	31, 2015	2014	Change
Lots sold	8	2	6
Homes sold	122	52	70
Average selling communities during the period	25	11	14
Revenue (in thousands)			
Lot revenue - total	\$ 120	\$ 174	\$(54 )
Lot revenue - per lot	\$ 15	\$ 87	\$(72 )
Home revenue - total	\$42,635	\$25,447	\$17,188
Home revenue - per home	\$349	\$489	\$(140 )
General contracting revenue	\$768		\$768
Gross Margin (in thousands, except for percentages)			
Gross margin - lots	\$ 115	\$ 26	\$ 89
Gross margin percentage - lots	95.8	% 14.9	% 80.9 %
Gross margin - homes	\$7,019	\$4,548	\$2,471
Gross margin percentage - homes	16.5	% 17.9	% (1.4 )%
Gross margin total - lots and homes	\$7,134	\$4,574	\$2,560
Gross margin percentage total - lots and homes	16.7	% 17.9	% (1.2 )%



## First Quarter Segment Revenue and Gross Margin

In the following discussion, gross margin is defined as sale of real estate less cost of real estate sold, and gross margin percentage is defined as gross margin divided by sale of real estate.

The year-over-year increase in total segment revenue was primarily attributable to the following combination of factors:

an increase in the number of homes sold to 122 homes in the first quarter of 2015 as compared to 52 homes in the first quarter of 2014. The average number of selling communities in the period increased from 11 in the first quarter of 2014 to 25 in the first quarter of 2015;

a decrease in the average selling price (“ASP”) of homes sold of approximately \$140,000 to \$349,000 per home in the first quarter of 2015, as compared to \$489,000 per home in the first quarter of 2014. The decrease in average selling price was primarily the result of increased deliveries at communities located in areas with lower home prices;

an increase in the number of lots sold to eight units in the first quarter of 2015 as compared to two units in the first quarter of 2014; and

a decrease in the ASP of lots sold to \$15,000 per lot in the first quarter of 2015 as compared to \$87,000 per lot in the first quarter of 2014. This decrease in revenue from land development was primarily the result of selling lots in markets with lower land values during the 2015 period.

Total gross margin increased by approximately \$2.6 million year-over-year primarily due to the year-over-year increase in volume of homes and lots sold.

The gross margin percentage of homes sold declined to 16.5% in the first quarter of 2015 as compared to 17.9% in the first quarter of 2014. This change in our homebuilding gross margin was primarily attributable to the higher cost basis of the active selling communities in 2015 as compared to 2014 and higher interest costs. The higher cost basis was largely driven by sales in UCP’s Southeast division in the first quarter of 2015. In the first quarter of 2015, UCP had revenue from homes sold in the Southeast of \$9.4 million which generated a gross margin percentage of 12.8%. There was no corresponding revenue or gross margin generated in the Southeast division in the first quarter of 2014. With the exclusion of the interest costs in the homebuilding gross margin percentage, the decrease in the gross margin percentage over the comparable period last year was not as significant. This decline in the gross margin percentage of homes sold was more than offset by the increased volume of homes sold in the first quarter of 2015 (122 homes) as compared to the first quarter of 2014 (52 homes). The increased volume of home sales was driven by a year-over-year increase in the number of selling communities and an increased sales rate at certain of these selling communities.

The gross margin percentage of lots sold in the first quarter of 2015 was 95.8%, as compared to 14.9% in the first quarter of 2014. The gross margin percentage of lots sold is not necessarily directly comparable from period to period due to several factors including the stage of development and the location of the lots as well as the cost basis in the lots. The volume, revenue and gross margin of lots sold can vary considerably from period to period; such sales tend to be driven by discrete transactions which are motivated by numerous considerations, including opportunistic conditions in the markets in which we own lots.

UCP’s homebuilding backlog (homes under sales contracts that have not yet closed at the end of the relevant period) at March 31, 2015 was \$82.7 million as compared to a backlog of \$31.2 million at March 31, 2014. Sales contracts relating to homes in backlog may be canceled by the purchaser for a number of reasons. Accordingly, backlog may not be indicative of future segment revenue.

The year-over-year increase in gross margin from the increased volume of homes sold was offset by a year-over-year increase in operating expenses of \$3 million. This year-over-year increase was driven by increased sales and

marketing costs due to the year-over-year increase in the number of homes sold as well as a year-over-year increase in general and administrative costs largely due to an increase in payroll and related expenses. Included in operating costs for the three months ended March 31, 2015 and March 31, 2014, was stock-based compensation expense of \$631,000 and \$1 million, respectively.

Not part of the UCP results for the three months ended March 31, 2014, but included in our real estate segment results of operations was a \$2.9 million impairment loss recorded on undeveloped property owned in California. There was no such impairment loss recorded in this segment during the three months ended March 31, 2015. However, if we continue to report operating losses, or if market conditions deteriorate, we could be required to record additional impairment losses on our real estate in future periods.

## Agribusiness Operations

Thousands of dollars	Three Months Ended March		
	31, 2015	2014	Change
Revenue and other income:			
Sales of canola oil and meal	\$39,432	\$34,859	\$4,573
Other	(106	) 8	(114
Total revenue and other income	39,326	34,867	4,459
Cost of goods sold:			
Cost of canola oil and meal sold	(38,424	) (30,696	) (7,728
Depreciation	(1,950	) (1,385	) (565
Other direct costs of production	(2,519	) (2,093	) (426
Total cost of goods sold	(42,893	) (34,174	) (8,719
Depreciation	(46	) (37	) (9
Impairment loss on intangible and long-lived assets	(1,875	)	(1,875
Interest	(1,439	) (1,326	) (113
Plant costs and overhead	(3,555	) (3,523	) (32
Segment total expenses	(49,808	) (39,060	) (10,748
Loss before income taxes	\$(10,482	) \$(4,193	) \$(6,289

## Segment Revenue and Gross Margin

We generated revenue from sales of canola oil and meal of \$39.4 million in the first quarter of 2015, as compared to revenue of \$34.9 million in the first quarter of 2014. The year-over-year increase in canola oil and meal revenue for the first quarter was the result of a year-over-year increase in sales volume of 45%, combined with a 21% decrease in the average sales price per unit.

Our year-over-year gross margin, which is sales of canola oil and meal less total cost of goods sold, decreased by \$4.1 million to a loss of \$3.5 million in the first quarter of 2015 from a gross margin of \$685,000 in the first quarter of 2014.

We manage our canola seed crushing operations by reference to the crush margin, which is sales of canola oil and meal less cost of canola oil and meal sold. Our crush margin decreased by \$3.2 million to \$1 million in the first quarter of 2015 from \$4.2 million in the first quarter of 2014.

The year-over-year decline in both the gross margin and crush margin for the first three months of 2015 was due to the significant decline in the canola board crush margin (the margin produced by the quoted market price of soybean oil and soybean meal factored for appropriate canola product yields and protein content less the quoted market price of canola seed as factored for the foreign exchange rate between the Canadian dollar and the U.S. dollar) experienced in the first quarter of 2015 as compared to the first quarter of 2014. The average board crush margin was \$127 per ton for the first three months of 2015 as compared to \$238 per ton for the first three months of 2014. This year-over-year margin decline was primarily due to the collapse in the product pricing for canola meal and oil of 21% while the price of canola seed only declined by 2% in the same period. Current canola board crush margins have improved a little from that experienced in the first quarter of 2015 but are still at historically low levels. We expect that unless canola board margins significantly improve during the remainder of the second quarter of 2015, we will continue to experience operating losses in this segment. However, to partially offset the poor crush margin environment we



experienced in the first quarter of 2015, we increased our year-over-year daily crush rate. Our average volume of tons crushed per day was 1,099 tons per day in the first three months of 2015 as compared to 830 tons per day in the first three months of 2014.

Due to the year-over-year decrease in our gross and crush margins for the first quarter, we reported a net loss before taxes of \$10.5 million for the first quarter of 2015, an increase in loss of \$6.3 million as compared to the \$4.2 million net loss incurred in the first quarter of 2014.

In addition, readily marketable inventory at March 31, 2015 is carried at net realizable value on our consolidated balance sheet based on quoted market prices in active markets. Changes in the value of our readily marketable inventory are recognized in cost of canola oil and meal sold each period. However, we aim to minimize the effects of changing prices in our inventory primarily through the use of traded futures contracts.

### Segment Expenses

Plant costs and overhead in the first quarter of 2015 and 2014 included corporate and administrative salaries and benefits, consulting fees, insurance, office expenses, marketing fees paid to Purina Animal Nutrition, LLC, and freight costs for shipping our oil and meal.

Segment expenses also included an impairment loss of \$1.9 million in the first quarter of 2015. The loss related to property owned in Oklahoma and associated capitalized development costs related to building a second canola crushing plant. We have abandoned this project and the property and development costs were written down to their current estimated fair value. There was no corresponding loss in the first quarter of 2014.

As of March 31, 2015, we had total debt of \$81.2 million, principally comprised of a \$76.1 million term loan and \$5 million outstanding on a revolving credit facility.

A significant decline in crude oil prices, together with uncertainty regarding U.S. government policies that govern the volume of biodiesel blended into the U.S. fuel supply, have created a negative outlook for crush margins in 2015. If we continue to report operating losses in the future, we could breach a debt covenant and or be required to record an impairment loss on our goodwill and other asset balances in this segment.

### Corporate

Thousands of dollars	Three Months Ended March		
	31, 2015	2014	Change
Revenue:			
Deferred compensation revenue	\$446	\$304	\$142
Other revenue	988	203	785
Total revenue	1,434	507	927
Costs and expenses:			
Interest expense		(146)	) 146
Stock-based compensation expense	(484)	) (958)	) 474
Impairment loss on intangible and long-lived assets	(1,089)	)	(1,089)
Deferred compensation expense	(579)	) (599)	) 20
Foreign exchange gain (loss)	(52)	) 233	(285)
Other	(3,042)	) (2,275)	) (767)
Segment total expenses	(5,246)	) (3,745)	) (1,501)
Loss before income taxes	\$(3,812)	) \$(3,238)	) \$(574)

From time to time, we make investments in small businesses, typically venture capital-type situations, which are reported in our corporate segment until they meet the requirements for separate segment reporting. Currently, the most significant investments in small businesses that we own are Mindjet, a privately held company that sells and licenses software; Mendell Energy, LLC (“Mendell”), a wholly owned oil and gas venture which primarily owns and operates oil and gas leases in the Wattenberg Field in Colorado; and Synthomics, a pre-clinical stage biopharmaceutical company.



In addition, the segment includes the results from a portfolio of equity securities in publicly traded companies, the results of deferred compensation investment assets held in trust for the benefit of certain officers and non-employee directors and the corresponding and offsetting deferred compensation liabilities, and corporate overhead expenses. Revenue consists of our share of revenue generated from oil and gas sales, interest earned on cash balances and securities and realized gains or losses on the sale or impairment of securities and can vary considerably from year to year. The segment results above do not include our share of the income or loss from any investments we account for using the equity method.

The expenses recorded in this segment primarily consist of operating expenses from our consolidated small business, and parent company costs which are not allocated to our other segments, for example, salaries and benefits, directors' fees, shareholder costs, rent for our head office, stock-based compensation expense, and deferred compensation expense.

Corporate segment results can fluctuate due to one or more individually significant revenue or expense items which occur irregularly or infrequently, for example, realized gains or losses on the sale of investments, or which can change significantly from period to period, such as foreign currency gains or losses. Consequently, the corporate segment results are not typically comparable from year to year.

#### Deferred Compensation Revenue and Expense

The participants in the deferred compensation plan bear the risk of the investment return on the deferred compensation assets, similar to a defined contribution plan such as a 401(k) plan. The investment income and realized gains or losses from the deferred compensation assets are recorded as revenue in the period that they are earned, and a corresponding and offsetting cost or benefit is recorded as deferred compensation expense or recovery. The change in net unrealized appreciation or depreciation in the deferred compensation assets is charged to compensation expense. Once the deferred compensation has been distributed, over the lifetime of the assets, the revenue and deferred compensation expense equal and there is no net effect on segment results.

#### Segment Revenue

The corporate segment recorded revenue of \$1.4 million for the first quarter of 2015, compared to \$507,000 for the first quarter of 2014. The year-over-year increase of \$927,000 primarily related to increased investment gains recorded in the first quarter of 2015 as compared to 2014.

#### Segment Expenses

First quarter year-over-year segment expenses increased by \$1.5 million to \$5.2 million in the first quarter of 2015 as compared to \$3.7 million in the first quarter of 2014. The increase was primarily due to a \$1.1 million impairment loss recorded within our oil and gas operations during the first quarter of 2015 with no corresponding loss in the first quarter of 2014. The impairment loss related to costs incurred in the first quarter of 2015 for drilling a well on certain mineral leases owned by Mendell in the Wattenburg Field. We completed an impairment analysis that was based on current pricing of crude oil and gas, estimated oil and gas reserves, and ongoing expenses for the well. Based on these assumptions, we determined that the capitalized costs of the well would not be recovered from the well's estimated future cash flows. This well has not been completed and not yet producing. We expect to complete the well in 2015. On the completion of this well, we will have secured by production our existing lease acreage in the Wattenburg Field and will have no commitment to drill any additional wells. Given the market prices of oil and gas commodities, it is reasonably possible that we will record additional impairment losses in the future on our producing wells and the oil and gas well being completed during 2015.

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

#### Stock-Based Compensation Expense

Stock-based compensation expense is calculated based on the closing price of PICO common stock on the date the awards were granted and is recognized over the vesting period of the awards. As of March 31, 2015, there was \$4.9 million of unrecognized stock-based compensation expense, which we expect to record ratably until the awards are fully vested.

Liquidity and Capital Resources — Three Months Ended March 31, 2015 and 2014

Cash Flow

Our assets primarily consist of real estate and tangible and intangible water assets, property, plant and equipment, cash and cash equivalents, and investments in publicly-traded securities. Our liquid funds are generally held in money market funds.

Our cash and cash equivalents and available-for-sale investments held in each segment at March 31, 2015 were as follows:

- our water resource and water storage operations held cash of \$450,000;
- our real estate operations segment held cash of \$34.4 million;
- our agribusiness operations segment held cash of \$194,000; and
- our corporate segment held cash of \$12.9 million and marketable equity and debt securities with a market value of \$18.4 million and \$5.8 million, respectively. Included in those totals is \$1.6 million in cash, \$17.7 million in equities, and \$5.8 million in debt securities that are held in deferred compensation rabbi trusts accounts that will be used to pay the related and offsetting deferred compensation liabilities although such assets could be used to pay creditors if needed.

Our primary sources of funds include existing cash, cash flows from our real estate and agribusiness operations that are restricted for use in those respective operations, the sale of tangible and intangible water resource assets, loans and debt or equity offerings. We are not subject to any debt covenants which limit our ability to obtain additional financing through debt or equity offerings. However, debt covenants and restrictions in Northstar and UCP limit us from transferring cash from those operations for use elsewhere in our Company.

Our cash flows fluctuate depending on the capital requirements of our operating subsidiaries. The sale of and costs incurred to acquire and develop real estate and water assets are generally classified as operating activities in the condensed consolidated statement of cash flows. The cash flow profile of our principal operating subsidiaries is as follows:

Water Resource and Water Storage Operations

A substantial portion of revenue in this segment has come from the one-time sale of real estate and water assets. The assets are typically long-term water resource development projects to support growth for particular communities in the southwestern U.S. The timing and value of sales and cash flows depend on a number of factors which are difficult to forecast, and cannot be directly compared from one period to another. Our project expenses are generally discretionary in nature.

Real Estate Operations

We are a homebuilder and developer in California, Washington State, North Carolina, South Carolina, and Tennessee. We finance additional acquisitions, development and construction costs from our existing cash, proceeds of the sale of existing lots and homes, and/or through external financing.

On October 21, 2014, UCP completed a private offering of \$75 million of 8.5% senior notes due in 2017 (the “Notes”). The net proceeds from the offering were approximately \$72.5 million. Interest is payable quarterly at 8.5% per annum on the principal amount. The Notes are guaranteed on an unsecured senior basis by UCP and each of its subsidiaries.

Certain of our debt agreements in our real estate operations contain various significant financial covenants, each of which we were in compliance with at March 31, 2015 as follows.

1) Certain of our real estate debt include provisions that require minimum loan-to-value ratios. During the term of the loan, the lender may require us to obtain a third-party written appraisal of the underlying real estate collateral. If the appraised fair value of the collateral securing the loan is below the specified minimum, we may be required to make principal payments in order to maintain the required loan-to-value ratios. As of March 31, 2015, the lenders have not requested, and we have not obtained, any such appraisals.

2) The Notes limit UCP's ability to, among other things, incur or guarantee additional unsecured and secured indebtedness (provided that UCP may incur indebtedness so long as UCP's ratio of indebtedness to its consolidated tangible assets (on a pro forma basis) would be equal to or less than 45% and provided that the aggregate amount of secured debt may not exceed the greater of \$75 million or 30% of UCP's consolidated tangible assets); pay dividends and make certain investments and other restricted payments; acquire unimproved real property in excess of \$75 million per fiscal year or in excess of \$150 million over the term of the Notes, except to the extent funded with subordinated obligations or the proceeds of equity issuances; create or incur certain liens; transfer or sell certain assets; and merge or consolidate with other companies or transfer or sell all or substantially all of UCP's consolidated assets. Additionally, the Notes require UCP to maintain at least \$50 million of consolidated tangible assets not subject to liens securing indebtedness; maintain a minimum net worth of \$175 million; maintain a minimum of \$15 million of unrestricted cash and/or cash equivalents; and not permit decreases in the amount of consolidated tangible assets by more than \$25 million in any fiscal year or more than \$50 million at any time. At March 31, 2015, we were in compliance with each of these covenants.

#### Agribusiness Operations

We recorded \$39.4 million in sales of canola oil and meal and \$42.9 million in cost of sales of such products for the three months ended March 31, 2015. During the first three months of 2015, prices for canola seed generally declined, which eased our working capital requirement needed for the purchase of seed inventories and to fund daily settlement requirements on exchange traded futures that we use to minimize price risk related to our inventories. We have generally financed operations with cash received from sales of canola products, cash from our revolving credit facility, and additional preferred equity capital. During the three months ended March 31, 2015, we invested an additional \$7.5 million of preferred capital, with a 10% rate of return. We have funded a total of \$47.9 million of preferred capital since 2012.

It is likely our canola business will continue to report losses in the future, which could result in breaching one or more of our debt covenants which would require us to obtain a waiver from our lenders, or it could require us to provide additional capital into the business. Furthermore, additional losses could require us to record impairment losses on the recorded goodwill and other asset balances in this segment.

At March 31, 2015, Northstar had \$81.2 million outstanding under a \$116.5 million credit agreement which consisted of:

\$76.1 million outstanding on the non-recourse senior secured multi-draw term loans. Interest is payable quarterly, and the principal will be repaid over five years, with quarterly payments of \$1.5 million that began on March 31, 2013 and a final payment of \$62.6 million due on August 14, 2017; and

\$5 million outstanding on a \$27 million non-recourse senior secured revolving credit facility that provides the business with working capital. The revolving credit facility will be available until August 14, 2017.

The credit agreement contains the following significant financial covenants, each of which the Company was in compliance with at March 31, 2015.

- 1) Debt to Adjusted Capitalization Ratio: Northstar will not permit its debt to adjusted capitalization ratio as of the last day of any quarter to be more than 0.60 to 1.00. At March 31, 2015, Northstar's ratio was approximately 0.60.
- 2) Debt Service Coverage Ratio: Beginning on January 1, 2015, Northstar will not permit its debt service coverage ratio to be less than 1.25 to 1.00; provided, however, that if the Company is not in compliance with the covenant, the Company shall be considered in compliance if the debt service coverage ratio is not less than 1.00 to 1.00 as of



the last day of any quarter. At March 31, 2015, Northstar's ratio was approximately 1.32 to 1.00.

- 3) Minimum Net Worth of Borrower: Northstar will not permit its net worth on any date to be less than \$50 million. At March 31, 2015, Northstar's net worth was approximately \$54.1 million.

The working capital loan includes certain restrictions as follows:

- The proceeds of the working capital loan cannot be used to finance the payment of any construction expenses,  
1) payment of any dividends or distributions, or to finance inventory located in any province in Canada other than  
Manitoba or Saskatchewan.

- Northstar cannot declare or pay any dividends or distributions (in cash, property or obligations), provided, however,
- 2) that dividends or distributions are permitted so long as no event of default has occurred and is continuing, Northstar is in compliance with all material financial covenants, and after giving effect to such dividend or distribution, Northstar's liquidity is not less than \$3 million.
  - 3) Northstar must maintain a restricted cash balance of at least \$5 million, which is held as a debt service reserve account.

#### Corporate

Our corporate segment generates investment returns and cash flow with a portfolio of small-capitalization value stocks publicly traded in Switzerland and in the U.S. and from the sale of oil and gas production from our wells in Colorado.

We anticipate recording losses from our oil and gas operations until oil and gas prices sufficiently rebound. Due to the continued low prices of such commodities, we recorded an impairment loss on our oil and gas assets during the three months ended March 31, 2015. It is reasonably possible that we will record additional impairment losses in the future on our producing wells and the oil and gas well being completed during 2015.

#### Consolidated Cash and Securities

At March 31, 2015, we had unrestricted and available cash of \$11.8 million and available-for-sale debt and equity securities of \$2.1 million, which could be used for general corporate purposes, or used to finance new or existing projects in any of our segments. At December 31, 2014, we had unrestricted and available cash of \$14.4 million and available-for-sale debt and equity securities of \$10.7 million.

We estimate that we have sufficient cash and available-for-sale investments to cover our cash needs for at least the next 12 months. In the long-term, we estimate that existing cash resources and cash from operations will provide us with adequate funding for future operations. However, if additional funding is needed, we could defer significant expenditures, sell assets, obtain a line of credit, or complete debt or equity offerings. Any additional equity offerings may be dilutive to our stockholders and any additional debt offerings may include operating covenants that could restrict our business.

#### Cash Flow

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

	Three Months Ended March 31,	
	2015	2014
Cash provided by (used in):		
Operating activities	\$(19,249	) \$(41,382
Investing activities	602	(1,912
Financing activities	3,640	(2,186
Effect of exchange rates on cash		(151
Decrease in cash and cash equivalents	\$(15,007	) \$(45,631

#### Cash Flows From Operating Activities

Our operating activities used \$19.2 million in cash during the first three months of 2015. The principal operating cash outflows were \$45.1 million used to acquire and develop real estate and residential lots and housing and \$35.7 million in purchases of canola seed. We also used \$20.2 million for overhead and various project expenses. Our cash inflows

were \$42.8 million in sales of residential real estate and lots and \$40.6 million from sales of canola oil and meal.

Our operating activities from continuing operations used \$41.4 million in cash during the first three months of 2014. The principal operating cash outflows were \$35.2 million in purchases of canola seed and \$54.3 million used to acquire and develop real estate and residential lots and housing. Other operating cash outflows include \$13.9 million in overhead and various project expenses. Our positive cash inflows were \$25.3 million in sales of residential real estate and lots and \$31.6 million from sales of canola oil and meal.

### Cash Flows From Investing Activities

Our investing activities provided \$602,000 of cash in the first three months of 2015. The primary uses of cash were \$2.3 million used for collateral in margin accounts in our agribusiness segment and \$2 million used to purchase various property and equipment. The uses of cash were offset by \$5.6 million received from the sale of debt and equity securities.

Our investing activities from continuing operations used \$1.9 million of cash in the first three months of 2014. The primary sources of cash were \$4.3 million from the sale of debt and equity securities, offset by \$2.9 million in cash used to purchase additional debt and equity securities.

### Cash Flows From Financing Activities

Financing activities provided cash of \$3.6 million during the first three months of 2015, primarily due to cash proceeds of \$30.4 million from our debt arrangements used primarily to fund the acquisition and development of our real estate projects, offset by repayments of debt of \$26.5 million.

Financing activities from our continuing operations used \$2.2 million of cash during the first three months of 2014, primarily due to repayment of \$19.6 million of our debt including \$3.4 million of our Swiss debt, \$1.5 million paid on our senior secured loan facility, \$6.5 million on our working capital line of credit, and \$8.2 million of mortgage debt repaid when certain real estate properties were sold. These cash outflows were offset by cash proceeds of \$18.2 million from our debt arrangements, including \$6.5 million drawn on our working capital line of credit to fund purchases of canola seed and operating expenses in our agribusiness segment, and \$11.7 million in debt used to fund the acquisition and development of our real estate projects.

Our outstanding debt at March 31, 2015 consisted primarily of the \$76.1 million non-recourse senior secured construction loan facility, \$5 million under our agribusiness working capital facility, and \$142.1 million in mortgage notes on real estate and real estate development, substantially all of which are non-recourse. 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.

### Seasonality

Historically, the homebuilding industry experiences seasonal fluctuations in quarterly operating results and capital requirements. We typically experience the highest new home order activity in spring and summer, although this activity is also highly dependent on the number of active selling communities, timing of new community openings and other market factors. As it typically takes four to six months to construct a new home, we generally deliver more homes in the second half of the year as spring and summer home orders convert to home deliveries. Due to this seasonality, home starts, construction costs and related cash outflows have historically been highest in the second and third quarters, and the majority of cash receipts from home deliveries occur during the second half of the year. We expect this seasonal pattern to continue over the long term, although it may be affected by volatility in the homebuilding industry.

### Off-Balance Sheet Arrangements

As of March 31, 2015, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditure, or capital resources.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our balance sheet includes a significant amount of assets and liabilities 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 debt securities, equity price risk as it relates to marketable equity securities, and foreign currency risk as it relates to investments denominated in foreign currencies. The estimated fair value of the Company's 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 the Company could borrow, which are level 3 inputs in the fair value hierarchy.

At March 31, 2015, we had \$5.8 million of marketable debt securities and \$18.4 million of marketable equity securities, \$2.5 million of which were denominated in foreign currencies, primarily Swiss Francs and New Zealand dollars, which were subject to market risk. At December 31, 2014, we had \$6.4 million of debt securities and \$22 million of marketable equity securities, \$5.4 million of which were denominated in foreign currencies, primarily Swiss Francs and New Zealand dollars, which were subject to market risk.

Our debt securities principally consist of bonds with short and medium terms to maturity. From time to time, we buy investment-grade bonds with short and medium term maturities to earn a higher return on liquid funds than is available from money market funds. We manage the interest risk by matching the maturity of the securities to budgeted cash requirements. The deferred compensation accounts hold both investment-grade and below investment-grade bonds. In the deferred compensation accounts, we manage 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 March 31, 2015 and 2014, the model calculated a loss in fair value of \$148,000 and \$196,000, respectively. For our marketable equity securities, we use a hypothetical 20% decrease in fair value to analyze the sensitivity. For equity securities denominated in foreign currencies, we use a hypothetical 20% decrease in the local currency of that investment. The hypothetical 20% decrease in fair value of our marketable equity securities would produce a loss in fair value at March 31, 2015 and 2014 of \$3.7 million and \$8.1 million, respectively, which would reduce the unrealized appreciation in shareholders' equity. The hypothetical 20% decrease in the local currency of our foreign currency-denominated investments would produce a loss at March 31, 2015 and 2014 of \$507,000 and \$1.7 million, respectively, which would impact the foreign currency translation 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 4: Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15(d)-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report on Form 10-Q.

##### 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 March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Part II: Other Information

##### Item 1: Legal Proceedings

None.

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 Quarterly Report on Form 10-Q 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-Q 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.

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The risk factors in this report have been revised to incorporate changes to our risk factors from those included in our Annual Report on Form 10-K for the year ended December 31, 2014. The risk factors set forth below with an asterisk (\*) next to the title are new risk factors or risk factors containing changes, including any material changes, from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

General economic conditions could have a material adverse effect on our financial results, financial condition and our ability to grow our businesses.

All of our businesses are sensitive to general economic conditions, both nationally and locally, as well as international economic conditions. 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 both our real estate and water assets and the canola oil and meal products from our canola seed crushing business. These poor economic conditions include higher unemployment, inflation, deflation, increased commodity costs, decreases in consumer demand, changes in buying patterns, a weakened dollar, higher transportation and fuel costs, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect commercial and residential real estate development and consumer demand for vegetable oil and meal products.

Specifically, high national or regional unemployment may arrest or delay any significant recovery of the residential real estate markets in which we operate, which could adversely affect the demand for our real estate and water assets. Any prolonged lack of demand for our real estate and water assets could have a significant adverse effect on our revenues, results of operations, and cash flows. Poor economic conditions could also lead to a decrease in consumer demand for canola oil products and / or a decline in canola seed crushing margins which could have a material adverse effect on our future cash flows, results of operations and financial condition.

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

Our future revenue and profitability related to our water resource and water storage operations will primarily be dependent on our ability to acquire, develop and sell or lease water assets. In light of the fact that our water resource and water storage operations represent a large percentage of our overall business at present, our long-term profitability will be affected by various factors, including the availability and timing of water resource acquisitions, drought in the southwest, regulatory approvals and permits associated with such acquisitions, 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 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.

Our future revenue and the growth of our land development and homebuilding activities depends, in part, upon our ability to successfully identify and acquire attractive land parcels for development of single-family homes at reasonable prices. Our ability to acquire land parcels for new single-family homes may be adversely affected by changes in the general availability of land parcels, the willingness of land sellers to sell land prices at reasonable prices, competition for available land parcels, availability of financing to acquire land parcels, zoning and other market conditions. If the supply of land parcels appropriate for development of single-family homes is limited because of these factors, or for any other reason, our ability to grow our land development and homebuilding business could be



significantly limited, and our land development and homebuilding revenue and gross margin could remain static or decline.

Our canola seed crushing facility only commenced full scale operations during 2012 and therefore has, to date, a limited operating history. Our canola crushing plant's future revenue and ability to operate profitably and to generate positive cash flows is primarily dependent on future market prices and conditions for canola seed, canola oil and canola meal as well as operating at or near maximum crushing capacity.

The operation of a canola crushing plant involves many risks which include: poor operating margins due to high commodity prices for canola seed; not obtaining and maintaining adequate canola seed supplies; cost overruns in excess of budgeted operational costs; an inability to maintain the crushing facility at efficient operating levels sufficient to generate positive cash flows including, but not limited to, factors such as inadequate supplies of canola seed, logistical issues in transporting seed to the plant and delivering canola and meal to customers, and breakdowns in the plant itself that will require repairs; and not maintaining and managing product price-risk efficiently. We must be able to sell the plant's products (canola oil and meal) at market prices that are sufficient to generate adequate cash flows to service the debt financing used to partly fund the construction of the facility and to provide working capital for our operations. Additionally, we must be able to sell the plant's products at prices that will allow us to generate an adequate and appropriate rate of return on our equity investment. Our canola crushing operations has a limited operating history and to date has not generated annual operating income or significant positive cash flows.

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, and cause our results of operations to be volatile.

A downturn in the recent improvement that the homebuilding and land development industry has experienced would materially adversely affect our business and results of operations.

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 U.S. markets where a substantial amount of our real estate and water assets are located, including the states of Nevada, Arizona, California, Colorado, and New Mexico. However, in 2012, we noted a significant improvement in the housing market which led to increased levels of real estate development activity. 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, and land development and homebuilding businesses. 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 real estate and water assets are located and this could materially affect 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.

We may not be able to realize the anticipated value of our real estate and 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 real estate and 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 real estate and 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 real estate and 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 and fair value of our real estate and 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. These local economies may be affected by factors such as the local level of employment and the availability of financing and interest rates, where (1) our real estate and water assets are located, primarily in Arizona and northern Nevada, but also in Colorado and New Mexico and (2) our land development and homebuilding assets are located, primarily in California and also Washington, North Carolina, South Carolina and Tennessee. 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 in these assets.

The fair values of our real estate and water assets may decrease which could adversely affect our results of operations by impairments and write-downs.

The fair value of our water resource and water storage assets and our land and homebuilding assets depends on market conditions. We acquire 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, 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 real estate and water assets. These reviews have resulted in significant impairments to our water resource assets and /or land development 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 real estate and water assets we may be required to record further significant impairments to the carrying value of our real estate and water assets which would adversely affect our results of operations and our financial condition.

\* Our water resource and water storage operations are concentrated in a limited number of assets, making our growth and profitability vulnerable to conditions and fluctuations in a limited number of local economies.

In the future, we anticipate that a significant amount of our water resource and water storage segment revenue, results of operations and cash flows will come from a limited number of assets, which primarily consist of our water resources in Nevada and Arizona and our water storage operations in Arizona. Water resources in this region are scarce and we may not be successful in continuing to acquire and develop additional water assets. If we are unable to develop additional water assets, our revenues will be derived from a limited number of assets, primarily located in Arizona and Nevada. Our two most significant assets are our water storage operations in Arizona and our water resources to serve the northern valleys of Reno, Nevada. As a result of this concentration, our invested capital and results of operations will be vulnerable to the conditions and fluctuations in these local economies and potentially to changes in local government regulations.

Our Arizona Recharge Facility is one of the few private sector water storage sites in Arizona. We have approximately 251,000 acre-feet of water stored at the facility. In addition, we have approximately 157,000 acre-feet of water stored in the Phoenix Active Management Area. We have not stored any water on behalf of any customers and have not generated any material revenue from the recharge facility or from the water stored in the Phoenix Active Management Area. We believe that the best economic return on the assets arises from storing water when surplus water is available and selling this water in periods when water is in more limited supply. However, we cannot be certain that we will ultimately be able to sell 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 northern valleys of Reno, Nevada. As of March 31, 2015, the total cost of the pipeline project, including our water credits, (net of impairment losses incurred to date) carried on our balance sheet is 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. Furthermore, we believe the principal buyers of this water are likely real estate developers who are contending with the effects of the current weak demand that exists for new homes and residential development in this area. Any prolonged weak demand for new homes and residential

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 and cash flows.

\* The operation of our canola seed crushing facility may not generate sufficient cash flow to repay the debt that is secured on the facility.

Our canola crushing operations has a limited operating history as of March 31, 2015 and to date has not generated annual operating income or positive cash flows. As a result, the facility may be unable to fund principal and interest payments under its debt service obligations or may continue to operate at a loss. In certain situations, if the facility performs below certain operating levels leading to inadequate or negative cash flows, certain covenants in the agreements governing the facility's debt financing may be breached, rendering all of the facility's debt immediately due and payable. As a result, we may be forced to provide additional capital to our canola seed crushing operation to cure any breach of certain debt covenants which could lead to a material adverse effect on our financial condition and cash flows. As of March 31, 2015 we have invested a further \$47.9 million to fund the operating losses to date of our canola seed crushing facility and to ensure certain debt covenants were not breached. If we are unable to cure any breach of certain debt covenants, or receive a waiver of default from our debt providers, our canola seed crushing plant may be foreclosed on by our debt providers and we may lose our entire investment in this operation which would lead to a material adverse effect on our financial condition, results of operations and cash flows.

We may not be able to procure sufficient quantities of canola seed to efficiently operate our proposed canola seed crushing facility due to adverse weather conditions and/or logistical constraints.

The supply and price of canola seed may be subject to extreme volatility due to adverse weather conditions and/or logistical constraints. If the supply of canola seed becomes limited due to significantly reduced harvests or transportation is unavailable to bring canola seed to our plant at desired times and acceptable prices, we may not be able to procure sufficient quantities of canola seed to achieve optimal crushing capacity at our facility. Significantly reduced crushing operations from our current capacity of approximately 1,400 tons per day would lead to significantly reduced revenue, and may result in further losses and negative cash flows from operations and may cause us to breach our debt covenants and default on our debt financing. As a result, our canola seed crushing plant may be foreclosed on by our debt providers and we may lose our entire investment in this operation which would lead to a material adverse effect on our financial condition, results of operations and cash flows.

We may not be able to successfully penetrate the canola oil and meal markets.

The canola processing business is highly competitive and other companies presently in the market, some of which are larger and have greater financial resources than we have, or companies that could enter the market, could adversely affect profit margins for the products we sell. In addition, prices for canola seed, canola oil and canola meal are often volatile and may be affected by factors beyond our control such as global inventory levels, farmer planting decisions, weather and canola crop conditions, demand for and supply of competing products for canola oil and meal and demand for biofuels. While we have agreements in place with an end user of both canola oil and meal for 100% of the products we produce from our facility, we compete with other canola seed processors who may be capable of producing significantly greater quantities of canola products than us, and who may achieve higher operating efficiencies and lower costs due to their scale as well as have greater financial resources than we have to endure any prolonged adverse conditions.

We may fail to implement an effective risk management program at our canola seed crushing facility.

Our canola seed crushing facility is exposed to many commodity and financial risks including canola seed, canola oil and canola meal prices, interest rates, foreign currency exchange rates and transportation and energy costs. To attempt to manage certain of these risks, we have implemented, and intend to continue entering into, various hedging transactions with respect to future canola crush margins and the interest rate on the debt financing used to construct the facility. However, our hedging transactions may not fully minimize our exposure to these risks and we may not

always be fully hedged.

In addition, a major component of our risk management program is the maintenance of a comprehensive insurance program. Our business interruption insurance or other insurance policies may not cover all losses arising from natural disasters or other events that would impair or terminate our ability to process canola seed into revenue generating products.

Climate change, or legal, regulatory, or market measures to address climate change, may negatively affect our business and operations.

Due to climate change, we may be subject to decreased availability or less favorable pricing for the canola seed we use to produce canola oil and meal. In addition, natural disasters and extreme weather conditions may disrupt the productivity of our facilities or the operation of our supply chain. The increasing concern over climate change also may result in more regional, federal, and/or global legal and regulatory requirements. In the event that such regulation is enacted, we may experience significant increases in our costs of operation and delivery.

In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and operations.

We are subject to environmental laws and regulations, which may increase our costs, result in liabilities, limit the areas in which we can build homes and delay completion of our projects.

Our real estate operations are subject to a variety of local, state, federal and other laws, statutes, ordinances, rules and regulations concerning the environment, hazardous materials, the discharge of pollutants and human health and safety. The particular environmental requirements which apply to any given project site vary according to multiple factors, including the site's location, its environmental conditions, the current and former uses of the site, the presence or absence of state- or federal-listed endangered or threatened plants or animals or sensitive habitats, and conditions at nearby properties. We may not identify all of these concerns during any pre-acquisition or pre-development review of project sites. Environmental requirements and conditions may result in delays, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or in areas contaminated by others before we commence development. We are also subject to third-party challenges, such as by environmental groups or neighborhood associations, under environmental laws and regulations governing the permits and other approvals for our real estate projects and operations. Sometimes regulators from different governmental agencies do not concur on development, remedial standards or property use restrictions for a project, and the resulting delays or additional costs can be material for a given project.

In addition, in cases where a state-listed or federally-listed endangered or threatened species is involved and related agency rule-making and litigation are ongoing, the outcome of such rule-making and litigation can be unpredictable and can result in unplanned or unforeseeable restrictions on, or the prohibition of, development and building activity in identified environmentally sensitive areas.

We are a recent entrant to the homebuilding business and we will face significant competition in marketing and selling new homes.

We have entered the homebuilding business by constructing, marketing and selling single-family homes on certain of our finished residential lots that we own in California, Washington, North Carolina, South Carolina and Tennessee. We aim to build homes only in those markets where we have identified that a sufficient demand exists for new homes. However, the homebuilding industry is highly competitive and we will be competing with a number of national and local homebuilders in selling homes to satisfy expected demand. These competitors, especially the national homebuilders, have greater resources and experience in this industry than we have. Such competition could result in lower than anticipated sales volumes and/or profit margins that are below our expectations. In addition, we will have to compete with the resale of existing homes, including foreclosed homes, which could also negatively affect the number and price of homes we are able to sell and the time our homes remain on the market.

We use leverage to finance a portion of the cost to acquire our land development assets and to construct homes.

We currently use, and expect to continue to use, debt to finance a portion of the cost of constructing our homes and acquiring and developing our lots. Such indebtedness is primarily comprised of project-level secured acquisition, development and construction loans, with recourse limited to the securing collateral.

Incurring debt could subject us to many risks that, if realized, would adversely affect us, including the risk that:

our cash flow from our land development and homebuilding operations may be insufficient to make required payments of principal of and interest on the debt which is likely to result in acceleration of the maturity of such debt;



our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing cost;  
we may be required to dedicate a portion of our cash flow from our land development and homebuilding operations to payments on our debt, thereby reducing funds available for the operations and capital expenditures; and  
the terms of any refinancing may not be as favorable as the terms of the debt being refinanced.

If we do not have sufficient funds to repay our debt at maturity, it may be necessary to refinance the debt through additional debt or additional equity financings which could dilute our interest in our land development and homebuilding business. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on refinancing, increases in interest expense could adversely affect our cash flows and results of operations. If we are unable to refinance our debt on acceptable terms, we may be forced to dispose of our land development and housing assets on disadvantageous terms, potentially resulting in losses. To the extent we cannot meet any future debt service obligations, we will risk losing some or all of our assets that may be pledged to secure our obligations to foreclosure. Defaults under our debt agreements used to finance a portion of the cost of constructing homes and acquiring and developing lots could have a material adverse effect on our land development and homebuilding business, prospects, liquidity, financial condition and results of operations.

We may be subject to significant warranty, construction defect and liability claims in the ordinary course of our homebuilding business.

As a homebuilder, we may be subject to home warranty and construction defect claims arising in the ordinary course of business. We may also be subject to liability claims for injuries that occur in the course of construction activities. Due to the inherent uncertainties in such claims, we cannot provide assurance that our insurance coverage or our subcontractors' insurance and financial resources will be sufficient to meet any warranty, construction defect and liability claims we may receive in the future. If we are subject to claims beyond our insurance coverage, our profit from our homebuilding activities may be less than we expect and our financial condition may be adversely affected.

We will be relying on the performance of our subcontractors to build horizontal infrastructure and homes according to our budget, timetable and quality.

We rely on subcontractors to perform the actual construction of horizontal infrastructure (in the cases where we are completing the development of entitled lots to finished lots) and of the homes we are building on certain of our finished lots. In certain cases, we will also rely on the subcontractor to select and obtain raw materials. Our subcontractors may fail to meet either our quality control or be unable to build and complete the horizontal infrastructure or homes in the expected timetable due to subcontractor related issues such as being unable to obtain sufficient materials or skilled labor, or due to external factors such as delays arising from severe weather conditions.

Any such failure by our subcontractors could lead to increases in construction costs and construction delays. Such increases could negatively impact the price and number of finished lots and homes we are able to sell.

Compliance with federal, state and local regulations related to our real estate operations may result in substantial delays and costs.

Our real estate operations are subject to numerous laws and regulations that affect the land development and homebuilding process, including laws and regulations related to zoning, permitted land uses, levels of density, building design, water and waste disposal and use of open spaces. We also are subject to a variety of federal, state and local laws and regulations concerning the protection of the environment. We are typically required to obtain permits, entitlements and approvals from local authorities to start and carry out residential development or home construction. Such permits, entitlements and approvals may, from time-to-time, be opposed or challenged by local governments or other interested parties, adding delays, costs and risks of non-approval to the process. Our obligation to comply with the laws and regulations under which we operate, and our need to ensure that our subcontractors and other agents comply with these laws and regulations may result in delays in construction and land development and may also cause us to incur substantial additional and unbudgeted costs.



Our homebuilding operations may be adversely impacted by the availability of and the demand for mortgage financing and any changes to the tax benefits associated with owning a home.

To successfully market and sell the homes we construct depends on the ability of home buyers to obtain mortgage financing for the purchase of these new homes. Current credit requirements for mortgage financing are significantly greater than in the past which makes it more difficult for a potential home buyer to obtain mortgage financing. In addition, any significant increase in interest rates from current rates may also lead to increased mortgage finance costs leading to a decline in demand and availability of mortgage financing. Any decline in the availability of mortgage financing may lead to a reduced demand for the homes we have already constructed, or intend to construct. Furthermore, the demand for homes in general, and the homes we intend to construct, may be affected by changes in federal and state income tax laws. Current federal, and many state, tax laws allow the deduction of, among other homeowner expenses, mortgage interest and property taxes against an individual's taxable income. Any changes to the current tax laws which reduce or eliminate these deductions, or reduce or eliminate the exclusion of taxable gain from the sale of a principal residence, would likely lead to a greatly reduced demand for homes. This would lead to a materially adverse impact on the homebuilding business in general and our revenues, cash flows and financial condition specifically.

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 NEPA 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 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. While environmental regulations do 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, results of operations and financial condition could suffer.

Our water asset sales may meet with political opposition in certain locations, thereby limiting our growth in these areas.

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 concerning water rights in the states of Arizona, Nevada, Colorado and New Mexico. Our 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 revenues and financial condition would decline.

If we do not successfully identify, select and manage acquisitions and investments, or if our acquisitions or investments otherwise fail or decline in value, our financial condition could suffer.

We acquire and invest in businesses and assets that we believe are undervalued or that will benefit from additional capital, restructuring of operations, strategic initiatives, or improved competitiveness through operational efficiencies. If an 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. Additionally, we may not be able to find sufficient opportunities to make our business strategy successful. If we fail to successfully identify, select and manage acquisition and investment opportunities, 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 successfully identify, select and 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 acquisitions and dispositions of our businesses, assets, operations and investments are possible, and, if unsuccessful, could reduce the value of our common shares. Any future acquisitions or 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 affecting our

financial condition, results of operations and trading price at the present time.

Failure to successfully manage newly acquired companies could adversely affect our business.

Our management of the operations of acquired businesses requires significant efforts, including the coordination of personnel, information technologies, research and development, sales and marketing, operations, taxation, regulatory matters, and finance. These efforts result in additional expenses and involve significant amounts of our management's time and could distract our management from the day-to-day operations of our business. The diversion of our management's attention from the day-to-day operations, or difficulties encountered in the integration process, could have a material adverse effect on our business, financial condition, and the results of operations and cash flows. If we fail to integrate acquired businesses, personnel, resources, or assets into our operations successfully, we may be unable to achieve our strategic goals or an economic return and the value of your investment could suffer.

We operate in a variety of industries and market sectors, all of which are very competitive and susceptible to economic downturns and would be adversely affected by a recession. We also look for opportunities in industries and market sectors in which we do not have any operating history. For example, in 2010, we completed a business combination for a canola seed crushing operation, an agribusiness in which we had no previous operating experience. A worsening of general economic or market conditions may require us to devote more of our management resources to newly acquired companies and may result in lower valuations for our businesses or investments or have a negative impact on the credit quality of our assets.

Our acquisitions may result in dilution to our shareholders and increase our exposure to additional liabilities.

We make selective acquisitions of companies that we believe could benefit from our resources of additional capital, business expertise, management direction and oversight, or existing operations. We endeavor to enhance and realize additional value to these acquired companies through our influence and control. Any acquisition could result in the use of a significant portion of our available cash, significant dilution caused by the issuance of securities to pay for any acquisition, and significant acquisition-related charges. Acquisitions may also result in the assumption of liabilities, including liabilities that are unknown or not fully known to us at the time of the acquisition, which could have a material adverse financial effect on us. Moreover, we may need to incur debt obligations, in order to finance new acquisitions. Additionally, our acquisitions and investments may yield low or negative returns for an extended period of time, which could temporarily or permanently depress our return on shareholders' equity, and we may not realize the value of the funds invested.

We generally make acquisitions and investments that tend to be long term in nature, and for the purpose of realizing additional value by means of appropriate levels of influence and control. We acquire businesses that we believe to be undervalued or may benefit from additional capital, restructuring of operations or management or improved competitiveness through operational efficiencies with our existing operations or through appropriate and strategic management input. We may not be able to develop acceptable revenue streams and investment returns through the businesses we acquire, and as a result we may lose part or all of our investment in these assets.

Additionally, when any of our acquisitions do not achieve acceptable rates of return or we do not realize the value of the funds invested, we may write down the value of such acquisitions or sell the acquired businesses at a loss. Some of our prior acquisitions have lost either part or all of the capital we invested. Unsuccessful acquisitions could have negative impacts on our cash flows, income, assets and shareholders' equity, which may be temporary or permanent. Moreover, the process we employ to enhance value in our acquisitions and investments can consume considerable amounts of time and resources. Consequently, costs incurred as a result of these acquisitions and investments may exceed their revenues and/or increases in their values, if any, for an extended period of time.

Our ability to achieve an acceptable rate of return on any particular investment is subject to a number of factors which may be beyond our control, including increased competition and loss of market share, the ability of management to



implement their strategic and operational directives, cyclical or uneven financial results, technological obsolescence, foreign currency risks and regulatory delays.

We may need additional capital in the future to fund the growth of our business and acquisitions, 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 the long-term growth of our business and acquisitions. We may raise additional funds through public or private debt, equity or hybrid securities financings, including, without limitation, through the issuance of securities. We currently have an effective shelf registration statement which allows us to sell up to \$400 million of a variety of securities in one or more offerings in the public markets.

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. 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, take advantage of unanticipated opportunities, respond to competitive pressures 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. We may experience ownership changes in the future as a result of shifts in our stock ownership. As of March 31, 2015, we had federal and state net operating loss carryforwards of approximately \$148 million and \$191.4 million, respectively, which, depending on our value at the time of any ownership changes, could be limited.

Our acquisitions of and investments in non-U.S. companies subject us to additional market, liquidity, tax and foreign exchange risks which could affect the value of our stock.

We have acquired, and may continue to acquire, businesses and securities in non-U.S. public companies and other assets or businesses not located in the U.S. Typically, these non-U.S. securities are not registered with the SEC and regulation of these companies is under the jurisdiction of the relevant non-U.S. country. The respective non-U.S. regulatory regime may limit our ability to obtain timely and comprehensive financial information for the non-U.S. companies in which we have invested. In addition, if a non-U.S. company in which we invest were to take actions which could be deleterious to its shareholders, non-U.S. legal systems may make it difficult or time-consuming for us to challenge such actions. These factors may affect our ability to acquire controlling stakes, or to dispose of our non-U.S. investments, or to realize the full fair value of our non-U.S. investments. In addition, investments in non-U.S. countries may give rise to complex cross-border tax issues. We aim to manage our tax affairs efficiently, but given the complexity of dealing with U.S. and non-U.S. tax jurisdictions, we may have to pay tax in both the U.S. and in non-U.S. countries, and we may be unable to offset any U.S. tax liabilities with non-U.S. tax credits. If we are unable to manage our non-U.S. tax issues efficiently, our financial condition and the results of operations and cash flows could be adversely affected. In addition, our base currency is United States dollars. Accordingly, we are subject to foreign exchange risk through our acquisitions of stocks in non-U.S. public companies.

Significant fluctuations in the non-U.S. currencies in which we hold investments or consummate transactions could negatively impact our financial condition and the results of operations and cash flows. We also may be unable to effectively and efficiently repatriate funds into the U.S. upon monetization of assets, securities, or businesses not located in the U.S., which could have an impact on our liquidity.

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 newly acquired companies we must, among other things, continue to attract and 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. Mr. Hart, our CEO, is key to the implementation of our strategic focus, and our ability to successfully develop our current strategy is dependent upon our ability to retain his services. 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.

Because our operations are diverse, analysts and investors may not be able to evaluate us adequately, which may negatively influence the price of our stock.

We are a diversified holding company with significant operations in a variety of business segments. Each of these areas is unique, complex in nature, and difficult to understand. In particular, the 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 we are complex, 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 availability of economically viable acquisition or investment opportunities, including water resources and real estate, which will return an adequate economic return;
- 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 the inclusion or exclusion of operating earnings from newly acquired or sold operations, 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. In addition, some investors favor companies that pay dividends, particularly in market downturns. We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth and, therefore, we do not currently anticipate paying cash dividends on our common stock.

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.

Our governing documents could prevent an acquisition of our company or limit the price that investors might be willing to pay for our common stock.

Certain provisions of our articles of incorporation and the California General Corporation Law could discourage a third party from acquiring, or make it more difficult for a third party to acquire, control of our company without approval of our board of directors. For example, our bylaws require advance notice for stockholder proposals and nominations for election to our board of directors. We are also subject to the provisions of Section 1203 of the California General Corporation Law, which requires a fairness opinion to be provided to our shareholders in connection with their consideration of any proposed “interested party” reorganization transaction. All or any of these factors could limit the price that certain investors might be willing to pay in the future for shares of our common stock.

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 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 HISTORIC FINANCIAL STATEMENTS, INCLUDING RESULTS OF OPERATIONS AND CASH FLOWS AND BALANCES, DIFFICULT OR NOT MEANINGFUL.**

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

See Note 7 “Debt” in Notes to Condensed Consolidated Financial Statements for a discussion of working capital restrictions and other limitations upon the payment of dividends, which information is incorporated by reference into this Item 2 or Part II.

**Item 3: Defaults Upon Senior Securities**

None.

**Item 4: Mine Safety Disclosures**

Not applicable.

**Item 5: Other Information**

None.

Item 6. Exhibits

Exhibit Number	Description
3(i)	Amended and Restated Articles of Incorporation of PICO. <sup>(1)</sup>
3(ii)	Amended and Restated By-laws of PICO. <sup>(2)</sup>
4.1	Indenture, dated October 21, 2014, among UCP, Inc., the guarantors named therein, and Wilmington Trust, National Association, as trustee. <sup>(3)</sup>
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
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the Quarterly Report on Form 10-Q (No. 033-36383) filed with the Securities and Exchange Commission on November 7, 2007.

(2) Incorporated by reference to the Current Report on Form 8-K (No. 033-36383) filed with the Securities and Exchange Commission on May 19, 2009.

(3) Incorporated by reference to Form 8-K filed with the SEC on October 24, 2014.

PICO HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURE

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

PICO HOLDINGS, INC.

Date: May 8, 2015

By: /s/ Maxim C. W. Webb  
Maxim C. W. Webb  
Executive Vice President, Chief Financial Officer,  
Treasurer, and Secretary  
(Principal Financial Officer and Authorized Signatory)