



PICO Holdings

PICO HOLDINGS, INC.

CORPORATE GOVERNANCE GUIDELINES

General

The Board of Directors has the responsibility to organize its functions and conduct its business in the manner it deems most effective and efficient, consistent with its duties of good faith, due care, and loyalty. In that regard, the Board has adopted a set of flexible policies to guide its governance practices. These practices and guidelines, set forth below, will be regularly re-evaluated by the Board's Corporate Governance and Nominating Committee in light of changing circumstances in order to continue serving the best interests of the shareholders. Accordingly, the summary of current practices is not a fixed policy or resolution by the Board, but rather a statement of current practices that is subject to continuing assessment and change.

Role of Board and Management

The Board of Directors, which is elected by the shareholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the shareholders. It selects the senior management team, which is charged with the conduct of the Company's business. Having selected the senior management team, the Board acts as an advisor and counselor to senior management and ultimately monitors its performance.

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. In fulfilling that responsibility the directors may reasonably rely on the honesty and integrity of the Company's senior management and expert legal, accounting, financial, and other advisors. Consistent with their fiduciary duties and the Company's Code of Business Conduct and Ethics, directors are expected to maintain the confidentiality of the deliberations of the Board and its committees.

Director Qualifications

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

- business experience;
- academic credentials;
- inter-personal skills;

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

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

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

Director Nomination Process

The Corporate Governance and Nominating Committee will review annually the results of the evaluation of the Board and its committees, and the needs of the Board for various skills, experience, expected contributions, and other characteristics in determining the director candidates to be nominated at the Annual Meeting of Shareholders. After assessing the perceived needs of the Board, the Corporate Governance and Nominating Committee identifies specific individuals as a potential source of director candidates with relevant experience. The priorities and emphasis of the Corporate Governance and Nominating Committee and of the Board may change from time to time to take into account changes in our business and other trends and the portfolio of skills and experience of current and prospective Board members. The Corporate Governance and Nominating Committee establishes procedures for the nomination process and recommends candidates for election to the Board.

The Corporate Governance and Nominating Committee will evaluate director candidates proposed by directors, shareholders, or management in light of the Committee's views of the current needs of the Board for certain skills, experience or other characteristics, the candidate's background, skills, experience, other characteristics and expected contributions, and the qualification standards established from time to time by the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will consider nominees recommended by shareholders; however, such recommendations must be submitted in writing to our Corporate Secretary no later than the close of business on the 90th day nor earlier than the 120th day prior to the first anniversary of the preceding year's Annual Meeting of

Shareholders, along with the identity and beneficial share ownership in the Company of the shareholder making the recommendation, complete biographical information (including business experience) for the candidate and any other relevant information. Consideration of new director candidates involves a series of internal discussions, review of information concerning candidates, and interviews with selected candidates. When particular skills or backgrounds are needed on the Board, Board members or employees frequently suggest candidates for nomination to the Board. If the Corporate Governance and Nominating Committee believes that the Board requires additional candidates for nomination, the Committee may engage, as appropriate, a third party search firm to assist in identifying qualified candidates.

All directors and nominees will submit a completed form of directors' and officers' questionnaire as part of the nominating process. The process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Corporate Governance and Nominating Committee.

Director Independence

The Board believes that, as a matter of policy and consistent with applicable laws, rules, and regulations, the Board should consist of a substantial majority of independent directors. In no event will the Board consist of less than a majority of independent directors.

In making a determination regarding a director's independence, the Board shall consider all relevant facts and circumstances, including the director's commercial, charitable and familial relationships, and such other criteria as the Board may, in its discretion, determine relevant. All persons determined to be an independent director shall meet the independence requirements of the Nasdaq Stock Market.

Limits on Director Outside Activities

Directors must be willing to devote sufficient time to carry out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. Consideration should be given to whether serving is feasible on more than three public company boards of directors (including the Board) at one time, given the anticipated time commitments of such service. In addition, each Board member is expected to ensure that other existing and planned future commitments do not conflict with or materially interfere with the member's service as a director. Directors are expected to avoid any action, position, or interest that conflicts with an interest of the Company, or gives the appearance of a conflict.

Change in Director Responsibilities

Directors should promptly notify the Corporate Governance and Nominating Committee in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities, that could pose a conflict of interest, diminish his or her effectiveness as a Board member, or otherwise be detrimental to the Company. The Corporate Governance and Nominating Committee will consider the change in circumstances, taking into account all factors it deems relevant, and make a recommendation to the Board regarding the change in circumstances, which may or may not consist of requesting that the director offer his or her resignation. In reviewing the Corporate Governance and Nominating Committee's recommendation, the Board will consider the factors evaluated by the Corporate Governance and Nominating Committee and such additional information and factors the Board believes to be relevant. If the Board determines that resignation is in the best interests of the Company and its shareholders, the director shall promptly tender his or her resignation upon request from the

Board. Failure to tender a requested resignation pursuant to the terms of this policy shall be grounds for removal of such director for cause.

Retirement Age

The Board does not believe that a fixed retirement age for directors is appropriate.

Term Limits

The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole. The Board and Corporate Governance and Nominating Committee will consider each director's effectiveness during his or her prior terms as part of the director nomination process.

Size of Board

The Board reviews from time to time the appropriate size of the Board. The Board will consider changing its size to accommodate outstanding candidates or to satisfy specific governance needs.

Chairman of the Board

The Chairman of the Board shall be appointed by, and serve at the discretion of, the Board of Directors. The Chairman of the Board, who presides at all meetings of the Board, takes the lead role in the boardroom and shall be responsible to chair the Board's executive sessions, unless the Chairman is also the CEO, in which case the Lead Independent Director shall be responsible to chair the Board's executive sessions. The Chairman of the Board shall also receive, distribute to the Board, and arrange responses to communications from shareholders. The Chairs of the various Board Committees take the lead on matters falling within the purview of those committees.

Lead Independent Director

When the Board determines it is appropriate to designate a Lead Independent Director alongside a Chairman of the Board, (for example, when the Chairman is not an "independent" director), the Lead Independent Director shall be responsible to chair the Board's executive sessions and perform such other duties as may be designated by the Board.

Roles of Chairman and CEO

The Board elects its Chairman and appoints the Company's Chief Executive Officer according to its view of what is best for the Company at any given time. The Board does not believe there should be a fixed rule as to whether the offices of Chairman and CEO should be vested in the same person or two different people, or whether the Chairman should be an employee of the Company or should be elected from among the non-employee directors. The needs of the Company and the individuals available to play these roles may dictate different outcomes at different times, and the Board believes that retaining flexibility in these decisions is in the best interest of the Company. However, at any time in which the offices of Chairman and CEO are vested in the same person, the Board will establish a Lead Independent Director.

Executive Sessions of Independent Directors

The independent directors of the Board will meet in Executive Session generally in conjunction with each regularly scheduled Board meeting and at any other time requested by any independent director. These sessions will be led by either the Chairman or Lead Independent Director, as the case may be, as set forth above.

Board Access to Management

The independent members of the Board shall have access to, and are encouraged to contact, Company employees in order to obtain the information necessary to fulfill their duties. The Board may establish a process for such inquiries. Management is encouraged to invite Company employees to Board meetings where the participation by those employees will provide the Board with additional insight into the matters being considered.

Retention of Advisors/Consultants

The Board and each of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee of the Board have the authority to retain outside financial, legal, or other advisors as they deem appropriate, and have the authority to obtain advice, reports, or opinions from internal and external counsel and advisors, without consulting with or obtaining approval from any officer of the Company.

Board and Committee Evaluation

The Board and each committee will perform an annual self-evaluation. As part of this process, the directors will be requested to provide their assessments of the effectiveness of the Board and the committees on which they serve. The individual assessments will be summarized and reported for discussion to the full Board and the committees promptly. The Corporate Governance and Nominating Committee should also report its assessment of the Board's compliance with these principles set forth in these guidelines as well as identification of areas in which the Board or committees could improve performance.

Communications by Shareholders with Directors

Individuals may contact our entire Board of Directors or an individual director by sending a written communication to the Board or such director in care of:

Corporate Secretary
PICO Holdings, Inc.
7979 Ivanhoe Avenue, Suite 300
La Jolla, California 92037

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

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

The Company will make every effort to schedule its Annual Meeting of Shareholders at a time and date to maximize attendance by directors taking into account the directors’ schedules. All directors shall make every effort to attend the Company’s Annual Meeting of Shareholders absent an unavoidable and irreconcilable conflict.

Director Compensation

The Compensation Committee assists the Chairman of the Board in reviewing the compensation for non-employee directors. The Compensation Committee may recommend changes in the compensation for non-employee directors, and shall be guided by the following goals:

- directors should be fairly compensated for the work required in discharge of their duties;
- compensation should align the directors’ interests with the long-term interests of shareholders; and
- the compensation policy should be easy for shareholders to understand.

Stock Ownership/Guidelines

The Board of Directors has adopted Stock Ownership Guidelines to align the interests of its directors and executive officers with the interests of shareholders and to further promote the Company’s commitment to sound corporate governance. In recognition of the volatility of equity markets, our Stock Ownership Guidelines look to achievement of stock ownership levels computed based on the lesser of a multiple of base salary/retainers or a fixed number of shares.

1. Stock Ownership Guidelines for Directors

The Stock Ownership Guidelines for non-employee directors are the lesser of 10,000 shares or a number of shares of the Company’s common stock with a value equal to three times the annual cash retainer for Board service.

2. Stock Ownership Guidelines for Executive Officers

The Stock Ownership Guidelines for executive officers apply to the Chief Executive Officer, Chief Financial Officer and such other executive officers who may be designated by the Compensation Committee from time to time as being subject to these guidelines. The Stock Ownership Guidelines for executive officers are determined as the lesser of (i) a fixed number of shares and (ii) shares with a value equal to a multiple of the executive’s base salary, with the size of the multiple based on the individual’s position. The guideline for the Chief Executive Officer is set at the lesser of 275,000 shares or three times annual base salary. The guideline for the Chief Financial Officer is set at the lesser of 18,000 shares or one times base salary. The guideline for the other executive officers designated by the Compensation Committee is set at the lesser of 10,000 shares or one times annual base salary.

3. Retention Requirement

Until the applicable Stock Ownership Guideline is achieved, the director or executive officer is required to retain an amount equal to 25% of the net shares received as a result of the exercise of the Company's stock options or stock appreciation rights (SARs) or the vesting of restricted stock units (RSUs). 'Net shares' are those shares that remain after shares are sold or netted to pay the exercise price of stock options and any withholding taxes on exercise of options/SARs or vesting of an RSU. Because directors and executive officers must retain a percentage of shares resulting from any exercise of the Company's stock options or vesting of RSUs until they achieve the specified guidelines, there is no minimum time period required to achieve these guidelines.

4. Counting Shares Owned

Shares that count towards satisfaction of the guidelines include:

- shares owned outright by the director or executive officer or his or her immediate family members residing in the same household, including shares owned through a 401(k) plan;
- nominal shares that are vested and held in a person's deferred compensation account at the Company;
- shares held in trust for the benefit of the executive or director or his or her family; and
- fifty percent (50%) of vested stock options and SARs granted under the Company's equity incentive plans.

5. Exceptions

The guidelines may be waived, at the discretion of the Company's Compensation Committee, if compliance would create severe hardship or prevent an executive officer or director from complying with a court order, as in the case of a divorce settlement. It is expected that these instances will be rare.

6. Review

The Compensation Committee will review these Stock Ownership Guidelines annually for compliance and effectiveness.

Director Education and Orientation

The Corporate Governance and Nominating Committee shall develop and maintain an orientation program for new directors that shall include meetings with senior management and visits to the Company's principal facilities. Incumbent directors shall also be invited to attend the orientation program. The Company shall make available to all members of the Board the opportunity to participate in one education or training program per year on corporate Board 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 or Lead Independent Director utilizing criteria including the cost and expected benefits of the program to the Company. In addition, all directors will comply with any continuing education requirements that may be required from time to time by the Nasdaq Stock Market.

Committees

The Board will at all times have an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. As feasible, all members of these committees will be independent directors under the criteria established by the Nasdaq Stock Market; but the composition of the committees shall at all times comply with the listing requirements of the Nasdaq Stock Market. The Board may from time to time establish additional committees as necessary or appropriate. Committee members will be appointed by the Board upon the recommendation of the Corporate Governance and Nominating Committee. Consideration should be given to rotating committee members periodically, but rotation is not mandated as a policy.

Each committee will have its own charter. The charters will set forth the purposes of the committees as well as qualifications for committee membership. The charters shall be posted on the Company's website.

The Chair of each committee, in consultation with the committee members and senior management, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chair of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. In general, the Chair of each committee will report to the full Board on the significant actions taken by that committee.

CEO Evaluation

The Compensation Committee conducts a review at least annually of the performance of the CEO. The Compensation Committee shall establish the evaluation process and determine the specific criteria on which the performance of the CEO is evaluated.

Succession Planning

In the absence of the CEO, the Chairman of the Board shall serve as the interim CEO, unless there is another member of the Board who is deemed by the Board in its discretion to be better suited to act as the interim CEO. Concurrently with the appointment of the interim CEO, the Board shall initiate a search for a new CEO (which may include the consideration of the individual appointed as the interim CEO).

The Corporate Governance and Nominating Committee and the Compensation Committee shall work together to conduct an annual review of the Company's succession planning for other executive officers, including policies and principles for officer selection and succession in the event of an emergency or retirement. The Committees shall report their recommendation to the Board.

Majority Vote Policy

In an uncontested election of directors (an election where the only nominees are those recommended by the Board), if any nominee for director receives a greater number of "withhold" votes than votes "for" his or her election, the Corporate Governance and Nominating Committee will undertake an evaluation of the appropriateness of the director's continued service on the Board, and will make a recommendation to the Board as to whether it is appropriate that any remedial action be taken with respect to the voting results. The Corporate Governance and Nominating Committee's recommendations may range from taking no action, to addressing the cause of the concerns communicated by shareholders, to requesting that the

director tender his or her resignation. The Corporate Governance and Nominating Committee will consider all factors it deems relevant including, without limitation, the following:

- the stated reasons why shareholders withheld votes for election from such director;
- the length of service and qualifications of such director;
- the director's expected contributions to the Company and the Board, including committee service; and
- the availability of other qualified candidates for director.

The Corporate Governance and Nominating Committee's evaluation will begin promptly following certification of the voting results and will be forwarded to the Board to permit the Board to act on it no later than 90 days following the date of the shareholders' meeting. In reviewing the Corporate Governance and Nominating Committee's recommendation, the Board will consider the factors evaluated by the Corporate Governance and Nominating Committee and such additional information and factors the Board believes to be relevant. If the Board determines that remedial action is appropriate, the director shall promptly take whatever action is requested by the Board. If the director does not promptly take the recommended remedial action, or if the Board determines that immediate resignation is in the best interests of the Company and its shareholders, the director shall promptly tender his or her resignation upon request from the Board. Failure to tender a requested resignation pursuant to the terms of this policy shall be grounds for removal of such director for cause. The Company will publicly disclose the Board's decision within four business days in a Form 8-K, providing an explanation of the process by which the decision was reached and, if applicable, the reasons for not requesting the director's resignation.

Any director who is the subject of the evaluation described in this section will not participate in Corporate Governance and Nominating Committee or Board considerations of the appropriateness of his or her continued service, except to respond to requests for information. If a majority of the members of the Corporate Governance and Nominating Committee are subject to this evaluation process, then the independent directors on the Board (as most recently determined by the Board) who are not subject to the evaluation will appoint a Board committee amongst themselves solely for the purpose of conducting the required evaluation. The special committee will make the recommendation to the Board otherwise required of the Corporate Governance and Nominating Committee.