



PICO Holdings

PICO HOLDINGS, INC.

CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

I. STATEMENT OF POLICY

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of PICO Holdings, Inc. (the “Company”) has the responsibility and authority to supervise and review the affairs of the Company as they relate to the compensation and benefits of directors and officers (as that term is defined in Section 16 of Securities and Exchange Act, as amended (the “Exchange Act”)) of the Company. In carrying out these responsibilities, the Committee shall review all components of director and executive compensation for consistency with the Company’s compensation philosophy and with the interests of the Company’s shareholders.

II. ORGANIZATION AND MEMBERSHIP REQUIREMENTS

The Committee shall be appointed annually by the Board, and shall be comprised of at least three Board members, each of whom must be determined by the Board to be “independent” under the rules of the Nasdaq Stock Market (“Nasdaq”). No director may serve on the Committee unless he or she is both (1) a “non-employee director” for purposes of Rule 16b-3 under the Exchange Act, and (2) an “outside director” for purposes of Section 162(m) of the Internal Revenue Code, for so long as the Company has compensation intended to qualify as performance-based compensation under such Section. A Board member shall not serve on this Committee if any officer of the Company serves on the board of directors of an entity that employs such Board member as an officer.

Each member of the Committee shall serve until his or her successor is duly elected and qualified or until such member’s earlier resignation, removal or death. Any member of the Committee may be removed or replaced by the Board. The Board may appoint one member of the Committee as Chair. If a Chair is not elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. The Chair shall preside at all regular meetings of the Committee and set the agenda for each Committee meeting. The Chair shall also serve as the principal interface between outside counsel, any compensation consultants and management to facilitate any discussions in an efficient manner.

In fulfilling its responsibilities, the Committee shall, to the extent permitted by law, be entitled to delegate any or all of its responsibilities to one or more subcommittees of the Committee comprised of one or more members of the Committee.

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The Committee shall have the authority to obtain advice or assistance from consultants, legal counsel, or other advisors as it deems appropriate to perform its duties hereunder, and to determine the terms, costs, and fees for such engagements. Without limitation, the Committee shall have sole authority to retain and terminate any compensation consultant to be used to assist in the performance of the Committee's duties, and shall have sole authority to approve the terms, costs, and fees for such engagements. The Committee shall be directly responsible for the appointment, compensation, and oversight of the work of any compensation consultant, independent legal counsel or other advisor. Prior to selecting or receiving advice from any advisor the Committee shall consider the independence of such advisor based on any applicable criteria specified by the Securities and Exchange Commission ("SEC") or Nasdaq, including the independence factors listed in Nasdaq Rule 5605(d)(3) or any successor provision. The Committee need not conduct this independence assessment with respect to: (a) in-house legal counsel; or (b) any advisor whose role is limited to (i) consulting on any broad-based plan that does not discriminate in scope, terms, or operation in favor of officers of the Company and that is available generally to all salaried employees; or (ii) providing information that either is not customized for a particular company or that is customized based on parameters that are not developed by the advisor and about which the advisor does not provide advice. The fees and costs of any consultant or advisor engaged by the Committee to assist the Committee in performing its duties hereunder shall be borne by the Company.

In general, the term of an independent compensation consultant shall not exceed five years; although the Committee is authorized to engage an independent compensation consultant for additional periods if the Committee believes such engagement is in the best interests of the Company and its shareholders after consideration of all factors the Committee believes to be relevant.

In the event that the Committee desires (i) to engage a new compensation consultant or (ii) to retain a compensation consultant for services substantially beyond the scope contemplated in the initial engagement of the existing compensation consultant, the Committee shall generally seek bids from at least three independent compensation consultants.

The Company shall make available to all members of the Committee the opportunity to participate in one education or training program per year on compensation matters. Such program shall be (i) conducted by an accredited university or recognized professional organization and (ii) selected in consultation with the Board based on a recommendation of the Chairman of the Committee and the Chairman of the Board utilizing criteria including the cost and expected benefits of the program to the Company.

III. MEETINGS

The Committee shall meet as often as it deems necessary to fulfill its responsibilities hereunder, but not less frequently than four times each year (with at least one meeting per year being in person), and may meet with management or individual directors at such time as it deems appropriate to discuss any matters before the Committee. The Committee may request that any employee of the Company attend any of its meetings or meet with any Committee member or consultant. The Committee shall meet at least annually with the Company's chief executive

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officer and such other senior executives as the Committee deems appropriate; provided, however, that the chief executive officer may not be present during deliberations or voting regarding his or her compensation. The Committee shall meet periodically in executive session either (i) without the presence of management or (ii) with such members of management that the Committee deems appropriate.

Formal action to be taken by the Committee shall be by unanimous written consent or by the affirmative vote of at least a majority of the members present (in person or by telephone conference call) at a meeting at which a quorum is present. A quorum shall consist of at least a majority of the members of the Committee. Any actions taken by the Committee during any period in which one or more of the members fail for any reason to meet the membership requirements set forth above shall still constitute duly authorized actions of the Committee for all corporate purposes.

The Committee shall maintain written minutes of its meetings, which minutes shall be filed with the minutes of the meetings of the Board.

IV. COMMITTEE AUTHORITY AND RESPONSIBILITIES

Subject to such modification and additional authority as the Board may approve from time to time, the Committee shall have the following authorities and responsibilities:

- Review and make recommendations to the Board concerning the Company's overall compensation philosophy, policies and plans, including a review of any relevant industry or competitor compensation practices and trends.
- Review and make recommendations to the Board regarding appropriate companies to comprise any peer group used for comparison purposes.
- Review and make recommendations to the Board regarding corporate and personal performance goals and objectives relevant to the compensation of all officers, and make recommendations to the Board regarding executive compensation (including but not limited to salary, bonus, incentive compensation, equity awards, benefits and perquisites).
- Establish the evaluation process and determine the specific criteria on which the performance of the chief executive officer is evaluated.
- Evaluate and inform the Board regarding the performance of the officers in light of previously approved performance goals and objectives.
- Review and inform the Board concerning the financial implications of compensation and severance packages for the Company's officers (including the use of "tally sheets").
- Review and make recommendations to the Board regarding the establishment and terms of the Company's incentive compensation plans and equity compensation plans, and administration of such plans.

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- Review and make recommendations to the Board regarding grants of options, dividend equivalent rights, restricted stock units and/or other equity awards to all officers under the Company's compensation plans.
- Review and make recommendations to the Board of grants of options and other equity awards to all other eligible individuals.
- Review and make recommendations to the Board regarding compensation-related matters outside the ordinary course, including but not limited to employment contracts, change-in-control provisions, severance arrangements, and material amendments thereto.
- Review and make recommendations to the Board on the use, and decide on the implementation, of appropriate "clawback" policies.
- Manage the preparation of and discuss with management the disclosures in the Company's "Compensation Discussion and Analysis" and any other disclosures regarding executive compensation to be included in the Company's public filings or shareholder reports.
- Based upon its review and discussion with management, recommend to the Board whether the Compensation Discussion and Analysis should be included in the Company's proxy statement, Form 10-K, or information statement, as applicable, and prepare the related report required by the rules of the SEC.
- Review, discuss with management and inform the Board of the risks associated with the Company's compensation policies.
- Assist the Chairman of the Board in reviewing the compensation for non-employee directors, including making recommendations for changes in the compensation program. Any recommendations shall be guided by: (i) fairly compensating directors for the work required in the discharge of their duties, (ii) aligning the interests of directors with the long-term interests of shareholders and (iii) ensuring that shareholders are able to easily understand the compensation program.
- Review and make recommendations to the Board regarding any shareholder proposals related to compensation matters.
- Establish performance goals and certify that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code as related to plans linked to such performance measures.
- Review and reassess the adequacy of this Charter at least annually. Any recommended changes to this Charter or the scope of the Committee's responsibilities, where indicated, shall be referred to the Board for appropriate action.
- Report to the Board on the Committee's activities on a regular basis.

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- Review and discuss with management, if appropriate, any conflicts of interest raised by the work of any compensation consultant that had any role in determining or recommending the amount or form of executive or director compensation (except as set forth in clauses (a) and (b) of Section (II) above) or was retained by the Committee or management and (x) any potential impact of such conflict and (y) how such conflict would be addressed for disclosure in the Company's annual proxy statement in accordance with applicable SEC rules and regulations. Following such review and discussion with management, recommend to the Board, the appropriate course of action.
- Review and make recommendations to the Board for stock ownership guidelines for the company's officers and non-employee directors and annually assess such guidelines and recommend revisions as appropriate.
- Work together with the Corporate Governance and Nominating Committee to conduct an annual review of the Company's succession planning for executive officers, including policies and principles for officer selection and succession in the event of an emergency or retirement.
- Perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Committee or the Board deems necessary or appropriate.
- Review, on at least an annual basis, the Committee's performance of its duties.