

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

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



PICO Holdings

PICO HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

94-2723335

(IRS Employer Identification No.)

3480 GS Richards Blvd, Suite 101, Carson City, NV 89703

(Address of principal executive offices, including zip code)

(775) 885-5000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

On October 19, 2018, the registrant had 21,277,784 shares of common stock, \$0.001 par value per share outstanding.

PICO Holdings, Inc.
Form 10-Q
For the Nine Months Ended September 30, 2018

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Part I: Financial Information

Item 1: Condensed Consolidated Financial Statements (Unaudited)

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

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Assets		
Cash and cash equivalents	\$ 20,829	\$ 37,128
Investments (\$1,902 measured at fair value at December 31, 2017)	—	3,214
Real estate and tangible water assets, net	44,304	44,675
Intangible assets	122,798	126,785
Other assets	1,181	2,600
Total assets	<u>\$ 189,112</u>	<u>\$ 214,402</u>
Liabilities and equity		
Deferred compensation	\$ —	\$ 4,112
Other liabilities	4,392	2,431
Accounts payable and accrued expenses	218	696
Total liabilities	4,610	7,239
Commitments and contingencies	—	—
Preferred stock, \$0.001 par value; authorized 10,000 shares, none issued	—	—
Common stock, \$0.001 par value; authorized 100,000 shares, 21,685 issued and 21,461 outstanding at September 30, 2018, and 23,153 issued and 23,152 outstanding at December 31, 2017	22	23
Additional paid-in capital	362,651	379,388
Accumulated deficit	(175,436)	(172,767)
Accumulated other comprehensive income	—	544
Treasury stock, at cost (common shares: 223 at September 30, 2018 and 1 at December 31, 2017)	(2,735)	(25)
Total shareholders' equity	184,502	207,163
Total liabilities and shareholders' equity	<u>\$ 189,112</u>	<u>\$ 214,402</u>

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

PICO Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income or Loss - Unaudited
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues and other income:				
Sale of real estate and water assets	\$ 230	\$ 136	\$ 10,957	\$ 25,276
Impairment loss on investment in unconsolidated affiliate	(1,312)	—	(1,312)	—
Other income, net	388	69	617	9,756
Total revenues (loss) and other income	(694)	205	10,262	35,032
Cost of sales and expenses:				
Cost of real estate and water assets sold	98	55	4,458	12,604
General, administrative, and other	3,859	2,943	8,947	9,865
Depreciation and amortization	18	24	57	159
Total cost of sales and expenses	3,975	3,022	13,462	22,628
Income (loss) from continuing operations before income taxes	(4,669)	(2,817)	(3,200)	12,404
Provision for federal and state income taxes	—	(292)	(72)	(3,419)
Income (loss) from continuing operations	(4,669)	(3,109)	(3,272)	8,985
Income (loss) from discontinued operations, net of tax	—	(5,269)	—	3,053
Income (loss) on sale and impairment loss on classification of assets as held-for-sale, net of tax	—	2,094	43	(9,309)
Net income (loss) from discontinued operations, net of tax	—	(3,175)	43	(6,256)
Net income (loss)	(4,669)	(6,284)	(3,229)	2,729
Net (income) loss attributable to noncontrolling interests	—	1,645	—	(1,150)
Net loss attributable to PICO Holdings, Inc.	\$ (4,669)	\$ (4,639)	\$ (3,229)	\$ 1,579

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Other comprehensive loss:				
Net income (loss)	\$ (4,669)	\$ (6,284)	\$ (3,229)	2,729
Other comprehensive income (loss), net of tax:				
Unrealized loss on securities, net of deferred income tax and reclassification adjustments	—	(387)	(544)	(6,286)
Foreign currency translation	—	6	—	32
Total other comprehensive loss, net of tax	—	(381)	(544)	(6,254)
Comprehensive loss	(4,669)	(6,665)	(3,773)	(3,525)
Comprehensive (income) loss attributable to noncontrolling interests	—	1,645	—	(1,150)
Comprehensive loss attributable to PICO Holdings, Inc.	<u>\$ (4,669)</u>	<u>\$ (5,020)</u>	<u>\$ (3,773)</u>	<u>\$ (4,675)</u>
Net income (loss) per common share – basic and diluted:				
Income (loss) from continuing operations	\$ (0.21)	\$ (0.13)	\$ (0.15)	\$ 0.39
Loss from discontinued operations	—	(0.07)	—	(0.32)
Net income (loss) per common share – basic and diluted	<u>\$ (0.21)</u>	<u>\$ (0.20)</u>	<u>\$ (0.15)</u>	<u>\$ 0.07</u>
Weighted average shares outstanding	<u>21,754</u>	<u>23,138</u>	<u>22,400</u>	<u>23,112</u>

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

PICO Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity - Unaudited
Nine Months Ended September 30, 2018
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Total
Beginning balance, December 31, 2017	23,154	\$ 23	\$ 379,388	\$ (172,767)	\$ 544	1	\$ (25)	\$ 207,163
Stock-based compensation expense			380					380
Exercise of restricted stock units	23							—
Purchases of treasury stock						1,716	(19,853)	(19,853)
Retirement of treasury stock	(1,492)	(1)	(17,117)			(1,492)	17,117	(1)
Distribution of treasury stock to deferred compensation plan participant						(2)	26	26
Net income				(3,229)				(3,229)
Reclassification of unrealized gain on investments to accumulated deficit				560	(544)			16
Ending balance, September 30, 2018	<u>21,685</u>	<u>\$ 22</u>	<u>\$ 362,651</u>	<u>\$ (175,436)</u>	<u>\$ —</u>	<u>223</u>	<u>\$(2,735)</u>	<u>\$ 184,502</u>

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

PICO Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity - Unaudited
Nine Months Ended September 30, 2017
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Noncontrolling Interest	Total
Beginning balance, December 31, 2016	23,125	\$ 23	\$ 495,468	\$ (173,231)	\$ 6,661	55	\$ (927)	\$ 99,575	\$ 427,569
Stock-based compensation expense			1,723					299	2,022
Exercise of restricted stock units	71								—
Withholding taxes paid on vested restricted stock units			(723)					(121)	(844)
Changes in ownership of noncontrolling interest			(465)					465	—
Acquisition of interests held by noncontrolling owners									—
Distribution of treasury stock to deferred compensation plan participants			(106)			(54)	902		796
Distribution to noncontrolling interest								(26)	(26)
Purchase of treasury stock						47	(690)		(690)
Retirement of treasury stock	(47)		(690)			(47)	690		—
Deconsolidation of noncontrolling interest in conjunction with sale of consolidated subsidiary								(101,342)	(101,342)
Net income (loss)				1,579				1,150	2,729
Unrealized loss on investments, net of deferred income tax of \$3,385 and reclassification adjustments of \$9,781					(6,286)				(6,286)
Foreign currency translation					32				32
Ending balance, September 30, 2017	23,149	\$ 23	\$ 495,207	\$ (171,652)	\$ 407	1	\$ (25)	\$ —	\$ 323,960

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

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

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Cash provided by operating activities - continuing operations	\$ 3,805	\$ 1,094
Cash used in operating activities - discontinued operations	(313)	(9,728)
Net cash provided by (used in) operating activities	3,492	(8,634)
Investing activities:		
Purchases of investments	—	(140,464)
Proceeds from sale of investments	—	8,598
Proceeds from maturity of investments	80	69,963
Purchases of property, plant and equipment	(18)	(5)
Proceeds from sale of property, plant and equipment	—	283
Cash provided by investing activities - continuing operations	62	(61,625)
Cash provided by investing activities - discontinued operations	—	47,172
Net cash provided by (used in) investing activities	62	(14,453)
Financing activities:		
Payment of withholding taxes on exercise of restricted stock units	—	(565)
Purchases of treasury stock	(19,853)	(690)
Cash used in financing activities - continuing operations	(19,853)	(1,255)
Cash used in financing activities - discontinued operations	—	(11,638)
Net cash used in financing activities	(19,853)	(12,893)
Decrease in cash and cash equivalents	(16,299)	(35,980)
Cash and cash equivalents, beginning of the period	37,128	60,980
Cash and cash equivalents, end of the period	20,829	25,000
Supplemental cash flow information:		
Payments of federal and state income taxes	\$ 73	\$ 968
Non-cash investing and financing activities:		
Fair value of common stock of Century received in the sale of UCP, Inc.	\$ —	\$ 60,043
Non-cash distribution of debt and equity securities to deferred compensation plan participant	\$ 1,866	\$ 15,709
Issuance of common stock for vested restricted stock units	\$ 263	\$ 2,571

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

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

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1. Basis of Presentation and Summary of Significant Accounting Policies

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

In the opinion of management, all adjustments and reclassifications considered necessary for a fair and comparable presentation of the financial statements presented have been included and are of a normal recurring nature. Operating results presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC.

Smaller Reporting Company

The Company qualifies as a Smaller Reporting Company under the SEC’s definition and therefore certain disclosures that are no longer required have been removed in accordance with the SEC’s disclosure requirements for smaller reporting companies.

Use of Estimates in Preparation of Financial Statements:

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of the Company’s condensed consolidated financial statements relate to the assessment of impairment losses, intangible assets, real estate and water assets, deferred income taxes, and stock-based compensation. It is reasonably possible that actual results could differ from the estimates upon which the carrying values were based.

Recent Accounting Pronouncements:

In February 2016, Financial Accounting Standards Board ("FASB") issued guidance which establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either "finance" or "operating," with classification affecting the pattern of expense recognition in the income statement. This update requires a modified retrospective transition as of the beginning of the earliest comparative period presented in the financial statements. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. While the Company continues to assess all potential impacts of the guidance on existing leases and contracts, it currently believes the most significant impact relates to its accounting for office operating leases. The Company anticipates that the adoption of ASU 2016-02 will have an immaterial impact on the Company's condensed consolidated financial statements.

In January 2016, the Financial Accounting Standards Board ("FASB") issued guidance which makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in earnings. Effective January 1, 2018, the Company adopted the new guidance and recorded a cumulative effect adjustment to decrease opening retained deficit at January 1, 2018 by \$560,000 as required for equity investments recorded at fair value, formerly available-for-sale-securities.

In May 2014, the FASB issued guidance regarding revenue from contracts with customers, which provides a consistent revenue accounting model across industries. The Company has reviewed this update and other guidance that was subsequently issued to further clarify the implementation guidance. Under this guidance, revenue is recognized as the transfer of goods and services to customers takes place and in amounts that reflect the payment or payments that are expected to be received from the customers for those goods and services and requires new disclosures about revenue. The Company adopted the guidance effective January 1, 2018 which did not have a material impact on its consolidated financial statements.

2. Tangible Water Assets and Real Estate, Net

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

	September 30, 2018	December 31, 2017
Real estate and improvements held and used, net of accumulated depreciation of \$12,003 at each of September 30, 2018 and December 31, 2017.	\$ 9,469	\$ 9,469
Other real estate inventories	5,206	5,551
Tangible water assets	29,629	29,655
Total real estate and tangible water assets	<u>\$ 44,304</u>	<u>\$ 44,675</u>

3. Intangible Assets

The Company owned the following intangible assets, which primarily represent indefinite-lived intangible water assets (in thousands):

	September 30, 2018	December 31, 2017
Pipeline rights and water credits at Fish Springs Ranch	\$ 83,884	\$ 83,897
Pipeline rights and water rights at Carson-Lyon	21,642	25,569
Other	17,272	17,319
Total intangible assets	<u>\$ 122,798</u>	<u>\$ 126,785</u>

In June 2018, the Company sold 500 acre - feet of water rights in Lyon County, Nevada to a residential real estate developer for \$10 million, or \$20,000 per acre foot.

4. Investments

The value of marketable investments were as follows (in thousands):

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

Debt Securities

At December 31, 2017, there were no material unrealized losses on any debt security. There were no impairment losses recorded on debt securities during the three or nine months ended September 30, 2018 or 2017.

Marketable Equity Securities

No material impairment losses were recorded on any marketable equity securities during the three or nine months ended September 30, 2018 and 2017.

5. Disclosures About Fair Value

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

Recurring Fair Value Measurements

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company's policy is to recognize transfers between levels at the end of the reporting period. The following tables set forth the Company's assets and liabilities that were measured at fair value, on a recurring basis, by level within the fair value hierarchy. There were no significant transfers between Level 1 and Level 2 during the three or nine months ended September 30, 2018 or during the year ended December 31, 2017.

At December 31, 2017 (in thousands):

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

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

Non-Recurring Fair Value Measurements

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

The Company's non-financial assets that were measured at fair value, on a non-recurring basis, by level within the fair value hierarchy for the nine months ended September 30, 2018 (in thousands) are as follows:

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Investments in unconsolidated affiliates ⁽¹⁾			\$ —	\$ 1,312

⁽¹⁾ The Company recorded an impairment loss of \$1.3 million to write down the value of its investment in an unconsolidated affiliate to fair value which was zero. The fair value approach relied primarily on Level 3 unobservable inputs including potential offers to purchase the entity. The inputs were based upon assumptions believed to be reasonable, but which by their nature are uncertain and unpredictable.

There were no non-financial assets that were measured at fair-value, on a non-recurring basis for the nine months ended September 30, 2018 or for the year ended December 31, 2017.

6. Commitments and Contingencies

The Company leases some of its offices under non-cancelable operating leases that expire at various dates through 2020. Rent expense for office space was \$88,000 and \$70,000 for the three months ended September 30, 2018 and 2017, respectively, and \$280,000 and \$275,000 for the nine months ended September 30, 2018 and 2017, respectively.

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

<u>Year ended December 31,</u>	
2018	\$ 88
2019	356
2020	166
2021	—
2022	—
Thereafter	—
Total	<u>\$ 610</u>

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

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

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

7. Accumulated Other Comprehensive Income

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

	<u>December 31, 2017</u>
Net unrealized gain on available-for-sale investments	\$ 544
Foreign currency translation	—
Accumulated other comprehensive income	<u>\$ 544</u>

The unrealized gain on available-for-sale investments is net of a deferred income tax liability of \$145,000 at December 31, 2017.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017		2018		2017	
Beginning balance	\$	788	\$	544	\$	6,661
Unrealized (gain) or loss reclassified and recognized in net loss, net of tax ⁽¹⁾		(392)		16		(6,357)
Unrealized gain reclassified to accumulated deficit, net of tax		—		(560)		—
Foreign exchange reclassified and recognized in net loss, net of tax ⁽¹⁾		(1)		—		1
Total amount reclassified and recognized in net income or loss, net of tax		(393)		(544)		(6,356)
Unrealized gain on marketable securities, net of tax		5		—		72
Accumulated currency, net of tax		7		—		30
Net change in other comprehensive income, net of tax		(381)		(544)		(6,254)
Accumulated other comprehensive income	\$	407	\$	—	\$	407

⁽¹⁾ Amounts reclassified from this category are included in other income, net in the condensed consolidated statement of operations and comprehensive income or loss.

8. Related-Party Transactions

Deferred Compensation

In July 2017, the Company's board of directors elected to terminate the Company's deferred compensation plans. In accordance with applicable regulations, distribution of the assets and settlement of the deferred compensation obligation was made to the participants in July 2018.

In June 2018, the Company completed the sale of the legal entities used in the oil and gas business to its former service agent. There was no material gain or loss on the transaction.

In connection with the execution of a transition agreement with the Company's current Chief Financial Officer, \$748,000 of severance benefits were accrued during the three months ended September 30, 2018.

9. Discontinued Operations and Assets and Liabilities Held-for-Sale

Real Estate:

On April 10, 2017, our then majority owned subsidiary, UCP, Inc. ("UCP"), entered into a merger agreement with Century Communities, Inc. ("Century") whereby each outstanding share of UCP common stock was converted into \$5.32 in cash and 0.2309 of a newly issued share of Century common stock representing 9% of Century's common stock outstanding. The transaction closed on August 4, 2017 and as a result the Company deconsolidated UCP as of the closing date and recorded a loss of \$8.7 million. In October 2017, the Company sold its entire position of Century common stock for \$59.2 million and recorded a loss of \$842,000 during the year ended December 31, 2017.

During the nine months ended September 30, 2017, the Company recorded a \$11.4 million loss on the sale of UCP based on the Company's carrying value of UCP at September 30, 2017 and the value of the Century common stock as of the announcement date of the sale.

Agribusiness:

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

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

	Three Months Ended		Nine Months Ended September 30,	
	September 30,		2018	
	2017		2017	
Revenue and other income from discontinued real estate operations:				
Sales of real estate	\$	39,462	\$	—
Other		20		506
Total revenue and other income		39,482		247,719
Cost of sales and expenses from discontinued real estate operations:				
Cost of real estate sold		32,221		—
General, administrative, and other		11,245		29,618
Sales and marketing		2,415		13,784
Impairment loss on long-lived assets		—		102
Total cost of sales and expenses		45,881		244,293
Income before income taxes		(6,399)		3,426
Provision for federal and state income taxes		1,130		(360)
Net income from discontinued real estate operations		(5,269)		3,066
Net loss from discontinued agribusiness operations, net of tax		—		(13)
Net income from discontinued operations, net of tax		(5,269)		3,053
Income (loss) on sale of discontinued real estate operations, net of tax		2,094	43	(9,311)
Income on sale of discontinued agribusiness operations, net of tax		—		2
Net income (loss) from discontinued operations, net of tax		(3,175)	43	(6,256)
Net (income) loss from discontinued operations attributable to noncontrolling interests		1,645		(1,150)
Net income (loss) from discontinued operations attributable to PICO Holdings, Inc.	\$	(1,530)	\$	43
			\$	(7,406)

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

The following discussion and analysis of financial condition and results of operations should be read together with the Unaudited Condensed Consolidated Financial Statements and accompanying Notes included elsewhere in this report, and the Consolidated Financial Statements and accompanying Notes included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Note About “Forward-Looking Statements”

This Quarterly Report on Form 10-Q (including the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section) contains “forward-looking statements,” as defined in Section 21E of the United States Securities Exchange Act of 1934, as amended, regarding our business, financial condition, results of operations, and prospects, including, without limitation, statements about our expectations, beliefs, intentions, anticipated developments, and other information concerning future matters. Words such as “may,” “will,” “could,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “should,” “target,” “projects,” “contemplates,” “predicts,” “potential,” “continue,” and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this Quarterly Report on Form 10-Q. Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on current expectations and assumptions. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and the actual results and outcomes could differ from what is expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those discussed under the headings “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, in “Item 1A: Risk Factors” of Part II of this Quarterly Report on Form 10-Q, and in other filings made from time to time with the United States Securities and Exchange Commission (“SEC”) after the date of this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K and other filings with the SEC.

Business Strategy and Goals

PICO Holdings, Inc. is a holding company. In this Quarterly Report, PICO and its subsidiaries are collectively referred to as “PICO,” “the Company,” or by words such as “we” and “our.”

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

As of September 30, 2018, our major consolidated subsidiary was Vidler Water Company, Inc. (“Vidler”), a water resource and water storage business with assets and operations primarily in the southwestern United States, including Nevada, Arizona, Colorado, and New Mexico.

Results of Operations — Three and Nine Months Ended September 30, 2018 and 2017

Shareholders’ Equity (in thousands):

	September 30, 2018	December 31, 2017	Change
Shareholders’ equity	\$ 184,502	\$ 207,163	\$ (22,661)
Shareholders’ equity per share	\$ 8.60	\$ 8.95	\$ (0.35)

The decrease in our shareholders’ equity was primarily due to the repurchase of approximately 1.7 million shares of our common stock for \$19.9 million during the nine months ended September 30, 2018.

Total Assets and Liabilities (in thousands):

	September 30, 2018	December 31, 2017	Change
Total assets	\$ 189,112	\$ 214,402	\$ (25,290)
Total liabilities	\$ 4,610	\$ 7,239	\$ (2,629)

Total assets decreased during the nine months ended September 30, 2018 primarily due to cash used to fund expenses and to repurchase our common stock, offset by cash received on the sale of 500 acre-feet of our water rights.

Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Revenues						
Sale of real estate and water assets	\$ 230	\$ 136	\$ 94	\$ 10,957	\$ 25,276	\$ (14,319)
Impairment on investments	(1,312)	—	(1,312)	(1,312)	—	(1,312)
Other income	388	69	319	617	9,756	(9,139)
Total revenue (loss) and other income	(694)	205	(899)	10,262	35,032	(24,770)
Costs						
Cost of real estate and water assets sold	98	55	43	4,458	12,604	(8,146)
Expenses						
Salaries and benefits ⁽¹⁾	1,965	2,782	(817)	4,489	6,714	(2,225)
Professional service expense	285	778	(493)	1,598	2,540	(942)
Office expense	136	127	9	430	480	(50)
Other expense	1,473	(744)	2,217	2,430	132	2,298
Depreciation and amortization	18	24	(6)	57	158	(101)
Total expenses	3,877	2,967	910	9,004	10,024	(1,020)
Income (loss) before income taxes	\$ (4,669)	\$ (2,817)	\$ (1,852)	\$ (3,200)	\$ 12,404	\$ (15,604)

⁽¹⁾ Salaries and benefits included non-cash stock-based compensation and deferred compensation expense of \$80,000 and \$1.3 million for the three months ended September 30, 2018 and 2017, respectively, and \$438,000 and \$2.4 million for the nine months ended September 30, 2018 and 2017, respectively.

We continue to report year over year reductions in total expenses primarily from reduced headcount and compensation and lower professional fees incurred. During the three months ended September 30, 2018, we recorded an expense of \$748,000 for severance benefits we expect to pay to our current Chief Financial Officer upon his departure in 2019 and an additional \$212,000 in other expenses related to the transition of our business functions from our office in La Jolla, CA to our office in Carson City, NV. In total, we expect to incur approximately \$1.6 million in severance and transition costs over the next six to 12 months.

Included in professional service expense for the three and nine months ended September 30, 2018 was \$18,000 and \$741,000, respectively, for legal and consulting costs incurred in connection with our appeal process in New Mexico related to the award of 350 acre - feet of water rights.

During the three months ended September 30, 2018, we recorded an impairment charge of \$1.3 million to write down the value our investment in an unconsolidated affiliate to zero. Additionally, we wrote off \$1.0 million in notes and interest receivable from the same unconsolidated affiliate, which is recorded within other expense above.

We continued to record a full valuation allowance on our net deferred tax assets.

We report comprehensive income or loss as well as net income or loss from the condensed consolidated statements of operations and comprehensive income or loss. Comprehensive income measures changes in equity, and includes unrealized items which are not recorded in the condensed consolidated statements of operations.

Liquidity and Capital Resources — Nine Months Ended September 30, 2018 and 2017

A substantial portion of our historical revenue and cash flow has, and is expected in the future, to come from one-time sales of our assets which are primarily long-term water resource development projects that we expect to support economic growth in the local markets where the assets are located. The timing and amount of sales and cash flows depend on a number of factors which are difficult to predict, and cannot be directly compared from one period to another. However, given our cash balance at September 30, 2018, we currently believe that we have sufficient resources to cover our expenses for at least the next 12 months. In the long-term, we estimate that cash from operations will provide us with adequate funding for future operations. However, if additional funding is needed we could defer significant expenditures, obtain a line of credit, or complete a debt or offerings of preferred or common equity. Any equity or convertible debt offerings may be dilutive to our shareholders and any debt offerings may include operating covenants that could restrict our business. We are currently not subject to any debt covenants which might limit our ability to obtain additional financing through debt or equity offerings. We classify the sale of and costs incurred to acquire and develop our water assets as operating activities in our consolidated statement of cash flows.

We expect to continue to repurchase shares of our common stock in the open market at opportunistic prices, up to our board approved amount of \$50 million.

Consolidated Cash and Securities

Currently we have significant working capital reserves.

Given our September 30, 2018 cash balances we believe that we have sufficient resources to cover our cash needs for at least the next 12 months. In the long-term, we estimate that existing cash resources and cash from operations will provide us with adequate funding for future operations. However, if additional funding is needed, we could defer significant expenditures, sell assets, obtain a line of credit, or complete a debt or equity offering. Any additional equity offerings may be dilutive to our stockholders and any additional debt offerings may include operating covenants that could restrict our business.

Cash Flows

Cash Flows From Operating Activities

Our operations generated \$3.8 million of cash during the first nine months of 2018. The principal operating cash inflow was \$11.6 million from the sale of various real estate and water rights assets. This was offset by \$7.5 million of cash used for overhead and various project expenses.

We generated \$1.1 million in cash from continuing operations during the first nine months of 2017 primarily from the \$25 million sale of 100,000 long term storage credits. We used \$8.9 million of cash for overhead and various project expenses and \$18.1 million for the payment of severance benefits and deferred compensation payouts related to the termination of our former CEO. Our discontinued operations generated \$246 million during the first nine months of 2017 from the sale of residential real estate lots and used \$216.9 million of cash in acquisition and development of real estate and \$37 million for overhead.

Cash Flows From Investing Activities

There were no significant cash flows from investing activities during the nine months ended September 30, 2018.

Our continuing operations used \$61.6 million of cash from investing activities during the nine months ended September 30, 2017, primarily related to the purchase of \$139.9 million of U.S. Treasuries, which was offset by \$70 million in maturities of U.S. Treasuries and approximately \$8.6 million in cash from the sale of various other debt and equity investments. Our discontinued operations generated \$47.2 million of net cash from investing activities during the nine months ended September 30, 2017, which was comprised of the \$55.3 million received on the sale of UCP less UCP's cash balance as of the date of the sale, and \$6 million in cash received from the escrow for general indemnification claims related to our discontinued agribusiness operations.

Cash Flows From Financing Activities

We used \$19.9 million in cash to repurchase shares of our common stock during the nine months ended September 30, 2018.

There were no significant cash flows from financing activities in our continuing operations during the nine months ended September 30, 2017. Our discontinued operations received \$86.7 million of cash during the nine months ended September 30, 2017 provided from draws on debt arrangements, which was used primarily to fund the acquisition and development of various real estate projects, offset by payments of \$96.5 million which were used to repay debt when certain real estate properties were sold.

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

Off-Balance Sheet Arrangements

As of September 30, 2018, we had no off-balance sheet arrangements, that have, or are reasonably likely to have, a material current or future effect on our consolidated financial condition, revenues or expenses, results of operations, liquidity, capital expenditure, or capital resources.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II: Other Information

Item 1: Legal Proceedings

None.

Item 1A: Risk Factors

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

The risk factors in this report have been revised to incorporate changes to our risk factors from those included in our Annual Report on Form 10-K for the year ended December 31, 2017. The risk factors set forth below with an asterisk (*) next to the title are new risk factors or risk factors containing changes, including any material changes, from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Arizona Recharge Facility is one of the few private sector water storage sites in Arizona. At September 30, 2018, we had approximately 251,000 acre-feet of water stored at the facility. In addition, we had approximately 53,700 acre-feet of water stored in the Phoenix Active Management Area at September 30, 2018. We have not stored any water on behalf of any customers and as of September 30, 2018, had not generated any material revenue from the recharge facility. We cannot be certain that we will ultimately be able to sell all of the stored water at a price sufficient to provide an adequate economic return, if at all.

We constructed a pipeline approximately 35 miles long to deliver water from Fish Springs Ranch to the north valleys area of Reno, Nevada. As of September 30, 2018, the total cost of the pipeline project, including our water credits (net of impairment losses incurred to date) carried on our balance sheet was approximately \$83.9 million. To date, we have sold only a small amount of the water credits and we cannot provide any assurance that the sales prices we may obtain in the future will provide an adequate economic return, if at all. Any prolonged weak demand or lack of permitting approvals for new homes, residential and commercial development, and, as a result, for our assets in Nevada and Arizona, would have a material adverse effect on our future revenues, results of operations, cash flows, and the return on our investment from those assets. Demand for these water credits is anticipated to primarily come from both local and national developers planning to construct new projects in the north valleys area of Reno, Nevada. The success of these projects is dependent on numerous factors beyond our control, including local government approvals, employment growth in the greater Reno area, and the ability of the developers to finance these projects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are undergoing a management transition, having recently appointed Ms. Dorothy Timian-Palmer as our President and Chief Executive Officer and Mr. Maxim C.W. Webb as our Executive Chairman, and we are transitioning to a new finance staff in Carson City, Nevada from our La Jolla, California office. Such a management and geographic transition subjects us to a number of risks, including risks pertaining to coordination of responsibilities and tasks, creation of new management systems and processes, and the need for transfer of historical knowledge.

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

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

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

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

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

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

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

Litigation may harm our business or otherwise distract our management.

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

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

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

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

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

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

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

Our business could be negatively impacted by cyber security threats.

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

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

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

The following table summarizes repurchases of our common stock made during the three months ended September 30, 2018:

Period	Total number of shares of common stock repurchased	Average price paid per share of common stock (including commissions)	Total number of shares of common stock repurchased as part of publicly announced plans of programs	Maximum dollar value of shares of common stock that may yet be repurchased under the plans of programs (in thousands) ⁽¹⁾
July 1 to July 31, 2018	185,468	\$ 12.42	1,387,706	\$ 34,034
August 1 to August 31, 2018	177,190	\$ 12.31	1,564,896	\$ 31,853
September 1 to September 30, 2018	198,232	\$ 12.28	1,763,128	\$ 29,419
Total	560,890			

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

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

Not applicable.

Item 5: Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of PICO Holdings, Inc. ⁽¹⁾
3.2	By laws of PICO Holdings, Inc. ⁽¹⁾
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of PICO Holdings, Inc. ⁽²⁾
4.1	Section 382 Rights Agreement, dated as of July 24, 2017, by and between PICO Holdings, Inc. and Computershare Trust Company, N.A. ⁽²⁾
4.2	PICO Holdings, Inc. Stock Certificate ⁽³⁾
10.1	Employment Agreement by and between PICO Holdings, Inc. and Dorothy Timian-Palmer, dated August 6, 2018. ⁽⁴⁾
10.2	Amended and Restated Employment Agreement by and between PICO Holdings, Inc. and Maxim C.W. Webb, dated August 6, 2018. ⁽⁴⁾
10.3	PICO Holdings, Inc. Amended and Restated Executive Bonus Plan. ⁽⁴⁾
10.4	Transition Agreement by and between PICO Holdings, Inc. and John T. Perri dated August 6, 2018. ⁽⁴⁾
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

⁽¹⁾ Incorporated by reference to the Current Report on Form 8-K filed with the SEC on June 1, 2017.

⁽²⁾ Incorporated by reference to the Current Report on Form 8-K filed with the SEC on July 24, 2017.

⁽³⁾ Incorporated by reference to the Quarterly Report on Form 10-Q filed with the SEC on August 9, 2017.

⁽⁴⁾ Incorporated by reference to the Current Report on Form 8-K filed with the SEC on August 8, 2018.

PICO HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURE

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

PICO HOLDINGS, INC.

Date: November 2, 2018

By: /s/ John T. Perri

John T. Perri

Chief Financial Officer

(Principal Financial Officer and Authorized Signatory)

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dorothy Timian-Palmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PICO Holdings, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2018

/s/ Dorothy Timian-Palmer
Dorothy Timian-Palmer
President and Chief Executive Officer

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John T. Perri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PICO Holdings, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2018

/s/ John T. Perri

John T. Perri
Chief Financial Officer

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of PICO Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dorothy Timian-Palmer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to the best of my knowledge:

- (1) The Report fully complies with requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2018

/s/ Dorothy Timian-Palmer
Dorothy Timian-Palmer
President and Chief Executive Officer

CERTIFICATION BY CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report of PICO Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Perri, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that to the best of my knowledge:

- (1) The Report fully complies with requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2018

/s/ John T. Perri

John T. Perri

Chief Financial Officer

