PICO HOLDINGS INC /NEW
Form DEF 14A
May 31, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)
Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

PICO HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):
þ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:
(2) Aggregate number of securities to which transaction applies:
(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4) Proposed maximum aggregate value of transaction:
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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

PICO HOLDINGS, INC.
7979 Ivanhoe Avenue, Suite 300
La Jolla, California 92037

May 31, 2016

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders to be held on Monday, July 11, 2016 at 10:00 am (PDT) at the Museum of Contemporary Art San Diego, Coast Room, 700 Prospect Street, La Jolla, California 92037.

Under the United States Securities and Exchange Commission rules that allow companies to furnish proxy materials to shareholders over the Internet, we have elected to deliver our proxy materials to our shareholders via this medium. The new delivery process will allow us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. On June 1, 2016, we intend to mail to our shareholders a Notice of Internet Availability of Proxy Materials which contains instructions on how to access our proxy statement and our Annual Report to Shareholders. The Notice of Internet Availability of Proxy Materials also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

The matters to be acted upon are described in the Notice of Annual Meeting and proxy statement.

Only shareholders of record, as of the close of business on May 17, 2016, are entitled to receive notice of, to attend in person, and to vote on matters to be presented at, the Annual Meeting.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to vote and submit your proxy by the Internet, telephone or mail (if you have requested and received a paper copy of the proxy materials by mail) in order to ensure the presence of a quorum. If you attend the meeting in person, you will, of course, have the right to revoke the proxy and vote your shares at that time. If you hold your shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares.

We look forward to the Annual Meeting of Shareholders and thank you for your support.

/s/ Raymond V. Marino II
Raymond V. Marino II
Chair

/s/ John R. Hart
John R. Hart
President and Chief Executive Officer

PICO HOLDINGS, INC.
7979 Ivanhoe Avenue, Suite 300
La Jolla, California 92037

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PICO Holdings, Inc.'s (the "Company") 2016 Annual Meeting of Shareholders will be held at the Museum of Contemporary Art San Diego, Coast Room, 700 Prospect Street, La Jolla, California 92037 on Monday, July 11, 2016 at 10:00 am (PDT) for the following purposes:

1. ELECTION OF DIRECTORS. To elect as directors the two nominees named in the proxy statement, Howard B. Brownstein and Kenneth J. Slepicka, to serve for three years until the Annual Meeting of Shareholders in 2019 and until their respective successors have been duly elected and qualified.
2. ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION. To vote, on an advisory basis, to approve the compensation of the Company's named executive officers, as disclosed in this proxy statement.
3. RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016.
4. DELAWARE REINCORPORATION. To vote on reincorporating the Company from California to Delaware.
5. AMENDMENT TO THE COMPANY'S AMENDED AND RESTATED ARTICLES OF INCORPORATION TO ELIMINATE CLASSIFIED BOARD STRUCTURE. To vote to amend the Company's amended and restated Articles of Incorporation to declassify the Board of Directors such that all directors are elected on an annual basis by 2019.
6. ADJOURNMENT AUTHORIZATION. To vote on authorization to adjourn the Annual Meeting.
7. To transact such other business as may be properly brought before the meeting and any adjournment of the meeting.

Our Board of Directors (the "Board") recommends a vote for Items 1, 2, 3, 4, 5 and 6. Any action may be taken on the foregoing matters at the Annual Meeting of Shareholders on the date specified above, or on any date or dates to which the Annual Meeting may be adjourned or postponed.

The Board of Directors fixed the close of business on May 17, 2016 as the record date for this Annual Meeting. Only shareholders of record of our common stock at the close of business on that date are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum.

Registered holders may vote:

1. By Internet: go to www.proxyvote.com;
2. By toll-free telephone: call 1-800-690-6903; or
3. By mail (if you received a paper copy of the proxy materials by mail): mark, sign, date and promptly mail the proxy card in the postage-paid envelope.

Beneficial Shareholders. If your shares are held in the name of a broker, bank or other holder of record, follow the voting instructions you receive from the holder of record to vote your shares.

Any proxy may be revoked by the submission of a later dated proxy or a written notice of revocation before close of voting at the Annual Meeting of Shareholders.

By Order of the Board of Directors,
/s/ John R. Hart
Dated: May 31, 2016 John R. Hart

President and Chief Executive Officer

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON Monday, July 11, 2016

This proxy statement and the 2015 Annual Report are available at www.proxyvote.com

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PICO HOLDINGS, INC.
7979 Ivanhoe Avenue, Suite 300
La Jolla, California 92037

PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON Monday, July 11, 2016

PICO Holdings, Inc.'s Board of Directors is soliciting proxies for the 2016 Annual Meeting of Shareholders. This proxy statement contains information about the items you will vote on at the Annual Meeting. This proxy statement and the form of proxy will be made available to shareholders on the Internet on or about May 31, 2016. The meeting will be held at 10:00 am (PDT) on Monday, July 11, 2016, at the Museum of Contemporary Art San Diego, Coast Room, 700 Prospect Street, La Jolla, California 92037.

The following matters will be considered at the Annual Meeting of Shareholders:

1. To elect as directors the two nominees named herein, Howard B. Brownstein and Kenneth J. Slepicka, to serve for three years until the Annual Meeting of Shareholders in 2019 and until their respective successors have been duly elected and qualified.
2. To vote, on an advisory basis, to approve the compensation of the Company's named executive officers, as disclosed in this proxy statement.
3. To ratify Deloitte & Touche LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2016.
4. To vote on reincorporating the Company from California to Delaware (the "Reincorporation").
5. To vote to amend the Company's amended and restated Articles of Incorporation to declassify the Board of Directors such that all directors are elected on an annual basis by 2019 (the "Declassification").
6. To vote on authorization to adjourn the Annual Meeting.
7. To transact such other business as may be properly brought before the meeting and any adjournment of the meeting.

Our principal executive office is located at 7979 Ivanhoe Avenue, Suite 300, La Jolla, California 92037, and our telephone number is (888) 389-3222.

HOW TO ATTEND THE ANNUAL MEETING

This meeting will be held at 10:00 am (PDT) on Monday, July 11, 2016, at the Museum of Contemporary Art San Diego, Coast Room, 700 Prospect Street, La Jolla, California 92037. Directions to the Annual Meeting are posted on our website under "Events & Presentations" at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement).

SOLICITATION AND VOTING

Internet Availability of Annual Meeting Materials and Annual Report

We are making this proxy statement and our 2015 Annual Report to Shareholders, including our Annual Report on Form 10-K, for the year ended December 31, 2015 (which is not a part of our proxy soliciting materials), available to our shareholders electronically via the Internet. On June 1, 2016, we intend to mail to our shareholders entitled to vote a Notice of Internet Availability of Proxy Materials directing shareholders to a web site where they can access our proxy statement and annual report and view instructions on how to vote via the Internet or by phone.

If you only received a Notice of Internet Availability of Proxy Materials and would like to receive an email copy or a paper copy of our proxy materials along with a proxy card, one can be requested by following the directions in your Notice of Internet Availability of Proxy Materials and requesting a copy by calling 1-800-579-1639, by Internet at www.proxyvote.com, or by sending us a written request at:

7979 Ivanhoe Avenue
Suite 300
La Jolla, California 92037
Attention: Corporate Secretary

The Annual Report to Shareholders, including our Annual Report on Form 10-K for the year ended December 31, 2015 (which is not a part of our proxy solicitation materials), will be mailed with this proxy statement to those shareholders that request a copy of the proxy materials. For those shareholders that received the Notice of Internet Availability of Proxy Materials, this proxy statement and our annual report (including our Annual Report on Form 10-K, and the exhibits filed with it) are available at our website at www.proxyvote.com. Upon request by any shareholder using the instructions described above, we will promptly furnish a proxy card along with a copy of our proxy statement and Annual Report on Form 10-K for the year ended December 31, 2015. We encourage shareholders to take advantage of the availability of the proxy materials on the Internet to help reduce the environmental impact of the Annual Meeting of Shareholders.

Shareholders Sharing the Same Address

We have adopted a procedure called “householding,” which has been approved by the United States Securities and Exchange Commission (“SEC”). Under this procedure, we will deliver only one copy of our Notice of Internet Availability of Proxy Materials, and for those shareholders that request a paper copy of proxy materials by mail, one copy of our Annual Report to Shareholders and this proxy statement, to multiple shareholders who share the same address (if they appear to be members of the same family), unless we have received contrary instructions from an affected shareholder. Shareholders who participate in householding will continue to receive separate proxy cards if they received a paper copy of proxy materials in the mail. This procedure reduces our printing costs, mailing costs and fees. If you are a registered stockholder and would like to have separate copies of the Notice of Internet Availability or proxy materials mailed to you in the future, you must submit a request to opt out of householding in writing to MacKenzie Partners, Inc (“MacKenzie”), at105 Madison Avenue, New York, New York 10016, or call to 1-800-322-2885, and we will cease householding all such documents within 30 days. If you are a beneficial stockholder, information regarding householding of proxy materials should have been forwarded to you by your bank or broker. Registered stockholders are those stockholders who maintain shares under their own names. Beneficial stockholders are those stockholders who have their shares deposited with a bank or brokerage firm.

Voting Information

Record Date. The record date for our Annual Meeting of Shareholders is May 17, 2016. On the record date, there were 23,037,587 shares of our common stock outstanding.

Voting Your Proxy. Only shareholders of record as of the close of business on the record date, May 17, 2016, are entitled to vote. Each share of common stock entitles the holder to one vote on all matters brought before the Annual Meeting. Shares held by our subsidiaries will not be voted at the Annual Meeting. Shareholders whose shares are registered in their own names may vote (1) in person at the Annual Meeting, (2) via the Internet at www.proxyvote.com, (3) by telephone at 1-800-690-6903 or (4) if you have requested and received a paper copy of the proxy materials by mail, by returning a proxy card before the Annual Meeting. If you would like to vote via the Internet or by telephone, your vote must be received by 11:59 p.m. Eastern Time on July 10, 2016 to be counted.

Proxies will be voted as instructed by the shareholder or shareholders granting the proxy. Unless contrary instructions are specified, if you complete and submit (and do not revoke) your proxy or voting instructions prior to the Annual Meeting, the shares of our common stock represented by the proxy will be voted (1) FOR the election of each of the two director candidates nominated by our Board of Directors; (2) FOR the approval of the advisory resolution approving the compensation of the Company’s named executive officers, as disclosed in this proxy statement; (3) FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2016; (4) FOR the approval of reincorporating the Company from California to Delaware, as discussed in this proxy statement; (5) FOR amending the Company’s amended and restated Articles of

Incorporation to eliminate the classified Board structure, as discussed in this proxy statement; (6) FOR the approval of authorization to adjourn the Annual Meeting; and (7) in accordance with the best judgment of the named proxies on any other matters properly brought before the Annual Meeting.

Cumulative Voting. In voting for the election of directors, all shareholders have cumulative voting rights if at least one shareholder gives notice, whether at the Annual Meeting or prior to the voting, of the shareholder's intention to cumulate votes. If cumulative voting is permitted in the election of directors, the proxy holders will have discretion as to the manner in which votes represented by the proxy are to be cumulated, unless the proxy indicates the manner in which such votes are to be cumulated. Accordingly, each shareholder may cumulate such voting power and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by the shareholder, or distribute such shareholder's votes on the same principle among two or more candidates, as such shareholder sees fit. If you are a shareholder of record and choose to cumulate your votes, you will need to submit a proxy card and make an explicit statement of your intent to cumulate your votes by so indicating in writing on the proxy card.

We will not accept any notice to cumulate by the Internet or telephone. If you hold shares beneficially through a broker, trustee or other nominee and wish to cumulate votes, you should contact your broker, trustee or nominee.

Cumulative voting applies only to the election of directors. For all other matters, each share of common stock outstanding as of the close of business on May 17, 2016, the record date for the Annual Meeting of Shareholders, is entitled to one vote. If you vote by proxy card and sign your card with no further instructions, Maxim C.W. Webb and John T. Perri, as proxy holders, may cumulate and cast your votes in favor of the election of some or all of the applicable nominees in their sole discretion, except that none of your votes will be cast for any nominee as to whom you vote against or abstain from voting.

Revoking Your Proxy. Shareholders may revoke their proxy for each matter to be voted on at the Annual Meeting by attending the Annual Meeting in person and voting (simply attending the meeting will not, by itself, revoke your proxy), or by granting a subsequent proxy via the Internet, by telephone, by mail, or by delivering instructions to our Corporate Secretary before the Annual Meeting of Shareholders. If you hold shares through a bank or brokerage firm, you may revoke any prior voting instructions by contacting that firm in advance of the close of polling for each matter to be voted on at the Annual Meeting of Shareholders.

Vote Required, Abstentions and Broker Non-Votes. The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote at the Annual Meeting, which shall include all shares voted electronically via the Internet, or by telephone, is required to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and “broker non-votes” are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting of Shareholders. A broker non-vote occurs when a broker, bank or other shareholder of record, in nominee name or otherwise, exercising fiduciary powers (typically referred to as being held in “street name”) submits a proxy for the Annual Meeting, but does not vote on a particular proposal because that holder does not have discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote those shares on routine matters, but not on non-routine matters. All matters, except the proposal to ratify Deloitte & Touche LLP as our independent registered public accounting firm for 2016, are considered non-routine matters under the rules that govern brokers, and therefore brokers will have discretion to vote the shares without the beneficial owner’s instructions on that proposal only.

If a quorum is present, the two nominees for election as directors in proposal number 1 receiving the highest number of votes will be elected. Approval of the advisory resolution approving our executive compensation in proposal number 2, the ratification of the appointment of Deloitte & Touche LLP in proposal number 3, and the approval of authorization to adjourn the Annual Meeting in proposal number 6 requires the affirmative vote of the majority of the shares represented at the Annual Meeting and entitled to vote on such matter. Approval of the reincorporation of the Company from California to Delaware in proposal number 4 and the approval of the proposal to amend the Company’s amended and restated Articles of Incorporation to eliminate the classified board structure in proposal number 5 requires the affirmative vote of a majority of our outstanding shares.

Abstentions will be treated as votes “against” proposals 2, 3, 4, 5, and 6. Broker non-votes are not counted as votes for or against any of the proposals and are not considered votes cast, and will therefore have no effect on the outcome of the vote on any of the proposals, except for proposals 4 and 5, which require the affirmative vote of a majority of our outstanding shares, and therefore broker non-votes will have the same effect as “against” votes.

Proxies and ballots will be received and tabulated by Broadridge Financial Solutions, Inc., which is also the inspector of elections for the Annual Meeting. Except for contested proxy solicitations or as required by law, proxy cards and voting tabulations that identify shareholders are kept confidential.

Expenses of Solicitation. We will bear the expense of assembling, preparing, printing, mailing and distributing the notices and these proxy materials, any additional soliciting materials furnished to shareholders, and soliciting votes. Proxies will be solicited by mail, telephone, personal contact, and electronic means and may also be solicited by directors, officers or employees (who will receive no additional compensation for their services in such solicitation) in person, by the Internet, by telephone or by facsimile transmission, without additional remuneration. We will compensate only independent third-party agents that are not affiliated with us but who solicit proxies. We have retained MacKenzie to act as a proxy solicitor in conjunction with the Annual Meeting, and we have agreed to pay them up to $30,000 plus reasonable out of pocket expenses, for proxy solicitation services. We may request banks, brokers and other custodians, nominees and fiduciaries to forward copies of the proxy materials to their principals and to request authority for the execution of proxies and we may reimburse those persons for their expenses incurred in connection with these activities. Your cooperation in promptly voting your shares and submitting your proxy by the Internet or telephone, or by completing and returning the proxy card (if you received your proxy materials in the mail), will help to avoid additional expense.

Voting Results. We will announce preliminary results at the Annual Meeting and final results on a Form 8-K to be filed with the SEC within four business days after the meeting. If final results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an amended 8-K to publish the final results.

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors has determined that Carlos C. Campbell, Michael J. Machado, Raymond V. Marino II, Daniel B. Silvers, Howard B. Brownstein, Andrew F. Cates, and Eric H. Speron were independent directors within the meaning set forth under applicable rules of the NASDAQ Stock Market. John R. Hart and Kenneth J. Slepicka were not independent directors under those standards. John R. Hart is an employee of our Company. Kenneth J. Slepicka has a relationship with us as described under “Related Persons Transactions” below. The independent directors have regularly scheduled executive session meetings at which only the independent directors are present. During 2015, executive sessions were led by Kristina M. Leslie, who was an independent director and served as Chair of the Board prior to her resignation from the Board of Directors in February 2016. In March 2016, Mr. Marino, an independent director, was appointed Chair of the Board and has led executive sessions following his appointment. An executive session is held in conjunction with each regularly scheduled quarterly meeting and other sessions may be called by the Chair of the Board in his own discretion or at the request of our Board of Directors.

Board Leadership Structure

The Corporate Governance and Nominating Committee is responsible for reviewing and making recommendations to our Board of Directors regarding the board’s leadership structure. The role of the Chair is to manage the affairs of our Board of Directors, including ensuring that our Board of Directors is organized properly, functions effectively, and meets its obligations and responsibilities. The Chair also develops and approves agendas and presides at all meetings of our Board of Directors and shareholders. Our Corporate Governance and Nominating Committee and our Board of Directors believe that the Chair should be an independent director. In the course of their evaluation, our Corporate Governance and Nominating Committee and our Board of Directors considered factors that included:

- the challenges and opportunities of our Company, including the need for clear accountability;
- the policies and practices in place to provide effective and independent oversight of management;
- applicable regulatory requirements; and
- corporate governance trends and practices of other public corporations.

Our Board of Directors believes that our current board leadership structure is best for our Company and our shareholders because it:

- Separates the offices of Chair and Chief Executive Officer. As opposed to having a Chair who is also the Chief Executive Officer, a non-executive Chair enhances our Board of Directors’ ability to provide oversight of management.
- Allocates required time commitments. The Chair’s role has evolved to include significant duties and responsibilities, such as interaction with shareholders and other important matters, which may be difficult to reconcile with the full-time demands of the Chief Executive Officer in managing the day-to-day affairs of the Company.
- Enhances the independent oversight of management and reduces any conflicts of interest. Because our Board of Directors serves to oversee and monitor the actions of management, our Board of Directors believes its leaders should be in a position to provide independent oversight of such actions.

Role of the Board of Directors in Risk Oversight

Our Board of Directors as a group is responsible for all risk oversight of our Company and, as such, has full access to management so that it can maintain open and continuous communication that ensures that the risks associated with the various aspects of our Company are appropriately identified and addressed. In addition, each of our committees oversees a portion of the Company's risk framework and controls. Our Compensation Committee reviews the risks associated with compensation incentives.

Our Audit Committee oversees the risks associated with (a) our financial statements, financial and liquidity risk exposures, including any material and pending legal proceedings, significant transactions, and investment guidelines and performance, (b) fraud, (c) security of and risks related to information technology systems and procedures, and (d) related party transactions and actual and potential conflicts of interests. Our Corporate Governance and Nominating Committee oversees the policies and procedures related to director and management succession and transition.

In carrying out each of their responsibilities in overseeing the Company's policies with respect to risk, the committees discuss the issues with internal personnel and third parties that they deem appropriate. After such review and discussions, the committees evaluate and report to our full Board of Directors each of their respective findings and recommendations. Our Board of Directors is ultimately responsible for the adoption of any such recommendations.

The Company's leadership structure compliments our Board of Directors' risk oversight function. The separation of the offices of the Chief Executive Officer ("CEO") and the Chair promotes effective consideration of matters presenting significant risks by management and directors. Our Board of Directors' role of risk oversight has not specifically affected its leadership structure. Our Board of Directors regularly reviews its leadership structure and evaluates whether it is functioning effectively.

Committees of the Board of Directors

Our Board of Directors has three standing committees: an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee, all of which are composed solely of independent directors. In addition, the Board of Directors has established a Strategy Committee. The committees operate pursuant to written charters, of which the Audit Committee, Compensation Committee, and Corporate Governance and Nominating Committee charters are available on our website under "Corporate Governance" at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement).

The following table sets forth the current members of each committee and the number of meetings held by each committee in 2015:

Name of Director	Audit	Compensation	Corporate Governance and Nominating	Strategy
Carlos C. Campbell* [(1)]	Member	Chair		
Kenneth J. Slepicka				Member
John R. Hart				
Michael J. Machado*	Member	Member	Chair	
Raymond V. Marino II*			Member	
Daniel B. Silvers*		Member	Member	Member
Howard B. Brownstein*	Chair**		Member	
Andrew F. Cates*	Member		Member	Member
Eric H. Speron*		Member		Chair
Number of meetings held in 2015	7	5	4	—

* Independent Director

** Financial Expert

[(1)] Mr. Campbell is not a candidate for re - election and will be retiring from our Board of Directors at the Annual Meeting.

Audit Committee. The Audit Committee consists of Mr. Brownstein (Chair), Mr. Campbell (who is not a candidate for re - election and will be retiring from our Board of Directors at the Annual Meeting), Mr. Machado, and Mr. Cates, none of whom has been or is an officer or employee of our Company. Each member of the Audit Committee, in the judgment of our Board of Directors, is independent within the meaning set forth under applicable rules of the

NASDAQ stock market and Rule 10A-3(b)(1)(ii) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act").

The functions of the Audit Committee include: (a) overseeing our accounting and financial reporting processes; (b) meeting with the independent registered public accounting firm to review their reports on their audits of our financial statements, their comments on our internal control over financial reporting and the action taken by management with regard to such comments; (c) reviewing and approving all related persons transactions; (d) reviewing auditor independence; (e) issuing an Audit Committee report to the shareholders; and (f) the appointment of our independent registered public accounting firm and pre-approving all auditing and non-auditing services to be performed by such firm.

The Audit Committee has the authority, in its discretion, to order interim and unscheduled audits to investigate any matter brought to its attention and to perform such other duties as may be assigned to it from time to time by our Board of Directors. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed with management the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2015, its accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. A copy of the Audit Committee's Charter is posted on our website under "Corporate Governance" at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement).

Audit Committee Financial Experts. Our Board of Directors has determined that Mr. Brownstein qualifies as an audit committee financial expert as defined in SEC rules.

Compensation Committee. The Compensation Committee consists of Mr. Campbell (Chair - who is not a candidate for re - election and will be retiring from our Board of Directors at the Annual Meeting), Mr. Machado, Mr. Silvers, and Mr. Speron. None of its members is or has been an officer or employee of our Company, and our Board of Directors has determined that each member of the Compensation Committee is independent within the meaning set forth under applicable rules of the NASDAQ stock market and an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The functions of the Compensation Committee include: (a) evaluating the performance of, and setting compensation for, our Chief Executive Officer ("CEO") and other senior management; (b) reviewing and approving the overall executive compensation program for our executives and the executives of our subsidiaries; (c) considering and reviewing compensation levels for service as a member of our Board of Directors and its committees; (d) making recommendations to our Board of Directors with respect to new cash-based incentive compensation plans and equity-based compensation plans; and (e) administering and granting awards under our equity incentive plan. The Compensation Committee's goals are to attract and retain qualified directors and key executives critical to our long-term success, to reward executives for our long-term success and the enhancement of shareholder value, and to integrate executive compensation with both annual and long-term financial results. Additional information on the Compensation Committee's processes and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis ("CD&A") below. A copy of the Compensation Committee's Charter is posted on our website under "Corporate Governance" at http://investors.picoholdings.com. The information on our website is not incorporated by reference into this proxy statement.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee members consist of Mr. Machado (Chair), Mr. Brownstein, Mr. Cates, Mr. Marino, and Mr. Silvers. None of its members is or has been an officer or employee of our Company. In the judgment of our Board of Directors, each committee member is independent within the meaning set forth under applicable rules of the NASDAQ stock market. The functions of the Corporate Governance and Nominating Committee include: (a) identifying, reviewing, evaluating and selecting candidates to be nominated for election to our Board of Directors; (b) identifying and recommending members of the Board of Directors to committees; (c) overseeing and implementing the system of the corporate governance of the

Company; and (d) overseeing the plans and process to monitor, control and minimize our risks and exposures. A copy of the Corporate Governance and Nominating Committee's Charter is posted on our website under "Corporate Governance" at http://investors.picoholdings.com. The information on our website is not incorporated by reference into this proxy statement.

Strategy Committee. The Strategy Committee members consist of Mr. Speron (Chair), Mr. Cates, Mr. Slepicka, and Mr. Silvers. None of its members is or has been an officer or employee of our Company. The primary responsibilities of the Strategy Committee include monitoring our previously announced plans to return capital to shareholders as assets are monetized with such capital being returned through stock repurchases, special dividends, or other means.

Director nominees. Our Corporate Governance and Nominating Committee works with our Board of Directors to determine the appropriate characteristics, skills, and experience for our Board of Directors as a whole and its individual members. This evaluation includes issues of diversity, age, skills and experience - all in the context of an assessment of the perceived needs of our Board of Directors at that time. In evaluating the suitability of individual members of our Board of Directors for continued service, as well as potential new candidates for our Board of Directors, our Corporate Governance and Nominating Committee and our Board of Directors take into account many factors, including:

- business experience;
- academic credentials;
- inter-personal skills;
- the ability to understand our business;
- leadership skills;
- the understanding of the responsibilities of being a director of a publicly held company;
- corporate experience;
- prior experience on other boards of directors; and
- the potential for contributing to our success.

Although we do not currently have a policy with regard to the formal consideration of diversity in identifying candidates for election to our Board of Directors, our Corporate Governance and Nominating Committee recognizes the benefits associated with a diverse board, and takes diversity considerations into account when identifying candidates. Our Corporate Governance and Nominating Committee utilizes a broad conception of diversity, including diversity of professional experience, employment history, prior experience on other boards of directors, and more familiar diversity concepts such as race, gender and national origin. We endeavor to have our Board of Directors representing diverse experience at policy-making levels in business, government, and education, and in areas that are relevant to our activities. Directors should have experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated. These factors, and others considered useful by our Corporate Governance and Nominating Committee, will be reviewed in the context of an assessment of the perceived needs of our Board of Directors at a particular time.

Directors are expected to possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of our stockholders. They must also have an inquisitive and objective perspective and mature judgment. Members of our Board of Directors are expected to rigorously prepare for, attend, and participate in all Board of Directors and applicable Committee meetings.

Our Corporate Governance and Nominating Committee will consider nominees recommended by shareholders; however, such recommendations must be submitted in writing to our Corporate Secretary along with the candidate’s resume and any other relevant information. See “Shareholder Nomination of Directors” below.

Directors’ Attendance

In 2015, there were twelve meetings of the Board of Directors. Carlos C. Campbell, John R. Hart, Michael J. Machado, and Kenneth J. Slepicka each attended 100% of the Board of Director and their respective committee meetings during 2015. The remaining current members of our Board of Directors were not appointed as directors until 2016.

It is the policy of our Board of Directors that each director, in the absence of extenuating circumstances, should attend our Annual Meeting of Shareholders in person. All of our then serving directors attended our 2015 Annual Meeting.

Corporate Governance Guidelines (including Majority Voting Policy and Stock Ownership Guidelines)

We have adopted Corporate Governance Guidelines (which were last updated by our Board of Directors on April 20, 2016) which are posted on our website under “Corporate Governance” at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement). These Corporate Governance Guidelines are a set of policies intended to guide our Board of Directors in its governance practices. In addition to addressing many of the items discussed in this Corporate Governance section, our Corporate Governance Guidelines include stock ownership guidelines (which are discussed in greater detail in the Compensation Discussion and Analysis section of this proxy statement), and a majority voting policy.

Under the majority voting policy, even though directors are elected by plurality vote, if a director receives in an uncontested election a greater number of "Withhold" votes than votes cast "For" his or her election, our Corporate Governance and Nominating Committee will undertake an evaluation of the appropriateness of the director's continued service on our Board of Directors. In performing this evaluation, our Corporate Governance and Nominating Committee will review all factors deemed relevant, including the stated reasons why shareholders withheld votes for election from such director, the director's length of service, his or her past contributions to the Company and our Board of Directors, including committee service, and the availability of other qualified candidates. Our Corporate Governance and Nominating Committee will then make its recommendation to our Board of Directors. Our Board of Directors will review this recommendation and consider such further factors and written information as it deems relevant.

Under this policy, our Corporate Governance and Nominating Committee will make its recommendation, and our Board of Directors will act on the committee's recommendation, no later than 90 days following the date of the shareholders meeting. If our Board of Directors determines remedial action is appropriate, the director shall promptly take what action is requested by our Board of Directors. If the director does not promptly take the recommended remedial action, or if our Board of Directors determines that immediate resignation is in the best interests of the Company and its shareholders, the director shall promptly tender his or her resignation upon request from our Board of Directors.

We will publicly disclose our Board of Directors' decision within four business days in a Current Report on Form 8-K with the SEC, providing an explanation of the process by which the decision was reached and, if applicable, the reason for not requesting the director's resignation. The director in question will not participate in our Corporate Governance and Nominating Committee or our Board of Directors' analysis.

Shareholder Nomination of Directors

Any shareholder of the Company may nominate one or more persons for election as a director at an Annual Meeting of Shareholders if the shareholder complies with the notice, information and consent provisions contained in our bylaws, or if the Reincorporation is approved and consummated, the notice, information and consent provisions contained in the bylaws of our successor Delaware entity. We have an advance notice bylaw provision, and if the Reincorporation is approved and consummated, our successor Delaware entity will also have an advance notice bylaw provision. Whether or not the Reincorporation is approved or consummated, in order for the director nomination to be timely for the 2017 Annual Meeting, a shareholder's notice to our secretary must be delivered to our principal executive offices not less than 90 days nor more than 120 days before the anniversary of the date of the 2016 Annual Meeting. As a result, any notice for a director nomination given by a shareholder pursuant to the provisions of our bylaws must be received no earlier than March 13, 2017 and no later than the close of business on April 12, 2017.

If the date of our 2017 Annual Meeting is a date that is not within 30 days before or 60 days after July 11, 2017, the anniversary date of our 2016 Annual Meeting, shareholder director nominations must be delivered to our principal executive offices no earlier than the close of business on the 120th day before the 2017 Annual Meeting and not later than the close of business of (i) the 90th day prior to the 2017 Annual Meeting or (ii) the 10th day following the day on which public announcement of the date of the 2017 Annual Meeting is first made by us.

If the Reincorporation is approved and consummated and the date of our 2017 Annual Meeting is a date that is not within 30 days before or 60 days after July 11, 2017, the anniversary date of our 2016 Annual Meeting, shareholder director nominations must be delivered to our principal executive offices not later than the close of business on the 90th day prior to the 2017 Annual Meeting or, if later, the 10th day following the day on which public announcement of the date of the 2017 Annual Meeting is first made by us.

Shareholder nominations must include the information regarding each nominee required by our bylaws. A copy of our bylaws is posted on our website under “Corporate Governance” at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement). If the Reincorporation is approved and consummated, our bylaws would be in the form attached hereto as Appendix D (if proposal 5 passes at the Annual Meeting) or Appendix E (if proposal 5 does not pass at the Annual Meeting). Nominations not made according to the procedures set forth in the applicable bylaws will be disregarded. Our Corporate Governance and Nominating Committee will consider candidates recommended by shareholders, when submitted in writing along with the candidate’s resume and any other relevant information. All candidates (whether identified internally or by a qualified shareholder) who, after evaluation, are then recommended by our Governance and Nominating Committee and approved by our Board of Directors, will be included in our recommended slate of director nominees in our proxy statement. For information about shareholder proposals (other than nominations of directors), please see “Shareholder Proposals to be Presented at Next Annual Meeting” in this proxy statement.

CODE OF ETHICS

We have adopted a Code of Business Conduct and Ethics applicable to all directors, officers, and employees. A copy may be obtained without charge by writing to our Corporate Secretary at 7979 Ivanhoe Avenue, Suite 300, La Jolla, California 92037. It is also posted on our web site under “Corporate Governance” at http://investors.picoholdings.com (the information on our website is not incorporated by reference into this proxy statement).

Amendments to or waivers of our Code of Business Conduct and Ethics granted to any of our directors or executive officers will be published promptly on our web site.

PROCESS FOR SHAREHOLDERS TO COMMUNICATE WITH BOARD OF DIRECTORS

Individuals may contact our entire Board of Directors or an individual director by sending a written communication to our Board of Directors or such director in care of:
Corporate Secretary
PICO Holdings, Inc.
7979 Ivanhoe Avenue, Suite 300
La Jolla, California 92037

Each communication must set forth the name and address of the shareholder on whose behalf the communication is sent. Our Corporate Secretary may review the letter or communication to determine whether it is appropriate for presentation to our Board of Directors or to the directors or director specified. Advertisements, solicitations or hostile communications will not be presented. Communications determined by the corporate secretary to be appropriate for presentation will be submitted to our Board of Directors or to the directors or director specified immediately thereafter. If no director is specified, our Corporate Secretary will immediately forward appropriate letters or communications to our Chair of the Board of Directors.

A shareholder wishing to communicate directly with the non-management members of our Board of Directors may address the communication to “Non-Management Directors, c/o Board of Directors” at the same address above. These communications will be handled by our Chair of the Audit Committee. Finally, communications can be sent directly to individual directors by addressing letters to the director’s individual name, c/o the Board of Directors, at the address above.

PROPOSAL NO. 1:
ELECTION OF DIRECTORS

Nominees and Continuing Directors

We currently have a classified Board of Directors. Our directors are divided into three classes, with each class serving a three-year term. The terms of office of each class end in successive years. Two of our directors are to be elected at the Annual Meeting for terms ending at the Annual Meeting of Shareholders in the year 2019 or until their respective successors have been duly elected and qualified.

At the Annual Meeting, we are asking our shareholders to vote on Proposal 5, which is a proposal to eliminate the classification of our Board of Directors and to require that all directors stand for election annually. Regardless of whether Proposal 5 passes at the Annual Meeting, the two directors being elected at the Annual Meeting will serve for a three year term ending at the Annual Meeting of Shareholders in the year 2019. However, if Proposal 5 passes at the Annual Meeting, directors who have been elected to three-year terms (including the two directors to be elected at the Annual Meeting) will complete those terms. Thereafter, their successors will be elected to one-year terms and from and after the Annual Meeting of Shareholders in 2019, all directors will stand for election annually.

Unless otherwise instructed, Maxim C.W. Webb and John T. Perri, as proxy holders, intend to distribute the votes represented by proxies in such proportions as they deem desirable to elect the two nominees named below or their substitutes. The nominees recommended by our Board of Directors have consented to serving as nominees for election to our Board of Directors, to being named in this proxy statement and to serving as members of our Board of Directors if elected by our shareholders. As of the date of this proxy statement, we have no reason to believe that any nominee will be unable or unwilling to serve if elected as a director. However, if, prior to the Annual Meeting, for any reason, a nominee becomes unable to serve or for good cause will not serve if elected, our Board of Directors, upon the recommendation of our Corporate Governance and Nominating Committee, may designate substitute nominees, in which event the shares represented by proxies returned to us will be voted for such substitute nominees. If any substitute nominees are so designated, we will file an amended proxy statement that, as applicable, identifies the substitute nominees, discloses that such nominees have consented to being named in the amended proxy statement and to serve as directors if elected, and includes certain biographical and other information about such nominees required by the applicable rules promulgated by the SEC.

Our Board of Directors, at the recommendation of our Corporate Governance and Nominating Committee, has nominated Howard B. Brownstein and Kenneth J. Slepicka for election as directors at our Annual Meeting on Monday, July 11, 2016 for terms ending in 2019. Our directors approved the nomination for election to our Board of Directors of Howard B. Brownstein and Kenneth J. Slepicka and each of the nominees has consented to be nominated and to serve if elected. See “Security Ownership of Certain Beneficial Owners and Management” for the number of shares of our common stock beneficially owned by these nominees.

Information Regarding Nominees and Continuing Directors

The following table and biographical descriptions set forth certain information with respect to the two nominees and our other six continuing directors, each of whom are currently serving and, unless otherwise specified, have served continuously since elected. This information is based on information furnished to us by each such director. The ages listed below are as of May 17, 2016.

Name	Age	Term Expires	Class	Director Since	Positions Held with the Company (other than Director)
Daniel B. Silvers	39	2018	I	2016	

Eric H. Speron	36	2018	I	2016	
Raymond V. Marino II	57	2018	I	2016	Non - Executive Chair
Howard B. Brownstein *	65	2016	II	2016	
Kenneth J. Slepicka *	60	2016	II	2005	
John R. Hart	56	2017	III	1996	President and Chief Executive Officer
Michael J. Machado	68	2017	III	2013	
Andrew F. Cates	45	2017	III	2016	

* Nominees for terms ending in 2019.

Central Square Agreement

In March 2016, we entered into an agreement with Central Square Management LLC and certain of its affiliates regarding the membership and composition of our Board of Directors. Pursuant to the agreement, we agreed to appoint Andrew F. Cates as a Class III director and appoint Daniel B. Silvers as a Class I director, as well as appoint Mr. Cates to the Audit Committee, the Corporate Governance and Nominating Committee and the Strategy Committee and Mr. Silvers to the Compensation Committee, the Corporate Governance and Nominating Committee and the Strategy Committee. We also agreed to nominate Mr. Cates for reelection at our Annual Meeting of Shareholders in 2017.

Pursuant to the agreement, we also agreed to decrease the size of our Board of Directors by one, such that only eight directors would be serving on our Board of Directors following the Annual Meeting. This reduction from nine to eight directors will occur following the Annual Meeting upon the expiration of Carlos C. Campbell's term of office, which will end at the Annual Meeting.

Biographical Information

Each of our directors and nominees has an established record of professional accomplishment in his chosen field, the ability to contribute positively to the collaborative culture among board members, as well as professional and personal experiences and expertise relevant to our objective of monetizing assets and returning capital back to shareholders. All of our directors develop and continue to oversee the long-term strategy, management structure, and corporate governance programs that are in place today. The following provides further qualifications, attributes and other biographical information with respect to the two nominees and the other continuing directors.

Nominees for Directors to be Elected in 2016 with Term Ending in 2019

Howard Brownstein was appointed to our Board of Directors in February 2016. Mr. Brownstein has been the president of The Brownstein Corporation, a turnaround and crisis management consulting, advisory and investment banking firm, since 2010. From 1999 through 2009, Mr. Brownstein was a Principal of NachmanHaysBrownstein, Inc., a management consulting firm. Since 2010, Mr. Brownstein has served on the board of directors of P&F Industries, Inc., a publicly-held manufacturer/importer of air-powered tools and various residential hardware products and joined that board after being recommended by a significant shareholder of P&F. From 2003 through 2006, he served on the boards of directors and audit committees of Special Metals Corporation, a privately held nickel alloy producer (where he also chaired the audit committee) and Magnatrax Corporation, a privately held manufacturer of metal buildings. In 2010, he served on the board of directors of Betsey Johnson, a privately held apparel designer and retailer. Additionally, from January 2014 through April 2015, Mr. Brownstein served on the board of directors of LMG2, a privately-held Chicago-based parking facility operator. Additionally, Mr. Brownstein is a Board Leadership Fellow of the National Association of Corporate Directors ("NACD"), through which he completed NACD's comprehensive program of study for corporate directors and continues to supplement his director skill sets through ongoing engagement with the director community, and access to leading practices. Mr. Brownstein is a graduate of Harvard University, where he obtained J.D. and M.B.A. degrees, and of the University of Pennsylvania, where he obtained B.S. and B.A. degrees from the Wharton School and the College of Arts and Sciences. Mr. Brownstein is admitted to the bars of Pennsylvania, Massachusetts and Florida, but does not actively practice law.

We believe that Mr. Brownstein's broad financial and management consulting background, including his extensive experience in finance, restructurings and turnarounds, strategic planning, valuing and selling businesses and corporate governance, as well as his public company board experience makes him a valuable member of our Board of Directors. This experience provides him keen insight into both the management and operations of a business and the governance

and oversight matters facing companies and led to our conclusion that he should serve on our Board of Directors.

Kenneth J. Slepicka has served as a member of our Board of Directors since 2005. Mr. Slepicka is currently the chairman, chief executive officer, and acting chief financial officer of Synthonics, Inc., an early stage biotechnology company, and has served in such capacity since 2006. Mr. Slepicka received a Master of Business Administration from Kellogg School of Management, Northwestern University. Mr. Slepicka has also received a Master Director Certification from the National Association of Corporate Directors (NACD), is a member, and has earned certificates of director education in 2007, 2008, and 2009, as well as the status of Leadership Fellow from the NACD. In addition, Mr. Slepicka served as president and treasurer of SBC Warburg Futures Inc. from 1994 to 1998, as executive director of Fixed Income Trading for O'Connor & Associates from 1985 to 1994, and has held risk advisor, consultant and strategic planning positions in the financial and healthcare industries. Mr. Slepicka has served as a member of the FIA Steering Committee, the Federal Reserve FCM Working Group, and as a Governor of the Board of Trade Clearing Corporation. He is also a former member of the Chicago Board of Trade, Chicago Mercantile Exchange, Chicago Board of Options Exchange, and Pacific Options Exchange. In addition, Mr. Slepicka currently serves and has served on the boards of directors of several not-for-profit entities.

Mr. Slepicka's management and operational experience leads to our conclusion that he should serve on our Board of Directors.

Directors whose Terms Continue Into 2017

John R. Hart has served as President, Chief Executive Officer and as a member of our Board of Directors since 1996. Mr. Hart also serves as an officer and/or director of our most significant subsidiaries: Vidler Water Company, Inc. (director since 1995, chairman since 1997 and chief executive officer since 1998); and UCP, Inc. (since May 2013). From 1997 to 2006, Mr. Hart was a director of HyperFeed Technologies, Inc., an 80% owned subsidiary which was dissolved in 2009 following bankruptcy proceedings, where he served as chairman of the nominating committee and as a member of the compensation committee. Mr. Hart received a B.A. in Economics from Pomona College.

Mr. Hart has been our President and Chief Executive Officer and a member of our Board of Directors for almost fifteen years and his leadership and strategic guidance over these years have been critical to our success. Mr. Hart also brings the knowledge of the operations of the Company to our Board of Directors, which provides invaluable insight to our Board of Directors as it reviews the Company's strategic and financial plans leading to our conclusion that he should serve on our Board of Directors.

Michael J. Machado has served as a member of our Board of Directors since 2013. Mr. Machado was a member of the California State Assembly from 1992 - 2000, a California State Senator from 2000 - 2008, and was appointed in 2015 to the Council of Economic Advisors on Tax Policy for the California State Controller. Since 2008 Mr. Machado has been the owner and operator of a diversified farming operation in California's Central Valley. Mr. Machado is a board member of the California State Compensation Insurance Fund (2008 to present) where he chairs the investment committee and serves on the audit committee. He also serves on the board of directors of P & M Farms (1985 to present) and is also a member of the non-profit boards for the San Joaquin Historical Society Board of Trustees (2012 to present) and Restore the Delta (since 2014). He is a member of the National Association of Corporate Directors and is a Board Leadership Fellow. Mr. Machado received an undergraduate degree in Economics from Stanford University and a Master's degree in Agricultural Economics from the University of California, Davis. In addition he attended Harvard University's Agribusiness Executive Education Program. As a state legislator in California, Mr. Machado was heavily involved in numerous issues, including water policy, agricultural policy and regulation of financial institutions.

We believe that Mr. Machado's extensive educational and legislative experience, and his continuing involvement in owning and operating a diversified farming operation, as well as his involvement in water policy issues make him a

valuable addition to our Board of Directors.

Andrew F. Cates was appointed to our Board of Directors in March 2016. Mr. Cates is the general partner and chief executive officer of RVC Outdoor Destinations and managing member of Value Acquisition Fund, an acquisition, development, and asset management company he founded in 2004. In 1999, Mr. Cates relocated to his hometown of Memphis, Tennessee, to develop the Soulsville Revitalization Project as its project developer and to serve as its initial board chairman. The state of the art, six-acre campus continues to serve as an anchor for what is now one of the largest inner city revitalization projects in the country. In the summer of 2000, Mr. Cates began working with a team of business and civic leaders to attract the Vancouver Grizzlies National Basketball Association franchise to Memphis, Tennessee, and to get public support for the team's arena (FedExForum). The "Pursuit Team" was successful in its efforts, and Mr. Cates became a member of the original local ownership group. In 1996, Mr. Cates was a founding partner in Viceroy Investments, LLC based in Dallas, Texas. Since 1998, Mr. Cates has continued his affiliation with Viceroy and is currently a partner in two Viceroy sponsored partnerships. Mr. Cates began his real estate career in Dallas, Texas, where he worked as an analyst at Trammell Crow Company Capital Markets Group and later an associate for Crow Investment Trust (now called Crow Family Holdings) as a member of a team responsible for partnership and loan workouts, office and industrial acquisitions, asset management, and commercial development. Mr. Cates earned a Bachelor of Business Administration (Finance) degree at the University of Texas at Austin. In 2001, he was inducted into Lambda Alpha International, an honorary land economics society. Since 2009, he has served on the board of directors of Pioneer Natural Resources (NYSE:PXD). Mr. Cates also serves on the board of the Myelin Repair Foundation based in Saratoga, California.

We believe that Mr. Cates' broad financial and management background, including extensive experience in real estate, partnerships, asset management, finance, strategic planning, valuing and selling businesses and corporate governance, as well as his public company board experience makes him a valuable member of our Board of Directors. This experience provides him valuable insight into both the management and operations of a business and the governance and oversight matters facing companies and led to our conclusion that he should serve on our Board of Directors.

Directors whose Terms Continue Into 2018

Raymond V. Marino II was appointed to our Board of Directors in February 2016 and elected Chair of our Board of Directors in March 2016. Since 2013, Mr. Marino has been in the investment advisory business where he is involved in researching, evaluating and negotiating a variety of investments for personal portfolio and third party investors involving real estate and non-real estate investments and has completed buy-side and sell-side real estate advisory assignments for third parties in excess of $130 million. From 2001 to 2013, Mr. Marino was the president and chief operating officer as well as a member of the board of directors of Mission West Properties, Inc., a publicly traded real estate investment trust involved in the development, investment and management of a portfolio that exceeded 9 million square feet. From November 1996 to August 2000, he was president, chief executive officer and a member of the board of directors of Pacific Gateway Properties, Inc. Earlier in his career, Mr. Marino, who is Certified Public Accountant in the State of California (inactive), worked at Coopers & Lybrand LLP, a predecessor firm to PriceWaterhouse Coopers LLP, where he serviced clients in the real estate investment and development, construction, energy, technology, and insurance industries, among others. Mr. Marino is a graduate of Golden Gate University, where he obtained an M.S. degree, and of Santa Clara University, where he obtained a B.S. degree.

We believe that Mr. Marino brings extensive experience in real estate, investment management, executive-level management, risk oversight, strategic planning, financial reporting and corporate governance, as well as public company board experience. Mr. Marino's service for more than a decade as the president and chief operating officer and a member of the board of directors of Mission West Properties, Inc. and his experience in the investment advisory business gives him substantial experience on financial, governance and risk oversight matters leading to our conclusion that he should serve on our Board of Directors.

Eric H. Speron was appointed to our Board of Directors in January 2016. Mr. Speron is currently an analyst and portfolio manager of three portfolios managed for clients of First Foundation. He also serves as a member of the investment committee of First Foundation Advisors and, as a member of the First Foundation Advisors investment committee, assists in shaping the portfolio investment process and overall asset allocations. Mr. Speron joined First Foundation Advisors in 2007 from JPMorgan's Institutional Equity division. Mr. Speron is currently a member of the CFA Institute and the Orange County Society of Financial Analysts. He earned a Bachelor of Arts Degree with a double major from Georgetown University where he was also voted Academic All-American, Mid-Atlantic, for his academic and athletic accomplishments.

We believe that Mr. Speron's extensive familiarity with our Company gained from being an investor in our stock, his understanding of our business model, his experience analyzing investments and making investment decisions, and his perspective as a large shareholder can greatly benefit us and makes him a valuable addition to our Board of Directors.

Daniel B. Silvers was appointed to our Board of Directors in March 2016. Mr. Silvers currently serves as managing member of Matthews Lane Capital Partners LLC, an investment firm, and has done so since June 2015. From March 2009 to June 2015, Mr. Silvers served as president of SpringOwl Asset Management LLC, an investment management firm (including predecessor entities). From April 2009 to October 2010, Mr. Silvers also served as president of Western Liberty Bancorp, an acquisition-oriented holding company that acquired and recapitalized a community bank in Las Vegas, Nevada. Mr. Silvers joined a predecessor of SpringOwl from Fortress Investment Group, a leading global alternative asset manager, where he worked from 2005 to 2009. At Fortress, Mr. Silvers' primary focus was to originate, oversee due diligence on and asset management for real estate and gaming investments in Fortress' Drawbridge Special Opportunities Fund. Prior to joining Fortress, Mr. Silvers was a senior member of the real estate, gaming and lodging investment banking group at Bear, Stearns & Co. Inc., where he was from 1999 to 2005. Mr. Silvers holds a B.S. in Economics and an M.B.A. in Finance from The Wharton School of the University of Pennsylvania. Mr. Silvers also serves on the board of directors of Forestar Group, Inc. and India Hospitality Corp. Mr. Silvers previously has served on the board of directors of International Game Technology, Universal Health Services, Inc. and bwin.party digital entertainment plc.

We believe that Mr. Silvers' broad financial and management background, including extensive experience in investment and asset management, real estate, finance, valuing and selling businesses as well as his public company board experience makes him a valuable member of our Board of Directors. This experience provides him valuable insight into both the management and operations of a business and the governance and oversight matters facing companies and led to our conclusion that he should serve on our Board of Directors.

Vote Required

The two nominees for election as directors receiving the highest number of votes will be elected. Abstentions and broker non-votes will have no effect on the election of directors.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” THE ELECTION OF EACH OF OUR BOARD’S NOMINEES TO OUR BOARD OF DIRECTORS.

PROPOSAL NO. 2:
ADVISORY (NON-BINDING) VOTE APPROVING EXECUTIVE COMPENSATION (SAY-ON-PAY)

This stockholder advisory vote, commonly known as "Say-on-Pay," is required pursuant to Section 14A of the Securities Exchange Act of 1934, as amended and gives our stockholders the opportunity to approve or not approve, on a non-binding advisory basis, the compensation paid to our named executive officers ("NEOs"). Our Board of Directors has determined that this "Say-on-Pay" vote shall be held annually.

The advisory vote on executive compensation is a non-binding vote on the compensation of our NEOs, as identified in the Compensation Discussion and Analysis ("CD&A") section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure, set forth in this proxy statement. The advisory vote on executive compensation is not a vote on our general compensation policies, the compensation of our board, or our compensation policies and practices as they relate to risk management. Our compensation philosophy is based on the principle of aligning pay and performance. The primary objectives of our compensation program are to pay for performance, recruit, retain and motivate the highest quality executive officers who are critical to our success, align the interests of our NEOs and other employees with those of our shareholders and promote excellent corporate governance. The CD&A section of this proxy statement provides a more detailed discussion of our executive compensation program and compensation philosophy, including recent changes we made to our executive compensation program to align with our revised business plan and in response to feedback received from shareholders.

The vote solicited by this Proposal 2 is advisory, and therefore is not binding on the Company, our Board of Directors, or our Compensation Committee, nor will its outcome require the Company, our Board of Directors, or our Compensation Committee to take any action. Moreover, the outcome of the vote will not be construed as overruling any decision by the Company, our Compensation Committee, or our Board of Directors.

Furthermore, because this non-binding, advisory resolution primarily relates to the compensation of our NEOs that has already been paid or contractually committed, there is generally no opportunity for us to revisit these decisions. However, our Board of Directors, including our Compensation Committee, values the opinions of our shareholders and, to the extent there is any significant vote against our NEOs compensation as disclosed in this proxy statement, we will consider our shareholders' concerns and evaluate what actions, if any, may be appropriate to address those concerns.

Shareholders will be asked at the Annual Meeting to approve the following resolution pursuant to this Proposal 2:

RESOLVED, that the shareholders of PICO Holdings, Inc. approve, on an advisory basis, the compensation of the Company's NEOs, disclosed pursuant to Item 402 of Regulation S-K in the Company's definitive proxy statement for the 2016 Annual Meeting of Shareholders.

Vote Required

Approval on an advisory basis of the compensation of our NEOs requires the affirmative vote of the majority of the shares represented at the Annual Meeting and entitled to vote on such matter. Abstentions will be treated as votes "against" this proposal. Broker non-votes are not counted as votes for or against this proposal and will therefore have no effect on the outcome of the vote.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE APPROVAL OF THE FOREGOING RESOLUTION.

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PROPOSAL NO. 3:
RATIFICATION OF THE APPOINTMENT OF
DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2016.

Although ratification by our shareholders is not required by law, our Board of Directors has determined that it is desirable to request ratification of this appointment by our shareholders. If our shareholders do not ratify the appointment, our Audit Committee will reconsider whether or not to retain Deloitte & Touche LLP and may decide to retain them notwithstanding the vote. Even if the appointment is ratified, our Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders. In addition, if Deloitte & Touche LLP should decline to act or otherwise become incapable of acting, or if the engagement should be discontinued, our Audit Committee will appoint another independent public registered public accounting firm. A representative of Deloitte & Touche LLP will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires, and will be available to respond to appropriate questions.

Independent Registered Public Accounting Firm Fees

The following table sets forth the aggregate fees billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates for the fiscal years ended December 31, 2015 and December 31, 2014:

	2015	2014
Audit Fees	$1,816,902	$1,975,290
Tax Fees	385,484	446,386
Audit-Related Fees	1,754	137,172
Total	$2,204,140	$2,558,848

Audit Fees consist of fees we paid for (i) the audit of our annual financial statements included in our Annual Reports on Forms 10-K and reviews of our quarterly financial statements included in our Quarterly Reports on Forms 10-Q; (ii) services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory audits or consents; and (iii) the audit of our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Tax Fees consist of fees for professional services for tax compliance, which totaled $352,164 in 2015 and $276,766 in 2014 and tax planning and advice services, which totaled $33,320 in 2015 and $169,620 in 2014. These services included assistance regarding United States federal, state, and local tax return preparation, tax audits and appeals, advice on structuring potential transactions, and intra-group restructuring.

Audit-Related Fees consist of fees we paid for services related to proposed or consummated transactions and attestation services not required by statute or regulation and the related accounting or disclosure treatment for such transactions or events.

Our Audit Committee has determined that the provision of non-audit services listed above is compatible with the independence of Deloitte & Touche LLP. All services above were pre-approved by our Audit Committee.

Audit Committee Pre-Approval Policy

Consistent with SEC policies regarding independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has recommended, and the Board of Directors has approved, pre-approval guidelines for all audit and non-audit services to be provided by the independent registered public accounting firm.

These pre-approval guidelines are:

1. At the earliest possible date, management shall inform the Audit Committee of each audit or non-audit service which management desires our independent registered public accounting firm to perform;
2. Management shall promptly provide to the Audit Committee detailed information about the particular services to be provided by our independent registered public accounting firm;
3. The supporting documentation provided to the Audit Committee by management shall be sufficiently detailed so that the Audit Committee knows precisely what services it is being asked to pre-approve; and
4. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee. All such pre-approvals shall be presented to the full Audit Committee at the Audit Committee's next scheduled meeting.

Vote Required

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm requires the affirmative vote of the majority of the shares represented at the Annual Meeting and entitled to vote on such matter. Abstentions will be treated as votes "against" this proposal. Broker non-votes are not counted as votes for or against this proposal and will therefore have no effect of the outcome of the vote.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2016.

PROPOSAL NO. 4
REINCORPORATION OF
THE CORPORATION
FROM CALIFORNIA TO DELAWARE

What is the Reincorporation Proposal?

On April 20, 2016, our Board of Directors approved a proposal (the "Reincorporation Proposal") to change the state of incorporation of PICO Holdings, Inc. ("PICO California") from California to Delaware (the "Reincorporation"). In reaching this decision, our Board of Directors considered several factors, including our corporate governance objectives, the differences between California and Delaware state corporate laws, the impact on the relationship between us and our shareholders, the ability to enhance long-term shareholder value and other advantages and disadvantages of the Reincorporation. As discussed further below, our Board of Directors considered, in particular, our increased ability to protect our future ability to use our net operating loss carryforwards to offset taxable income if we were to reincorporate under Delaware law due to the current uncertainty that exists under California law with respect to the legality of net operating loss shareholder rights plans.

The choice of state of domicile is important because state corporate law governs the internal affairs of a corporation. Management and boards of directors of corporations look to state law and judicial interpretations of state law to guide their decision-making on many key issues, including determining appropriate governance policies and procedures, ensuring that boards satisfy their fiduciary obligations to shareholders, and evaluating key strategic alternatives for the corporation, including mergers, acquisitions, and divestitures. After careful consideration of these and other factors as discussed more fully below, our Board of Directors believes that it is in the best interest of the Company and our shareholders to complete the Reincorporation.

Where can I find information on the Reincorporation Proposal?

Shareholders are urged to read this proxy statement carefully for information regarding the Reincorporation Proposal, including the related appendices referenced below and attached to this proxy statement, before voting on the Reincorporation. The following discussion summarizes material provisions of the Reincorporation. This summary is subject to and qualified in its entirety by the following reincorporation documents attached as appendices to the Proxy Statement: (i) the Agreement and Plan of Merger to be executed in connection with the Reincorporation in substantially the form attached hereto as Appendix A, (ii) the Delaware Certificate of Incorporation to be effective after the Reincorporation in the event that Proposal 5 is passed at the Annual Meeting, in the form attached hereto as Appendix B, or the Delaware Certificate of Incorporation to be effective after the Reincorporation in the event that Proposal 5 is not passed at the Annual Meeting, in the form attached hereto as Appendix C (the "Delaware Certificate"), and (iii) the Delaware Bylaws to be effective after the Reincorporation in the event that Proposal 5 is passed at the Annual Meeting, in the form attached hereto as Appendix D, or the Delaware Bylaws to be effective after the Reincorporation in the event that Proposal 5 is not passed at the Annual Meeting, in the form attached hereto as Appendix E (the "Delaware Bylaws"). Copies of our Amended and Restated California Articles of Incorporation and our California Amended and Restated Bylaws are filed publicly as exhibits to our periodic reports and are also available for inspection at our principal office. Copies will be sent to our shareholders free of charge upon written request to our Secretary at PICO Holdings, Inc. at 7979 Ivanhoe Avenue, Suite 300 La Jolla, California 92037.

Is this the second year in a row that the Company has sought shareholder approval to change the state of incorporation of the Company from California to Delaware?

Yes. We included a proposal in our proxy statement for the 2015 Annual Meeting of Shareholders to seek shareholder approval to change the state of incorporation of the Company from California to Delaware. However, prior to the 2015 Annual Meeting of Shareholders, this proposal was withdrawn by us and it was never voted on by our shareholders.

We have decided to resubmit the Reincorporation Proposal for a vote of our shareholders at the Annual Meeting, with several changes from the same proposal submitted to our shareholders in connection with the 2015 Annual Meeting of Shareholders. Specifically, our Board recognized that there are several provisions currently contained in our existing Articles of Incorporation and Bylaws that afford significant rights and protections to minority shareholders and has elected to maintain the substance of these provisions in the Delaware Certificate and the Delaware Bylaws. These protections are discussed in greater detail below in the question “What are the consequences of the Reincorporation?”.

Why did our Board choose Delaware over other jurisdictions?

It is well established that the State of Delaware has been a leader in adopting a comprehensive and coherent set of corporate laws that are responsive to the evolving legal and business needs of corporations. Our Board believes that the most important criterion in comparing jurisdictions is the existence of a highly developed and predictable corporate law that will guide management and our Board of Directors in addressing the complex and varied decisions faced by public companies. We believe that no other jurisdiction in the United States satisfies this criterion to the same extent as Delaware. In particular, relative to our current domicile in California or a domicile in any other state, we believe Delaware will offer us greater predictability and clarity due to characteristics that are unique to the state, which are further discussed below.

Predictability, Flexibility and Responsiveness of Delaware Law

Delaware courts have established a jurisprudence that is significantly more thorough and broadly applied with respect to principles of corporate governance than any other state's courts, including the courts in California. As a result, corporations domiciled in Delaware have an advantage over companies organized under the laws of other states, because Delaware corporations can draw upon these firmly established and consistently interpreted principles when making business and legal decisions.

We believe that Delaware is the preferred domicile for most major American corporations. According to the Delaware Secretary of State, over 50% of all public companies and approximately 64% of all Fortune 500 corporations are incorporated in Delaware.

Because of the large number of major corporations domiciled in Delaware, Delaware courts often take the lead in reviewing and deciding important new issues relating to corporate governance and rights and obligations of shareholders and corporations. As Delaware courts were among the first and most influential to address these issues, many California corporations have looked to Delaware laws for guidance on these issues. Our Board of Directors believes that the clarity provided on these issues is ultimately beneficial to the Company and our shareholders because it establishes more reliable guidance for corporate governance decisions.

Delaware's court system also provides swift and efficient resolutions in corporate litigation. Delaware has a specialized Court of Chancery that reviews and decides corporate law cases, and appeals to Delaware's Supreme Court can be decided quickly. In addition, Delaware's Rapid Arbitration Act provides a streamlined arbitration process that allows for prompt, cost-effective resolution of business disputes.

The fact that issues of corporate governance are frequently addressed first in Delaware contributes to an efficient and expert court system and bar. In contrast, disputes relating to California corporate law are heard by the Superior Court, the general trial court in California that hears all types of cases, from criminal to civil, which has been known in the past to experience lengthy delays and produce outcomes that are inconsistent among courts. The highly specialized nature of the Delaware court system is therefore widely believed to result in more consistent and timely rulings.

We have identified the following key benefits of Delaware's corporate legal framework that are available to the Company after the Reincorporation:

- The Delaware General Corporate Law, as amended ("DGCL"), is generally acknowledged to be the most advanced and flexible state corporate statute in the United States;
- The Delaware Court of Chancery routinely handles cases involving complex corporate issues with a level of experience and a degree of sophistication and understanding unmatched by other courts in the country;

- The Delaware Supreme Court is well regarded and is timely and highly responsive in cases involving complex corporate issues;
- The well-established body of case law construing Delaware law has developed over the last century and provides businesses with a greater predictability on numerous issues than the case law of most, if not all, other jurisdictions, including, but not limited to, California;
- The Delaware legislature each year considers and adopts statutory amendments in an effort to ensure that the Delaware corporate statute continues to be responsive to the changing needs of businesses; and
- Delaware has a user-friendly Office of Secretary of State that facilitates filings and interactions and reduces (as compared to other states) complications and delays that can arise in time sensitive transactions.

Increased Ability to Protect the Company's Federal Net Operating Loss Carryforwards Under Delaware Law

Like many companies, we have generated net operating losses (collectively "NOLs"). Except as limited by U.S. federal income tax laws, we generally can use NOLs to offset future taxable income (thereby reducing our future U.S. federal income tax obligations), provided that we will forfeit any NOLs to the extent they expire unused. As of December 31, 2015, we estimate that we had approximately $134.5 million in NOLs for U.S. federal income tax purposes. These NOLs will not begin to expire until 2030. Assuming a federal corporate tax rate of 35%, we estimate that these NOLs, if fully utilized, could result in potential tax savings of up to $47.1 million ($2.04 per share or an increase of approximately 13.6% of our book value per share at December 31, 2015), provided that the present value of such savings, even if the NOLs are fully utilized, depends on a number of assumptions, including the amount and timing of our future taxable income, future tax rates, limitations on the use of NOLs, and an appropriate discount rate, none of which can be accurately predicted. Indeed, we cannot even predict that we will be able to use all of the NOLs prior to their expiration in order to reduce our U.S. federal income tax liability.

Although we are unable to quantify an exact value, we believe that the NOLs are an extremely valuable asset and our Board of Directors believes it is in our best interest to attempt to prevent the imposition of limitations on their use. While there are numerous reasons why shareholders should vote to approve the Reincorporation Proposal, our Board of Directors believes that the amount of the NOLs currently at risk of being limited and the increased ability to protect our NOLs under Delaware Law is likely the most compelling economic justification.

The benefits of our NOLs could be reduced, and our use of the NOLs could be substantially delayed (possibly to the point of expiring unused), if we experience an "ownership change," as determined under Section 382 of the Internal Revenue Code, as amended, and applicable Treasury Regulations thereunder ("Section 382"). In general, an "ownership change" occurs whenever, immediately after the close of any testing date, the percentage of the corporation's stock owned by one or more "5-percent shareholders" is more than 50 percentage points higher than the lowest percentage of the corporation's stock that such shareholder owned at any time during the three-year period preceding the testing date. The concept of a 5-percent shareholder is highly complex, particularly when entities directly or indirectly own the corporation's stock. If an ownership change occurs, Section 382 would impose an annual limit on the amount of our NOLs that we can use to offset taxable income equal to the product of the total value of our outstanding equity immediately prior to the ownership change (adjusted by certain items specified in Section 382) and the applicable federal long-term tax-exempt interest rates in effect for the month of the ownership change. A number of complex rules apply to calculating this annual limit. If an ownership change were to occur, the limitations imposed by Section 382 could result in a material amount of our NOLs expiring unused and, therefore, significantly impair the value of our NOLs.

Our Board of Directors believes that the Reincorporation would facilitate its ability to consider steps to preserve the benefits of our NOLs for long-term shareholder value. One of the techniques used by public companies to preserve the benefits of its NOLs is to adopt a tax benefits preservation plan. Structurally, a tax benefits preservation plan resembles a shareholder rights plan or "poison pill" and, accordingly, is sometimes referred to as an NOL "poison pill." In contrast to a traditional "poison pill" which is intended to protect against the possibility of a hostile takeover, a tax benefits preservation plan is primarily intended to protect shareholder value by preserving the corporation's ability to use its NOLs, not to protect against the possibility of a hostile takeover.

A tax benefits preservation plan is intended to act as a deterrent to any person acquiring (together with all affiliates and associates of such person) beneficial ownership of 4.9% or more of our outstanding shares of common stock within the meaning of Section 382 (an "Acquiring Person"), other than with the approval of our Board of Directors, in an effort to protect shareholder value by attempting to diminish the risk that our ability to utilize our NOLs may become substantially limited which could therefore significantly impair the value of those assets. Shareholders who

beneficially owned 4.9% or more of our outstanding shares of common stock at the time that the tax benefits preservation plan is adopted would not trigger the tax benefits preservation plan so long as they do not acquire additional shares of our common stock (other than pursuant to a dividend or distribution paid or made by us on the outstanding shares of common stock or pursuant to a split or subdivision of the outstanding shares of common stock) at a time when they still beneficially own 4.9% or more of the outstanding shares of common stock. In the event that a person becomes an "Acquiring Person," all shareholders other than the Acquiring Person would have the right to purchase for a specified pre-determined purchase price, set by our Board of Directors with the assistance of our financial advisor, a number of shares of common stock having a market value of two times the specified purchase price. Accordingly, the Acquiring Person's ownership interest in us would thereby become substantially diluted.

Like with a traditional shareholder rights plan, a tax benefits preservation plan would require us to issue certain preferred stock purchase rights with terms designed to deter transfers of our common stock that could result in an ownership change. Although a tax benefits preservation plan is intended to reduce the likelihood of an ownership change, it does not prevent all transfers of our common stock that could result in such an ownership change. In addition, while a tax benefits preservation plan is not intended to prevent a takeover, it does have a potential anti-takeover effect because an Acquiring Person may be diluted upon the occurrence of a triggering event. Accordingly, the overall effects of a tax benefits preservation plan may be to render more difficult, or discourage a merger, tender offer, or assumption of control by a substantial holder of our securities. However, as is the case with traditional shareholder rights plans or "poison pills," a tax benefits preservation plan should not interfere with any merger or other business combination approved by our Board of Directors.

Notwithstanding that the adoption of a tax benefits preservation plan could serve as an important tool for us to use to help prevent an ownership change that could substantially reduce or eliminate the significant long-term potential benefits of our NOLs and protect these valuable assets, we are currently unable to adopt a tax benefits preservation plan due to two principal obstacles which our Board of Directors believes would be eliminated by the Reincorporation. As an initial matter, we would need to have authorized in our charter blank-check preferred stock that would support the issuance of preferred stock purchase rights. Our California Articles (as defined below) do not authorize blank-check preferred stock. While that issue can be addressed by an amendment to our California Articles that is approved by shareholders, the second issue can only be addressed by reincorporating the Company in another state where the adoption of a tax benefits preservation plan would not be subject to any significant legal uncertainty such as any statutory provisions that could be interpreted to prohibit the adoption by a corporation of any form of shareholder rights plan or "poison pill." As a California corporation, our adoption of a tax benefits preservation plan or NOL "poison pill" would be subject to significant legal uncertainty and, if we were to adopt a tax benefits preservation plan that was ultimately determined by a California court to be invalid, we would be at risk of experiencing an ownership change that could substantially reduce or eliminate the significant long-term potential benefits of our NOLs and impair these valuable assets.

While the validity of shareholder rights plans or "poison pills" has never been definitively addressed by the California courts, there is reason to believe that a shareholder rights plan adopted by a California corporation would be at risk of being determined by the California courts to be invalid and inconsistent with California law. Different from Delaware, California law specifically provides that California corporations, such as PICO California, must treat equally all shareholders of the same class. For example, Section 203 of the California Corporations Code provides that "[e]xcept as specified in the articles or in any shareholders' agreement, no distinction shall exist between classes or series of shares or the holders thereof." Furthermore, Section 400(b) of the California Corporations Code provides that "[a]ll shares of any one class shall have the same voting, conversion and redemption rights and other rights, preferences, privileges and restrictions, unless the class is divided into series." A traditional shareholder rights plan could be seen as violating Sections 203 and 400(b) of the California Corporations Code because (i) it makes distinctions between holders of common stock based on their percentage ownership of stock, and (ii) all shares of common stock are not granted the same rights, preferences, privileges and restrictions, since shareholders owning more than the specified threshold percentage of the common stock would lose the ability to exercise valuable rights under the shareholder rights plan. The uncertainty under California law relating to shareholder rights plans also extends to specialized forms of shareholder rights plans including, but not limited to, tax benefit preservation plans adopted by corporations to avoid having their net operating loss carryforwards limited under Section 382 of the Internal Revenue Code of 1986, as amended.

Shareholders should be aware that any tax benefits preservation plan that would be adopted by us would provide our Board of Directors with the ability to consider requests from shareholders for exemptions applicable to specific transactions in our common stock, particularly at times when our Board of Directors is able to determine that, based

on previous transactions in our common stock during a rolling three-year period, permitting a transaction that would otherwise be a triggering event under the tax benefits preservation plan, would not be likely to result in an ownership change under Section 382 that could limit our ability to use our net operating loss carryforwards. Further, any tax benefits preservation plan adopted by our Board of Directors would have various "sunset provisions" that would cause the tax benefits preservation plan to expire, including at any time our Board of Directors determines that the tax benefits preservation plan is no longer necessary or desirable for the preservation of certain tax benefits or at the beginning of a taxable year our Board of Directors determines that no tax benefits may be carried forward.

While the increased legal certainty relating to the adoption of a tax benefits preservation plan by a Delaware corporation and the substantial economic benefits that could accrue to us by not having our net operating loss carryforwards limited by an ownership change are among the principal and, in our Board of Director's view, the most compelling justifications for why we are seeking shareholder approval for the Reincorporation Proposal, our Board of Directors has not made any determination to adopt a tax benefits preservation plan and shareholder approval of the Reincorporation Proposal is not intended to include shareholder approval or ratification of any tax benefits preservation plan. Should the Reincorporation be consummated, thereafter, our Board of Directors would consider, in consultation with our tax, financial and legal advisors, whether the adoption of a tax benefits preservation plan would be in our shareholders' best interests, taking into consideration the advantages and disadvantages that relate to the adoption of a tax benefits preservation plan.

Ability to Have the Delaware Courts Serve as the Exclusive Forum for the Adjudication of Certain Legal Matters

To ensure that we get the full benefits of Delaware's corporate legal framework, the Board has decided to include in the Delaware Certificate a provision providing that the Delaware Courts are the exclusive forum for the adjudication of certain legal actions.

Under the exclusive forum provision contained in the Delaware Certificate, the state courts of the State of Delaware (or if no state court has jurisdiction, the federal district court for the District of Delaware) will be the exclusive forum for certain actions involving us, unless we consent to an alternative forum. Based on the proposed language in the Delaware Certificate, the Delaware courts would be the exclusive forum for (i) derivative actions brought on behalf of us; (ii) claims that a Company director, officer, or other employee breached a fiduciary duty owed to us or our shareholders; (iii) claims against the Company or any director or officer or other employee of the Company arising under the Delaware General Corporation Law, the Delaware Certificate or the Delaware Bylaws; (iv) claims against the Company or any director or officer or other employee of the Company governed by the internal affairs doctrine or (v) any action to interpret, apply, enforce or determine the validity of the Delaware Certificate or the Delaware Bylaws.

The exclusive forum provision contained in the Delaware Certificate is intended to assist us in avoiding multiple lawsuits in multiple jurisdictions on matters relating to the corporate law of Delaware, which will be our state of incorporation if the Reincorporation Proposal is approved. We believe that the exclusive forum provision in the Delaware Certificate will reduce the risk that we could become subject to duplicative litigation in multiple forums, as well as the risk that the outcome of cases in multiple forums could be inconsistent, even though each forum purports to follow Delaware law. Any of these could expose us to increased expenses or losses.

The exclusive forum provision contained in the Delaware Certificate would only regulate the forum where our shareholders may file claims relating to the specified intra-corporate disputes. The exclusive forum provision does not contain any restrictions on the ability of our shareholders to bring such claims, nor the remedies available if such claims are ultimately successful; rather it attempts to prevent us from being forced to waste corporate assets defending against duplicative suits.

Although our Board of Directors believes that the designation of the Delaware Court of Chancery as the exclusive forum for intra-corporate disputes serves the best interests of the Company and our shareholders as a whole, our Board of Directors also believes that we should retain the ability to consent to an alternative forum on a case-by-case basis. Specifically, where our Board of Directors determines that our interests and those of our shareholders are best served by permitting a dispute to proceed in a forum other than the Delaware Court of Chancery, the exclusive forum provision in the Delaware Certificate permits us to consent to the selection of such alternative forum.

Our Board of Directors believes that our shareholders will benefit from having intra-corporate disputes litigated in the Delaware Court of Chancery. Although some plaintiffs might prefer to litigate such matters in a forum outside of Delaware because they perceive another court as more convenient or more favorable to their claims (among other reasons), our Board of Directors believes that the substantial benefits to us and our shareholders as a whole from designating the Delaware Court of Chancery as the exclusive forum for intra-corporate disputes outweigh these concerns. The Delaware Court of Chancery is widely regarded as the preeminent court for the determination of disputes involving a corporation's internal affairs in terms of precedent, experience and focus. The Court's considerable expertise has led to the development of a substantial and influential body of case law interpreting Delaware's corporate law. This provides us and our shareholders with more predictability regarding the outcome of intra-corporate disputes. In addition, the Delaware Court of Chancery has developed streamlined procedures and processes that help provide

decisions for litigating parties on a relatively expedited basis. This accelerated schedule can limit the time, cost, and uncertainty of litigation for all parties. Furthermore, there is a significant risk that allowing shareholders to bring such highly sophisticated matters in forums with little familiarity or experience in corporate governance leaves shareholders at risk that foreign jurisdictions may misapply Delaware law.

Without the exclusive forum provision in the Delaware Certificate, we remain exposed to the possibility of plaintiffs using our geographically diverse operational base to bring claims against us in multiple jurisdictions or choosing a forum state for litigation that may not apply Delaware law to our internal affairs in the same manner as the Delaware courts would be expected to do so.

What are the consequences of the Reincorporation?

Delaware law is sometimes criticized by some commentators and certain institutional shareholders of not affording minority shareholders the same substantive rights and protections as are available in a number of other states, including California. For example, the Reincorporation may make it more difficult for minority shareholders to elect directors and influence our policies because Delaware law does not require cumulative voting and the Delaware Certificate does not provide for cumulative voting. In addition, as described above, a significant rationale for the proposed Reincorporation is the flexibility to implement a tax benefits preservation plan, if desired. Such a plan, if implemented, may also render more difficult, or discourage, a merger, tender offer, proxy context or assumption of control by a substantial holder of our securities.

Our Board of Directors recognized that there are several provisions currently contained in our Articles of Incorporation and Bylaws that afford significant rights and protections to minority shareholders and has elected to maintain the substance of these provisions in the Delaware Certificate and the Delaware Bylaws. These include the following:

- The Delaware Bylaws allow shareholders to take action by written consent;
- The Delaware Bylaws allow shareholders holding at least 10% of the outstanding shares to call a special meetings of shareholders;
- The Delaware Certificate and Delaware Bylaws provide that the authorized number of directors of the Company shall not be less than five nor more than nine, with a change to such range of authorized directors requiring shareholder approval;
- The Delaware Certificate allows for the removal of a director by the vote of a majority of the shareholders;
- The Delaware Certificate and Delaware Bylaws provide that they may be amended by the vote of a majority of the shareholders; and
- The Delaware Certificate specifically opts out of Section 203 of the DGCL, a Delaware statute that can provide a company with greater protection against unsolicited take-over offers.

Our Board of Directors has considered the potential disadvantages of the Reincorporation and has concluded that the potential benefits outweigh the possible disadvantages.

How will the Reincorporation be implemented?

Subject to shareholder approval at the 2016 Annual Meeting and certain other conditions, the Reincorporation will be effected by means of a merger pursuant to the terms of the Agreement and Plan of Merger (the “Merger Agreement”) between PICO California and PICO Holdings, Inc., a Delaware corporation (“PICO Delaware”), recently formed solely for the purpose of effecting the Reincorporation. Under the Merger Agreement, PICO California will merge with and into PICO Delaware and, following the effectiveness of the merger (the “Merger”), PICO California will cease to exist and PICO Delaware will become the surviving entity. Upon effectiveness of the Reincorporation, PICO Delaware will be the successor in interest to PICO California and the shareholders of PICO California will become shareholders of PICO Delaware.

What is the timing of the Reincorporation?

If shareholders approve the Reincorporation at the 2016 Annual Meeting, we intend to cause the Reincorporation to become effective as soon as practicable, subject to the completion of certain legal formalities, including obtaining certain consents and approval by third parties. The Reincorporation will become effective upon the filing of a Certificate of Merger or similar document with the Secretary of State of Delaware.

Does the Company have the right to abandon the Reincorporation?

Pursuant to the Merger Agreement, PICO California and PICO Delaware agree to take all actions that Delaware law and California law require for PICO California and PICO Delaware to effect the reincorporation, subject to the approval of the Reincorporation by the shareholders of PICO California and the sole shareholder of PICO Delaware.

Notwithstanding the foregoing, the Merger Agreement provides that the Board may abandon the Reincorporation at any time prior to its consummation if our Board of Directors determines that the Reincorporation is inadvisable for any reason. For example, Delaware or California law may be changed to reduce the benefits that we hope to achieve through the Reincorporation, or the costs of operating as a Delaware corporation may be increased, although we do not know of any such changes under consideration. The Merger Agreement may be amended at any time prior to its consummation, either before or after the shareholders have voted to adopt the proposal, subject to applicable law. We will re-solicit shareholder approval of the Reincorporation if the terms of the Merger Agreement are changed in any material respect.

How will the Company change following the Reincorporation?

At the effective time of the Reincorporation, we will be governed by the Delaware Certificate, the Delaware Bylaws and the DGCL. Although the Delaware Certificate and the Delaware Bylaws contain many similar provisions from our existing Amended and Restated Articles of Incorporation (the "California Articles") and Amended and Restated Bylaws (the "California Bylaws"), there are important differences that are discussed below. See "What are the differences between the charters and bylaws of PICO California and PICO Delaware? What are the material differences between Delaware law and California law?" below.

After the Reincorporation, our name will remain PICO Holdings, Inc. Other than the change in corporate domicile (and certain related changes of a legal nature in our organizational documents, which are described in this proxy statement), the Reincorporation will not result in any change in our name, business operations, management, board composition, fiscal year, assets, liabilities or net worth, or physical location, nor will it result in any change in location of our current employees, including management. Upon consummation of the Reincorporation, our daily business operations will continue as they are presently conducted. In addition, the Reincorporation will not, we believe, significantly affect any of our material contracts with any third parties and our rights and obligations under these contractual arrangements will continue and be assumed by PICO Delaware. In addition, upon the effectiveness of the Merger, all directors, including those who are elected at this 2016 Annual Meeting as directors of PICO California, will become directors of PICO Delaware, and the individuals serving as executive officers of PICO California immediately prior to the Reincorporation will continue to serve as executive officers of PICO Delaware, without a change in title or responsibilities.

Upon consummation of the Reincorporation, our daily business operations will continue as they are presently conducted at our current principal executive office located at 7979 Ivanhoe Avenue, Suite 300, La Jolla, California 92037.

What will happen to my shares of common stock as a result of the Reincorporation?

On the effective date of the Reincorporation merger, each outstanding share of common stock of PICO California will be automatically converted into one share of common stock of PICO Delaware. Any stock certificate representing issued and outstanding shares of common stock of PICO California will continue to represent the same number of shares of common stock of PICO Delaware.

ANY SHARE CERTIFICATES CURRENTLY ISSUED FOR OUR SHARES WILL AUTOMATICALLY REPRESENT SHARES IN PICO DELAWARE UPON COMPLETION OF THE MERGER, AND SHAREHOLDERS WILL NOT BE REQUIRED TO SURRENDER OR EXCHANGE ANY SHARE CERTIFICATES AS A RESULT OF THE REINCORPORATION.

Will the common stock continue to be listed for trading after the Reincorporation?

Our common stock is listed for trading on the NASDAQ Global Market under the ticker symbol "PICO." After the Reincorporation, PICO Delaware's common stock would continue to be traded on the NASDAQ Global Market without interruption, under the same symbol.

Will the reincorporation impact PICO California's registration statements with the SEC?

No. The registration statements of PICO California on file with the SEC immediately prior to the Reincorporation will be assumed by PICO Delaware.

What will be the impact of the Reincorporation on our employee benefit and incentive compensation plans?

Each outstanding option, stock appreciation right, and restricted stock unit to purchase or receive shares of our common stock will be converted into an option, stock appreciation right, and restricted stock unit, respectively, to purchase or receive the same number of shares of PICO Delaware common stock with no other changes in the terms and conditions of such award. Shareholders should note that approval of this proposal would also constitute approval of the assumption by PICO Delaware of the PICO Holdings, Inc. 2014 Equity Incentive Plan (the "2014 Plan") and the PICO Holdings, Inc. Performance Incentive Plan (the "Incentive Plan"). Up to 3.3 million shares of common stock may be issued under the 2014 Plan, which was last approved by our shareholders at the 2014 annual meeting. Our other employee benefit arrangements would also be continued by PICO Delaware upon the terms and subject to the conditions in effect prior to the Reincorporation.

Are there dissenters' rights with respect to the Reincorporation?

Although in some circumstances California law provides shareholders with the right to dissent from certain corporate mergers and reorganizations and to receive the cash value of their shares rather than the merger consideration, California law does not grant dissenters' rights in connection with the proposed Reincorporation because all shareholders prior to the merger remain the same after the merger.

What are the differences between the charters and bylaws of PICO California and PICO Delaware? What are the material differences between Delaware law and California law?

The following provides a summary comparison of certain key provisions between the California Articles/Bylaws and the Delaware Certificate/Bylaws, as well as certain provisions of California and Delaware corporate laws. The comparison highlights important differences and similarities, including a number of provisions of the California Articles/Bylaws the substance of which have been maintained in the Delaware Certificate/Bylaws and that afford significant rights and protections to minority shareholders, but it is not intended to list all differences and similarities, and is qualified in its entirety by reference to such documents and to the respective General Corporation Laws of the States of California and Delaware.

Shareholders are encouraged to read the Delaware Certificate, the Delaware Bylaws, the California Articles and the California Bylaws in their entirety. The Delaware Certificate and Delaware Bylaws are attached to this Proxy Statement, and the California Articles and California Bylaws are filed publicly as exhibits to our periodic reports with the SEC.

Provision	PICO California	PICO Delaware
Authorized Shares	100,000,000 shares of common stock, par value $0.001 per share; no preferred stock is authorized.	100,000,000 shares of common stock, $0.001 per share; 10,000,000 shares of Preferred Stock, par value $0.001 per share.
Ability of Shareholders to Call Special Meetings	Under California law, a special meeting of shareholders may be called by the board of directors, the chairman of the board, the president, or the holders of shares entitled to cast not less than 10% of the votes at such meeting and such persons as are authorized by the articles of incorporation or bylaws.	Under the DGCL, a special meeting of shareholders may be called by the board of directors or by any person authorized in the certificate of incorporation or the bylaws.
	Consistent with California law, the California Bylaws provide that a special meeting of shareholders may be called by the Board, the Chairman of the Board or the President, or holders of shares entitled to cast in the aggregate not less than 10% of the votes at such meeting.	The Delaware Bylaws provide that a special meeting of shareholders may be called by the Board, the Chairman of the Board, or the holders of shares entitled to cast not less than 10% of the votes at such meeting.
Cumulative Voting	Under California law, cumulative voting for election of directors is permitted if the shareholder provides advance notice of the intent to exercise its cumulative voting rights. California law also permits public companies to eliminate cumulative voting by the approval of shareholders.	Under Delaware law, cumulative voting is not permitted unless the company provides for cumulative voting rights in its certificate of incorporation.
	Consistent with California law, the California Bylaws provide shareholders with the right of cumulative	The Delaware Certificate provides that no shareholder will be permitted to cumulate

	voting for the election of directors if such shareholders provide advance notice to PICO of the intent to exercise such rights.	votes at any election of directors.
Change in Number of Directors on the Board	Under California law, a change in the number of directors must generally be approved by the shareholders, but the board of directors may fix the exact number of directors within a stated range set forth in the articles of incorporation or the bylaws, if such range has been approved by the shareholders.	Under the DGCL, the number of directors shall be fixed by or in the manner provided in the bylaws, unless the certificate of incorporation fixes the number of directors.

Provision	PICO California	PICO Delaware
	The California Articles provide that the Board or the holders of a majority of the voting power of the outstanding shares of capital stock entitled to vote may fix the number of directors within a range between 5 to 9 directors.	The Delaware Certificate fixes the number of directors within a range between 5 to 9 directors. The exact number of directors within such range may be fixed by the holders of a majority of the voting power of the outstanding shares of capital stock entitled to vote or a resolution adopted by the Board. The minimum or maximum number of directors may be changed only by the affirmative vote of the holders of a majority of the voting power of outstanding shares of capital stock entitled to vote and by a resolution duly adopted by the Board.
Classified Board of Directors	Under California law, a public company listed on NYSE or NASDAQ may create and elect a classified board. Under the California Articles and California Bylaws, the directors of PICO are divided into three classes, as nearly equal in number as reasonably possible. At each annual meeting of shareholders, only one class of directors will be elected, and each class of director shall be elected for a three-year term.	Delaware law permits, but does not require, the adoption of a classified board of directors, pursuant to which the directors can be divided into as many as three classes with three-year staggered terms of office and with only one class of directors coming up for election each year. If Proposal 5 does not pass, the Delaware Certificate and Delaware Bylaws will provide for the same structure of classified board as currently set forth in the California Articles and California Bylaws, i.e., three classes with as nearly equal in number as reasonably possible, and each director is elected for a three-year term. If Proposal 5 passes at the Annual Meeting, the Delaware Certificate and Delaware Bylaws will provide that directors who have been elected to three-year terms (including directors elected at the Annual Meeting) will complete those terms, and thereafter their successors will be elected to one-year terms, meaning that from and after the Annual Meeting of Shareholders in 2019, all directors will stand for election annually.
Shareholder Action by Written Consent	The California Bylaws provide that an action to be taken at any annual or special meeting of shareholders may be taken without a meeting if a consent in writing shall be signed by the holders of outstanding shares having not less than the minimum number of votes required to authorize or take such action at such meeting at which all shares entitled to vote thereon were present and voted; provided that, directors may not be elected by	The Delaware Bylaws provide that shareholders may take action by written consent in the same manner and with the same restrictions as currently set forth in the California Bylaws.

	written consent except by unanimous written consent of all shares entitled to vote for the election of directors. However, directors may be elected by the written consent of holders of a majority of outstanding shares entitled to vote to fill a vacancy (unless such vacancy is created by removal) on the Board.	
Vote Required to Elect Directors	Plurality of votes.	Plurality of votes.
Filling Vacancy on the Board	Under the California Bylaws, vacancies in the Board, including vacancies created by the removal of a director or an increase in the authorized number of directors, may be filled by a majority of the remaining Directors, provided that if the number of remaining Directors then in office is less than a quorum, such vacancy may be filled only by (a) the unanimous written consent of directors then in office, (b) majority vote by directors then in office at a duly held meeting, or (c) a sole remaining director. The shareholders may elect a Director at any time to fill any vacancy not filled by the Directors.	The Delaware Certificate provides that if the office of any director becomes vacant or any new directorship is created by any increase in the authorized number of directors, a majority of the directors then in office, although less than a quorum, or a sole remaining director or the shareholders at the next annual meeting or any special meeting called for such purpose, may choose a successor or successors to fill the vacancy or newly created directorship.

Provision	PICO California	PICO Delaware
Interested Shareholder Transaction and Business Combination	California law does not provide any specific restrictions on interested shareholders effecting a business combination.	Pursuant to the Delaware Certificate, PICO will expressly opt out of Section 203 of the DGCL. Section 203 of the DGCL prohibits, subject to certain exceptions, a Delaware corporation from engaging in a business combination with an interested shareholder (i.e., a shareholder acquiring 15% or more of the outstanding voting stock) for three years following the date that such shareholder becomes an interested shareholder without Board approval. Section 203 makes certain types of unfriendly or hostile corporate takeovers more difficult.
Removal of Directors	In general, under California law, any director, or the entire board of directors, may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. In the case of a corporation with cumulative voting or whose board is classified, however, no individual director may be removed (unless the entire board is removed) if the number of votes cast against such removal would be sufficient to elect the director under cumulative voting rules. In addition, shareholders holding at least ten percent (10%) of the outstanding shares of any class may bring suit to remove any director in case of fraudulent or dishonest acts or gross abuse of authority or discretion.	The DGCL provides that a director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors. The Delaware Certificate and Delaware Bylaws provide that directors may be removed with or without cause by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote at a meeting of the shareholders.
Shareholder Vote Required to Approve Merger or Sale of Company	California law generally requires that the holders of the outstanding shares representing a majority of the voting power of both the acquiring and target corporations approve a statutory merger. In addition, California law requires that a sale of all or substantially all of the assets of a corporation be approved by the holders of the outstanding shares representing a majority of the voting power of the corporation selling its assets.	Similarly, Delaware law generally requires that the holders of the outstanding shares representing a majority of the voting power of both the acquiring and target corporations approve a statutory merger, and require that a sale of all or substantially all of the assets of a corporation be approved by the holders of the outstanding shares representing a majority of the voting power of the corporation selling its assets.

Provision	PICO California	PICO Delaware
50/90 Rule Restriction on Cash Mergers	Under California law, a merger may not be consummated for cash if the purchaser owns more than 50% but less than 90% of the then outstanding shares of the California corporation being acquired unless either (i) all the shareholders consent, which is not practical for a public company or (ii) the California Commissioner of Corporations approves the merger. The 50/90 rule may make it more difficult for an acquiror to make an all cash acquisition that is opposed by a corporation's board of directors. Specifically, the 50/90 rule encourages an acquiror making an unsolicited tender offer to either tender for less than 50% of the outstanding shares or more than 90% of the outstanding shares. A purchase by the acquiror of less than 50% of the outstanding shares does not allow the acquiror to gain ownership of the two-thirds needed to approve a second step merger (which would be used to enable the acquiror to acquire 100% of the corporation's equity) and, therefore, creates risk for such an acquiror that such a favorable vote will not be obtained. Yet, a tender offer conditioned upon receipt of tenders from at least 90% of the outstanding shares also creates risk for the acquiror because it may be very difficult to receive tenders from holders of at least 90% of the outstanding shares. Consequently, it is possible that these risks would discourage some potential acquirors from pursuing an all cash acquisition that is opposed by the board of directors.	Delaware law does not have an analogous provision.
Dividends and Repurchases of Shares	Under California law, a corporation may redeem any or all shares which are redeemable at its option, provided that it gives proper notice as defined by statute or its articles of incorporation. When a corporation reacquires its own shares, those shares generally are restored to the status of authorized but unissued shares, unless the articles of incorporation prohibit the reissuance thereof. In addition, under California law, a corporation may not make any distribution to its shareholders unless either: - the corporation's retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution; or - immediately after giving effect to the distribution, the corporation's assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to one and one fourth (11/4) times its liabilities (not including deferred taxes, deferred income and other deferred credits), and the corporation's	Delaware law is more flexible than California law with respect to the payment of dividends and implementing share repurchase programs. Delaware law generally provides that a corporation may redeem or repurchase its shares out of its surplus. In addition, a corporation may declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year. Surplus is defined as the excess of a corporation's net assets (i.e., its total assets minus its total liabilities) over the capital associated with issuances of its common stock. Moreover, Delaware law permits a board of directors to reduce its capital and transfer such amount to its surplus.

	current assets would be at least equal to its current liabilities (or one and one fourth (11/4) times its current liabilities if the average pre-tax and pre-interest expense earnings for the preceding two fiscal years were less than the average interest expense for such years).	
Exclusive Forum Selection Provisions	The California Articles and Bylaws do not contain an exclusive forum selection provision.	The Delaware Certificate contains an exclusive forum selection provision that requires certain legal actions, including shareholder derivative lawsuits, to be adjudicated in the courts located in the State of Delaware.