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, 2017

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	**94-2723335**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

7979 Ivanhoe Avenue, Suite 300 La Jolla, California 92037
(Address of principal executive offices, including zip code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 November 1, 2017, the registrant had 23,146,823 shares of common stock, $0.001 par value per share outstanding.

PICO Holdings, Inc.

Form 10-Q
For the Nine Months Ended September 30, 2017

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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)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 25,000	$ 19,611
Investments ($131,260 and $25,071 measured at fair value at September 30, 2017 and December 31, 2016, respectively)	132,571	26,383
Real estate and tangible water assets, net	45,166	57,691
Intangible assets	126,907	126,796
Other assets	2,292	4,624
Assets held-for-sale		440,689
Total assets	$ 331,936	$ 675,794
Liabilities and equity		
Deferred compensation	$ 4,066	$ 27,322
Other liabilities	2,266	12,322
Accounts payable and accrued expenses	1,644	1,015
Liabilities held-for-sale		207,566
Total liabilities	7,976	248,225
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, 23,148 issued and 23,147 outstanding at September 30, 2017, and 23,125 issued and 23,070 outstanding at December 31, 2016	23	23
Additional paid-in capital	495,207	495,468
Accumulated deficit	(171,652)	(173,231)
Accumulated other comprehensive income	407	6,661
Treasury stock, at cost (common shares: 1 and 55 at September 30, 2017 and December 31, 2016, respectively)	(25)	(927)
Total PICO Holdings, Inc. shareholders' equity	323,960	327,994
Noncontrolling interest in subsidiaries		99,575
Total equity	323,960	427,569
Total liabilities and equity	$ 331,936	$ 675,794

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,	
	2017	**2016**	**2017**	**2016**
Revenues and other income:				
Sale of real estate and water assets	$ 136	$ 476	$ 25,276	$ 607
Other income, net	69	689	9,756	2,193
Total revenues and other income	205	1,165	35,032	2,800
Cost of sales and expenses:				
Cost of real estate and water assets sold	55	252	12,604	316
General, administrative, and other	2,943	5,649	9,865	16,054
Impairment loss on intangible and long-lived assets		201		201
Depreciation and amortization	24	162	159	702
Total cost of sales and expenses	3,022	6,264	22,628	17,273
Income (loss) from continuing operations before income taxes	(2,817)	(5,099)	12,404	(14,473)
Benefit (provision) for federal and state income taxes	(292)	530	(3,419)	712
Income (loss) from continuing operations	(3,109)	(4,569)	8,985	(13,761)
Income (loss) from discontinued operations, net of tax	(5,269)	2,710	3,053	4,195
Gain (loss) on sale and impairment loss on classification of assets as held-for-sale, net of tax	2,094	2	(9,309)	(1,858)
Net income (loss) from discontinued operations, net of tax	(3,175)	2,712	(6,256)	2,337
Net income (loss)	(6,284)	(1,857)	2,729	(11,424)
Net (income) loss attributable to noncontrolling interests	1,645	(1,043)	(1,150)	(1,676)
Net income (loss) attributable to PICO Holdings, Inc.	$ (4,639)	$ (2,900)	$ 1,579	$ (13,100)

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,	
	2017	**2016**	**2017**	**2016**
Other comprehensive loss:				
Net income (loss)	$ (6,284)	$ (1,857)	$ 2,729	(11,424)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities, net of deferred income tax and reclassification adjustments	(387)	954	(6,286)	1,484
Foreign currency translation	6	31	32	57
Total other comprehensive income (loss), net of tax	(381)	985	(6,254)	1,541
Comprehensive loss	(6,665)	(872)	(3,525)	(9,883)
Comprehensive (income) loss attributable to noncontrolling interests	1,645	(1,043)	(1,150)	(1,676)
Comprehensive loss attributable to PICO Holdings, Inc.	$ (5,020)	$ (1,915)	$ (4,675)	$ (11,559)
Net income (loss) per common share – basic and diluted:				
Income (loss) from continuing operations	$ (0.13)	$ (0.20)	$ 0.39	$ (0.60)
Income (loss) from discontinued operations	(0.07)	0.07	(0.32)	0.03
Net income (loss) per common share – basic and diluted	$ (0.20)	$ (0.13)	$ 0.07	$ (0.57)
Weighted average shares outstanding	23,138	23,068	23,112	23,049

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, January 1, 2017	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	—
Distribution to noncontrolling interest								(26)	(26)
Purchases of treasury stock						47	(690)		(690)
Retirement of treasury stock	(47)		(690)			(47)	690		—
Distribution of treasury stock to deferred compensation plan participant (former CEO)			(106)			(54)	902		796
Deconsolidation of noncontrolling interest in conjunction with sale of consolidated subsidiary								(101,342)	(101,342)
Net income				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 Equity - Unaudited
Nine Months Ended September 30, 2016
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Noncontrolling Interest	Total
Beginning balance, January 1, 2016	23,116	$ 23	$ 494,207	$ (151,366)	$ 4,961	78	$(1,413)	$ 87,592	$ 434,004
Stock-based compensation expense			1,730					320	2,050
Exercise of restricted stock units	9								—
Withholding taxes paid on vested restricted stock units			(26)					(20)	(46)
Changes in ownership of noncontrolling interest			(1,898)					1,899	1
Acquisition of interests held by noncontrolling owners								(1,000)	(1,000)
Distribution of treasury stock to deferred compensation plan participants			(269)			(23)	486		217
Net income (loss)				(13,100)				1,676	(11,424)
Unrealized gain on investments, net of deferred income tax of $799 and reclassification adjustments of $278					1,484				1,484
Foreign currency translation					57				57
Ending balance, September 30, 2016	23,125	$ 23	$ 493,744	$ (164,466)	$ 6,502	55	$ (927)	$ 90,467	$ 425,343

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,	
	2017	**2016**
Operating activities:		
Cash provided by (used in) operating activities - continuing operations	$ 1,094	$ (11,966)
Cash used in operating activities - discontinued operations	(9,728)	(6,340)
Net cash used in operating activities	(8,634)	(18,306)
Investing activities:		
Purchases of investments	(140,464)	(1,136)
Proceeds from sale of investments	8,598	623
Proceeds from maturity of investments	69,963	18
Purchases of property, plant and equipment	(5)	(132)
Proceeds from sale of property, plant and equipment	283	7
Other investing activities, net		661
Cash provided by (used in) investing activities - continuing operations	(61,625)	41
Cash provided by (used in) investing activities - discontinued operations	47,172	(760)
Net cash used in investing activities	(14,453)	(719)
Financing activities:		
Payment of withholding taxes on exercise of restricted stock units	(565)	
Purchases of treasury stock	(690)	
Cash used in financing activities - continuing operations	(1,255)	—
Cash provided by (used in) financing activities - discontinued operations	(11,638)	16
Net cash provided by (used in) financing activities	(12,893)	16
Decrease in cash and cash equivalents	(35,980)	(19,009)
Cash and cash equivalents, beginning of the period	60,980	57,400
Cash and cash equivalents, end of the period	25,000	38,391
Less cash and cash equivalents of discontinued operations at the end of the period	—	28,024
Cash and cash equivalents of continuing operations, end of the period	$ 25,000	$ 10,367
Supplemental cash flow information:		
Payments of federal and state income taxes	$ 968	$ 187
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	$ 15,709	$ 856
Issuance of common stock for vested restricted stock units	$ 2,571	$ 274

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)

Footnote Index

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, 2017.

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, 2016 filed with the SEC.

Use of Estimates in Preparation of Financial Statements:

The preparation of condensed consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of the Company's condensed consolidated financial statements relate to the assessment of 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.

Discontinued Operations:

On April 10, 2017, the Company's 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. As a result of the transaction, the Company received $55.3 million of cash and approximately 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. The assets and liabilities of UCP qualified as held-for-sale and UCP's results of operations have been classified as discontinued operations as of the earliest period presented. Consequently, prior periods presented have been recast from amounts previously reported to reflect UCP as discontinued operations. See Note 10 *"Discontinued Operations"* for additional information.

Subsequent Events

Sale of Century Common Stock:

In October 2017, the Company sold its entire position of Century common stock for $59.2 million. A loss of $842,000 was realized on the date of sale, however such loss was recognized during the three months ended September 30, 2017. Consequently, no additional gain or loss will be recognized in the fourth quarter of 2017.

Special Dividend Declared:

On October 26, 2017, the Company declared a special cash dividend of $5 per share on its outstanding common stock amounting to approximately $115.7 million. The record date is November 6, 2017, payment is expected to be made on or around November 20, 2017, and the ex-dividend date is November 21, 2017.

Other Corporate Matters

Reincorporation:

On May 31, 2017, the Company changed its state of incorporation from California to Delaware. The reincorporation was approved by the requisite vote of shareholders at the Company's Annual Meeting of Shareholders on May 4, 2017. Other than the change in the state of incorporation, the reincorporation did not result in any change in the business, physical location, management, assets, liabilities or net worth of the Company, nor did it result in any change in location of the Company's employees, including the Company's management and board of directors. Furthermore, the Company's common stock continues to trade on the Nasdaq Global Market. The reincorporation did not alter any shareholder's percentage ownership interest or number of shares owned in the Company. In conjunction with the reincorporation, the Company authorized 10 million shares of preferred stock, par value $0.001 per share. Shares of preferred stock may be issued from time to time in one or more series which may be by distinguishing number, letter or title. However, without shareholder approval, the Company's board of directors is only authorized to designate and/or issue, out of the unissued shares of preferred stock, one or more series of preferred stock in connection with the adoption of a tax benefit preservation plan. The issuance of preferred stock could, among other things, have the effect of delaying, deferring, discouraging or preventing a change in control of the Company and may adversely affect the market price of the Company's common stock and the voting and other rights of the holders of common stock.

Tax Benefit Preservation Plan:

On July 24, 2017, the Company's board of directors adopted a tax benefit preservation plan (the "Plan") designed to preserve the Company's ability to utilize its net operating loss carryforwards as a result of certain stock ownership changes. Consequently, any person or group, together with its affiliates and associates (the "acquiring person"), acquiring beneficial ownership of 4.99%or more of the Company's common stock after August 4, 2017 without the approval of the Company's board of directors would be subjected to significant dilution in its holdings. Such dilution would occur as a consequence of each holder of a Right, other than Rights that are beneficially owned by the acquiring person, obtaining the right to purchase, upon exercise of a Right and payment of the purchase price, a number of shares of the Company's common stock having a market value of two times the exercise price of the Right. Pursuant to the Plan, the Company issued one Right for each outstanding share of the Company's common stock to shareholders of record at the close of business on August 4, 2017. Prior to exercise, a Right does not give its holder any rights as a shareholder of the Company, including any dividend, voting or liquidation rights.

2. Real Estate and Tangible Water Assets

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

	September 30, 2017	December 31, 2016
Real estate and improvements held and used, net of accumulated depreciation of $12,003 at September 30, 2017 and December 31, 2016, respectively	$ 9,469	$ 9,469
Other real estate inventories completed or under development	5,724	5,724
Tangible water assets	29,973	42,498
Total real estate and tangible water assets	$ 45,166	$ 57,691

3. Intangible Assets

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

	September 30, 2017	December 31, 2016
Pipeline rights and water credits at Fish Springs Ranch	$ 83,897	$ 83,897
Pipeline rights and water rights at Carson-Lyon	25,569	25,569
Other	17,441	17,330
Total intangible assets	$ 126,907	$ 126,796

4. Investments

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

September 30, 2017	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Debt securities: corporate bonds and U.S. Treasuries	$ 70,850	$ 42	$ (12)	$ 70,880
Marketable equity securities	59,716	671	(7)	60,380
Total	$ 130,566	$ 713	$ (19)	$ 131,260

December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Debt securities: corporate bonds	$ 4,306	$ 82	$ (6)	$ 4,382
Marketable equity securities	10,400	10,327	(38)	20,689
Total	$ 14,706	$ 10,409	$ (44)	$ 25,071

The amortized cost and carrying value of investments in debt securities, by contractual maturity, are shown below. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	September 30, 2017		December 31, 2016	
	Amortized Cost	Carrying Value	Amortized Cost	Carrying Value
Due in one year or less	$ 70,228	$ 70,260	$ 182	$ 183
Due after one year through five years	622	620	4,124	4,199
Total	$ 70,850	$ 70,880	$ 4,306	$ 4,382

Debt Securities

The Company owns U.S. Treasury Bills and certain corporate bonds which were purchased based on the maturity and yield-to-maturity of the bond and an analysis of the fundamental characteristics of the issuer. At September 30, 2017 and December 31, 2016, there were no material unrealized losses on such securities. There were no impairment losses recorded on debt securities during the three or nine months ended September 30, 2017 and 2016.

Marketable Equity Securities

The Company's investment in marketable equity securities at September 30, 2017 principally consisted of common stock of Century and, to a lesser extent, other publicly traded small-capitalization companies in the U.S. and select foreign markets. At September 30, 2017, the Company reviewed its equity securities in an unrealized loss position and concluded the investment in Century was other than temporarily impaired based on the actual price the Company received on the sale of the securities subsequent to September 30, 2017. The other securities in an unrealized loss position were not other-than-temporarily impaired as the declines were not of sufficient duration and severity, and publicly-available financial information, collectively, did not indicate impairment. The primary cause of the losses on those securities was normal market volatility. No other material impairment losses were recorded during the three or nine months ended September 30, 2017 and 2016.

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 nine months ended September 30, 2017 or during the year ended December 31, 2016.

At September 30, 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 September 30, 2017
Assets				
Available-for-sale equity securities [1]	$ 60,136	$ 244		$ 60,380
Available-for-sale debt securities [1]	70,880			70,880
Total	$ 131,016	$ 244		$ 131,260

As discussed in Note 1, the Company concluded the investment in Century was other than temporarily impaired based on the actual price the Company received on the sale of the securities subsequent to September 30, 2017 and recorded an impairment loss during the three and nine months ended September 30, 2017.

At December 31, 2016 (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, 2016
Assets				
Available-for-sale equity securities [1]	$ 12,545	$ 8,144		$ 20,689
Available-for-sale debt securities [1]	4,382			4,382
Total	$ 16,927	$ 8,144		$ 25,071

(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.

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

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 year ended December 31, 2016 (in thousands) are as follows:

Asset Description	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Oil and gas wells [1]			$ —	$ 201
Investments in unconsolidated affiliates [2]			$ —	$ 2,170

(1) The Company recorded an impairment loss to write down the value of capitalized development costs related to its oil and gas wells. The estimated fair value of the wells was determined using a discounted cash flow model. The loss was reported in the condensed consolidated statements of operations and comprehensive income or loss within impairment loss on intangible and long-lived assets and was included in the results of operations of the corporate segment.

(2) During the year ended December 31, 2016, the Company recorded an impairment loss of $2.2 million on its investment in Synthonics, Inc. (“Synthonics”) as the estimated fair value was less than the carrying value. Such impairment loss reduced the carrying value to zero. The fair value approach relied primarily on Level 3 unobservable inputs, whereby the enterprise value was determined using book value multiples that included assumptions regarding an entity’s risks and uncertainties. The estimates were based upon assumptions believed to be reasonable, but which by their nature are uncertain and unpredictable.

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 $70,000 and $159,000 for the three months ended September 30, 2017 and 2016, respectively, and was $275,000 and $473,000 for the nine months ended September 30, 2017 and 2016, respectively.

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

Year ended December 31,		
2017	$	86
2018		348
2019		356
2020		166
2021		—
Thereafter		—
Total	$	956

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):

	September 30, 2017		December 31, 2016	
Net unrealized gain on available-for-sale investments	$	451	$	6,736
Foreign currency translation		(44)		(75)
Accumulated other comprehensive income	$	407	$	6,661

The unrealized gain on available-for-sale investments is net of a deferred income tax liability of $243,000 at September 30, 2017 and $3.6 million at December 31, 2016.

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	2016	2017	2016
Beginning balance	$ 788	$ 5,517	$ 6,661	$ 4,961
Unrealized gain reclassified and recognized in net loss, net of tax [(1)]	(392)	(95)	(6,357)	(181)
Foreign exchange reclassified and recognized in net loss, net of tax [(1)]	(1)	—	1	—
Total reclassified and recognized in net income or loss, net of tax	(393)	(95)	(6,356)	(181)
Unrealized gain on marketable securities, net of tax	5	1,049	72	1,665
Accumulated currency, net of tax	7	31	30	57
Net change in other comprehensive income, net of tax	(381)	985	(6,254)	1,541
Accumulated other comprehensive income	$ 407	$ 6,502	$ 407	$ 6,502

[(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. Consequently, while participant compensation remains deferred at September 30, 2017, the plan is no longer active. In accordance with applicable regulations, distribution of the remaining assets and settlement of the deferred compensation obligation will be made to the participants no earlier than one year from the date the plans were terminated. The total value of the deferred compensation obligation for all participants at September 30, 2017 and December 31, 2016 was $4.1 million and $27.3 million, respectively. These totals include a fair value of $23,000 and $839,000 of the Company's common stock, for each of the respective periods, with the balance in various publicly traded equities, bonds, and cash. In conjunction with the termination of the Company's former CEO, assets with a value of $23.4 million were distributed from the trust accounts in April 2017.

Deferred compensation expense included in general, administrative, and other costs in the accompanying condensed consolidated statements of operations and comprehensive income or loss for the three months ended September 30, 2017 and 2016 was $16,000 and $1.8 million, respectively, and for the nine months ended September 30, 2017 and 2016 was $221,000 and $1.1 million, respectively.

Sale of Oil and Gas Assets

During the nine months ended September 30, 2017, the Company sold the majority of its remaining oil and gas lease assets to the service agent the Company had contracted with to operate and manage such oil and gas operations. The Company received book value for the majority of the assets sold resulting in no significant gain or loss on the transaction. The service agent continues to provide management services to the Company in conjunction with exiting the business.

9. Segment Reporting

PICO is a diversified holding company engaged in the following operating and reportable segments: Water Resource and Water Storage Operations and Corporate. The accounting policies of the reportable segments are the same as those described in the Company's 2016 Annual Report on Form 10-K filed with the SEC, however, the Company's real estate segment has been sold and deconsolidated as of August 4, 2017. Prior reported balances of the Company's real estate segment have been reclassified as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented.

Management analyzes segments using the following information:

Segment assets (in thousands):

	September 30, 2017	December 31, 2016
Assets:		
Water resource and water storage operations	$ 173,968	$ 186,055
Corporate	157,968	49,050
Assets held-for-sale		440,689
Total assets	$ 331,936	$ 675,794

Segment revenues and loss before taxes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue and other income:				
Water resource and water storage operations	$ 347	$ 577	$ 25,766	$ 890
Corporate	(142)	588	9,266	1,910
Total revenue and other income	$ 205	$ 1,165	$ 35,032	$ 2,800
Income (loss) before income taxes:				
Water resource and water storage operations	$ (965)	$ (1,004)	$ 8,664	$ (4,186)
Corporate	(1,852)	(4,095)	3,740	(10,287)
Income (loss) from continuing operations before income taxes	$ (2,817)	$ (5,099)	$ 12,404	$ (14,473)

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

Real Estate:

On April 10, 2017, UCP entered into a merger agreement with 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. In October 2017, the Company sold its entire position of Century common stock for $59.2 million. A loss of $842,000 was realized on the date of sale however such loss was accrued during the three months ended September 30, 2017. Consequently, no additional gain or loss will be recognized in the fourth quarter of 2017.

The assets and liabilities of UCP qualified as held-for-sale and have been classified as discontinued operations as of the earliest period presented. Consequently, prior periods presented have been recast from amounts previously reported in the Company's real estate segment to reflect the business as discontinued operations. As a result of the merger, the Company recorded a loss on the sale of $9.3 million during the nine months ended September 30, 2017, as calculated in the following table (in thousands, except per share amounts).

	Shares and Per Share Amounts	Totals
Shares of UCP owned by the Company	10,402	
Cash received	$ 5.32	$ 55,337
Shares of Century common stock received (0.2309 per share of UCP owned)	2,402	
Value of Century common stock on the date received	$ 25.00	$ 60,044
Total consideration received at the date of close		$ 115,381
Transaction cost paid by the Company		$ (284)
Carrying value of UCP at the date of close adjusted for tax distributions		$ (124,408)
Loss on sale		$ (9,311)

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. The three and nine months ended September 30, 2017 included results ending on August 4, 2017, the date the merger of UCP and Century closed: (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue and other income from discontinued real estate operations:				
Sales of real estate	$ 39,462	$ 95,340	$ 247,213	$ 246,403
Other	20	204	506	253
Total revenue and other income	39,482	95,544	247,719	246,656
Cost of sales and expenses from discontinued real estate operations:				
Cost of real estate sold	32,221	78,725	200,789	201,841
General, administrative, and other	11,245	4,612	29,618	19,331
Sales and marketing	2,415	4,939	13,784	14,035
Impairment loss on long-lived assets		4,416	102	6,812
Total cost of sales and expenses	45,881	92,692	244,293	242,019
Income (loss) before income taxes	(6,399)	2,852	3,426	4,637
Benefit (provision) for federal and state income taxes	1,130	(124)	(360)	(340)
Net income (loss) from discontinued real estate operations	(5,269)	2,728	3,066	4,297
Net loss from discontinued agribusiness operations, net of tax		(18)	(13)	(102)
Net income (loss) from discontinued operations, net of tax	(5,269)	2,710	3,053	4,195
Gain (loss) on sale of discontinued real estate operations, net of tax (1)	2,094		(9,311)	
Income (loss) on sale of discontinued agribusiness operations, net of tax		2	2	(1,858)
Net income (loss) from discontinued operations, net of tax	(3,175)	2,712	(6,256)	2,337
Net (income) loss from discontinued operations attributable to noncontrolling interests	1,645	(1,043)	(1,150)	(1,676)
Net income (loss) from discontinued operations attributable to PICO Holdings, Inc.	$ (1,530)	$ 1,669	$ (7,406)	$ 661

(1) Included within the loss on sale of discontinued real estate operations, net of tax for the nine months ended September 30, 2017, is an $11.4 million impairment loss on classification of assets as held-for-sale, which was recorded during the second quarter of 2017. The final loss reported on sale of discontinued real estate operations during the three months ended September 30, 2017 was $9.3 million. The $2.1 million decrease in the loss during the period was primarily due to an increase in the price of Century common stock and a decrease in the carrying value of UCP caused by its reported loss from operations.

The following table presents the details of the Company's assets and liabilities classified as held-for-sale in the condensed consolidated balance sheets (in thousands):

	December 31, 2016
Real estate assets held-for-sale:	
Cash and cash equivalents	$ 40,931
Real estate	373,207
Accounts receivable	5,628
Other assets	14,418
Valuation allowance on assets held-for-sale	
Real estate assets held-for-sale	434,184
Agribusiness assets held-for-sale	6,505
Total assets held-for-sale	$ 440,689
Real estate liabilities held-for-sale:	
Debt, net	$ 160,994
Account payable and accrued expenses	34,025
Other liabilities	12,271
Real estate liabilities held-for-sale	207,290
Agribusiness liabilities held-for-sale	276
Total liabilities held-for-sale	$ 207,566

The following table presents the details of the Company's condensed consolidated statements of operations and comprehensive income or loss recast to present the results of UCP as a discontinued operation (in thousands, except per share data):

	Year Ended December 31,		
	2016	2015	2014
Revenues and other income:			
Sale of real estate and water assets	$ 633	$ 3,856	$ 1,220
Impairment loss on investment in unconsolidated affiliate	(2,170)	(20,696)	(1,078)
Other income, net	9,471	4,472	1,077
Total revenues and other income	7,934	(12,368)	1,219
Cost of sales and expenses:			
Cost of real estate and water assets sold	326	1,239	738
General, administrative, and other	32,830	20,027	24,156
Impairment loss on intangible and long-lived assets	201	2,085	10,219
Depreciation and amortization	865	1,660	2,385
Total cost and expenses	34,222	25,011	37,498
Loss from continuing operations before income taxes and equity in loss of unconsolidated affiliates	(26,288)	(37,379)	(36,279)
Benefit for federal and state income taxes	1,135	2,961	2,450
Equity in loss of unconsolidated affiliate		(3,422)	(2,076)
Loss from continuing operations	(25,153)	(37,840)	(35,905)
Income (loss) from discontinued operations, net of tax	13,899	(24,310)	(23,700)
Loss on sale or impairment loss on classification of assets as held-for-sale, net of tax	(1,775)	(18,729)	
Net income (loss) from discontinued operations, net of tax	12,124	(43,039)	(23,700)
Net loss	(13,029)	(80,879)	(59,605)
Net (income) loss attributable to noncontrolling interests	(8,836)	(979)	7,180
Net loss attributable to PICO Holdings, Inc.	$ (21,865)	$ (81,858)	$ (52,425)

	Year Ended December 31,		
	2016	2015	2014
Other comprehensive income (loss):			
Net loss	$ (13,029)	$ (80,879)	$ (59,605)
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on securities, net of deferred income tax and reclassification adjustments	1,671	292	(2,093)
Foreign currency translation	29	(48)	6,578
Total other comprehensive income, net of tax	1,700	244	4,485
Comprehensive loss	(11,329)	(80,635)	(55,120)
Comprehensive (income) loss attributable to noncontrolling interests	(8,836)	(979)	7,180
Comprehensive loss attributable to PICO Holdings, Inc.	$ (20,165)	$ (81,614)	$ (47,940)
Net income (loss) per common share – basic and diluted:			
Loss from continuing operations	$ (1.09)	$ (1.76)	$ (1.34)
Income (loss) from discontinued operations	0.14	(1.80)	(0.96)
Net loss per common share – basic and diluted	$ (0.95)	$ (3.56)	$ (2.30)
Weighted average shares outstanding	23,054	23,014	22,802

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, 2016.

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, 2016, in "Item 1A: Risk Factors" of Part II of this Quarterly Report on Form 10-Q, and in other filings made from time to time with the United States Securities and Exchange Commission ("SEC") after the date of this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to (and we expressly disclaim any obligation to) revise or update any forward-looking statement, whether as a result of new information, subsequent events, or otherwise (except as may be required by law), in order to reflect any event or circumstance which may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K and other filings with the SEC.

Business Strategy and Goals

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

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, 2017, our business was separated into the following segments:

- Water Resource and Water Storage Operations; and
- Corporate.

As of September 30, 2017, 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, 2017 and 2016

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

The economic environment and housing slow-down in the U.S. between 2007 and 2011 significantly decreased the rate of growth in the Southwest and the demand for our water assets in certain markets. Numerous factors can affect the performance of an individual market. However, we believe that trends in employment, housing inventory, interest rates, and home prices have a particularly significant impact. We expect that these market trends will have an impact on our operating performance. There has been a recovery and improvement in the housing markets from levels seen during the slow-down (with seasonal fluctuations) which has led to increased levels of real estate development activity, and we believe that the continuation of the housing recovery will lead to increased demand for our intangible and tangible water assets. Individual markets continue to experience varying results, as local home inventories, affordability, and employment factors strongly influence each local market and any deterioration in the markets in which we operate has the potential to cause additional impairment losses on our water assets.

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

Significant Transactions During the Nine Months Ended September 30, 2017:

Discontinued Operations:

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. The transaction closed on August 4, 2017. As a result, we received $55.3 million and approximately 9% of the outstanding common stock of Century. However, in October 2017, we sold our entire position of Century common stock for $59.2 million

The assets and liabilities of UCP qualified as held-for-sale and have been classified as discontinued operations as of the earliest period presented. Consequently, prior periods presented have been recast from amounts previously reported to reflect our real estate business as discontinued operations.

The transaction resulted in a loss on sale of $9.3 million which was recorded during the nine months ended September 30, 2017. See Note 10 “*Discontinued Operations*” for additional information.

PICO Holdings, Inc. Shareholders’ Equity (in thousands):

	September 30, 2017	December 31, 2016	Change
Shareholders’ equity	$ 323,960	$ 327,994	$ (4,034)
Shareholders’ equity per share	$ 14.00	$ 14.22	$ (0.22)

The decrease in our shareholders’ equity was primarily due to the comprehensive income attributable to the Company of $4,675,000 during the nine months ended September 30, 2017.

Total Assets and Liabilities (in thousands):

	September 30, 2017	December 31, 2016	Change
Total assets	$ 331,936	$ 675,794	$ (343,858)
Total liabilities	$ 7,976	$ 248,225	$ (240,249)

Total assets and liabilities decreased during the nine months ended September 30, 2017 primarily due to the disposition and resulting deconsolidation of UCP.

Total liabilities also decreased during the nine months ended September 30, 2017 primarily due to the payment of $23.4 million deferred compensation and $10.4 million in accrued severance in conjunction with the termination of our former CEO.

Results of Operations

The majority of our revenue during the nine months ended September 30, 2017 was from the sale of 100,000 long-term storage credits for $25 million. We also reported realized gains on the sale of investments of $8.8 million during the nine months ended September 30, 2017. Such realized gains were recognized on the sale of investments from our deferred compensation accounts in conjunction with the distribution of such assets to our former CEO.

During the nine months ended September 30, 2017 we recorded $12.6 million in cost of real estate and water assets sold related to our sale of 100,000 water credits. Additionally, during the three and nine months ended September 30, 2017 we recorded general and administrative costs of $2.9 million and $9.9 million, respectively. General and administrative costs decreased $2.7 million quarter over quarter and $6.2 million year over year from September 30, 2016 to September 30, 2017, respectively, due primarily to decreases in executive compensation, legal expenses, and deferred compensation expense.

We continued to record a full valuation allowance on our net deferred tax assets, however, as a result of recognizing realized gains on the sale of certain investments that were included in unrealized gains reported in other comprehensive income in previous periods, we recorded $3.4 million in tax expense during the nine months ended September 30, 2017. There were minimal income taxes reported during all other periods presented..

The results of our discontinued operations included income or loss from UCP and the loss recorded on the sale of such operations. Our prior estimate of the loss on sale that we recorded during the three months ended June 30, 2017, was $11.4 million, and the loss recorded during the three months ended September 30, 2017 was $9.3 million. The $2.1 million decrease in the loss during the period was primarily due to an increase in the Century stock price and a decrease in the carrying value of UCP caused by its reported loss from operations.

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.

Water Resource and Water Storage Operations

Thousands of dollars	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenue and other income:						
Sale of real estate and water assets	$ 136	$ 477	$ (341)	$ 25,276	$ 607	$ 24,669
Other	211	100	111	490	283	207
Total revenue and other income	347	577	(230)	25,766	890	24,876
Cost of sales and expenses:						
Cost of real estate and water assets sold	55	252	(197)	12,604	316	12,288
Depreciation and amortization	21	37	(16)	82	316	(234)
Overhead expense	856	1,040	(184)	3,200	3,345	(145)
Project expense	380	252	128	1,216	1,099	117
Segment total expenses	1,312	1,581	(269)	17,102	5,076	12,026
Income (loss) before income taxes	$ (965)	$ (1,004)	$ 39	$ 8,664	$ (4,186)	$ 12,850

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

Segment Revenue

We recorded the sale of 100,000 long-term storage credits during the nine months ended September 30, 2017 which generated a gross margin of approximately $12.5 million, or 50%. We did not have any significant sales during any other period presented. .

Segment Expenses

Overhead expenses consisted primarily of salaries and benefits, professional fees, office rent and insurance. Such expenses decreased slightly quarter-over-quarter and year-over-year. Project expenses increased slightly during the period presented during to legal and consulting costs during the quarter related to one of our water development projects in New Mexico.

Project expenses consisted of costs related to the ongoing maintenance of our assets and professional fees. Project costs are expensed as appropriate and fluctuate from period to period depending on activity in our various projects. In general, we expect project costs to decrease year-over-year as our assets are essentially fully developed. However, one-time unexpected costs could be incurred occasionally.

If we fail to generate revenue, incur additional expenses beyond expectations, continue to report operating losses, or if expected prices for our water assets fall, we could be required to record additional impairment losses on our real estate, tangible and intangible water assets owned in this segment.

Corporate

Thousands of dollars	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenue:						
Deferred compensation and other	$ (142)	$ 588	$ (730)	$ 9,266	$ 1,910	$ 7,356
Costs and expenses:						
Impairment loss on intangible and long-lived assets		201	(201)		201	(201)
Stock-based compensation expense	300	442	(142)	1,146	1,308	(162)
Deferred compensation expense	16	1,758	(1,742)	221	2,808	(2,587)
General, administrative, and other	1,394	2,282	(888)	4,159	7,880	(3,721)
Segment total expenses	1,710	4,683	(2,973)	5,526	12,197	(6,671)
Income (loss) before income taxes	$ (1,852)	$ (4,095)	$ 2,243	$ 3,740	$ (10,287)	$ 14,027

The corporate segment consists of cash, our investments in Mindjet, Inc. and Synthonics, Inc., the assets and liabilities of the deferred compensation trusts held for the benefit of certain officers, and our oil and gas venture. Revenue includes sales from our oil and gas operations, and realized gains or losses on the sale or impairment of securities and vary considerably from year to year.

The expenses recorded in this segment primarily consist of salaries and benefits for corporate staff and officers, director fees, shareholder costs, rent for our corporate office, stock-based compensation expense, deferred compensation expense, and expenses related to the operations of our oil and gas venture, which consisted primarily of the cost of the administrative service agreement for the management and administration of the oil and gas wells.

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

Segment Revenue and Expense

Deferred Compensation:

During the nine months ended September 30, 2017, the revenue reported in the segment was primarily from realized gains and other income generated by deferred compensation transactions recognized in conjunction with the liquidation and distribution of such deferred compensation to our former CEO.

In July 2017, the Company's board of directors elected to terminate our deferred compensation plans. While participants still have assets deferred at September 30, 2017, the deferred compensation plans are no longer active. We expect to distribute the assets to the participants no earlier than one year from the date of termination of the plans. The participants in the deferred compensation plans bear the risk of the investment return on the deferred compensation assets, similar to a defined contribution plan such as a 401(k) plan. The investment income and realized gains or losses from the deferred compensation assets are recorded as revenue in the period that they are earned, and a corresponding and offsetting cost or benefit is recorded as deferred compensation expense or recovery. The change in net unrealized appreciation or depreciation in the deferred compensation assets is charged to compensation expense. Once the deferred compensation has been distributed, over the lifetime of the assets, the revenue and deferred compensation expense equal and there is no net effect on segment results.

General, administrative, and other expenses decreased during the three and nine months ended September 30, 2017 primarily due to decreased salary and benefits from reductions in executive compensation and staffing at the corporate office, director compensation, legal fees and other costs related to general corporate matters and from reduced operating expenses as a result of selling the majority of our oil and gas assets last year. We expect additional decreases in our corporate segment salaries and benefits in future periods due to pay cuts taken by our executive officers, lower employee benefits, and further reduction in our corporate staff headcount implemented during the third quarter of 2017.

Discontinued Operations

Thousands of dollars	**Three Months Ended September 30,**			**Nine Months Ended September 30,**		
	2017 [(1)]	**2016**	**Change**	**2017 [(1)]**	**2016**	**Change**
Real estate revenue and other income:						
Sale of real estate	$ 39,462	$ 95,340	$ (55,878)	$ 247,213	$ 246,403	$ 810
Other	20	204	(184)	506	253	253
Total real estate revenue and other income	39,482	95,544	(56,062)	247,719	246,656	1,063
Real estate cost of sales and expenses:						
Cost of real estate sold	32,221	78,725	(46,504)	200,789	201,841	(1,052)
Impairment loss on intangible and long-lived assets		4,414	(4,414)	102	6,811	(6,709)
General, administrative, and other	11,245	4,612	6,633	29,618	19,331	10,287
Sales and marketing	2,416	4,939	(2,523)	13,784	14,035	(251)
Total real estate cost of sales and expenses	45,882	92,690	(46,808)	244,293	242,018	2,275
Real estate income before income taxes	(6,400)	2,854	(9,254)	3,426	4,638	(1,212)
Agribusiness income (loss) before income taxes	—	(18)	18	(13)	(102)	89
Segment income before income taxes	$ (6,400)	$ 2,836	$ (9,236)	$ 3,413	$ 4,536	$ (1,123)

(1) The three and nine months ended September 30, 2017 include results ending on August 4, 2017, the date the merger of UCP and Century closed.

Liquidity and Capital Resources — Nine Months Ended September 30, 2017 and 2016

Cash Flow

At September 30, 2017, our assets consisted primarily of tangible and intangible water assets, investments and cash. Our cash is generally held in money market funds. Our primary sources of funds include existing cash, the sale of tangible and intangible water resource assets, loans and debt or equity offerings. We are not subject to any debt covenants which limit our ability to obtain additional financing through debt or equity offerings.

Our cash and available-for-sale investments held in each segment at September 30, 2017 were as follows:

- Water resource and water storage operations segment held cash of $1.1 million.
- Corporate segment held cash of $23.9 million and marketable equity and debt securities with a market value of $131.3 million, $59.2 million of which was the shares we owned in Century, and $4 million was held in deferred compensation rabbi trust accounts, which will be used to pay the related and offsetting deferred compensation liabilities.

During October 2017, we sold our entire position in Century common stock for $59.2 million.

On October 26, 2017 our board of directors declared a special cash dividend of $5 per share amounting to approximately $115.7 million. The record date is November 6, 2017, payment is expected to be made on or around November 20, 2017, and the ex-dividend date is November 21, 2017. We anticipate that the entire cash distribution will be treated as a return of capital for U.S. federal income tax purposes. Generally, the cash distribution is anticipated to have the effect of reducing the tax basis of a shareholder's common shares of our shares; however, if such a distribution is in excess of a shareholder's tax basis, a portion of the distribution may be treated as a capital gain under current tax law.

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

Water Resource and Water Storage Operations

A substantial portion of our revenue in this segment has come from sales of real estate and water assets including the $25 million sale that closed during the nine months ended September 30, 2017. Our assets in this segment are typically long-term water resource development projects to support growth for particular communities in the southwestern U.S. The timing and amount of sales and cash flows depend on a number of factors which are difficult to project, and cannot be directly compared from one period to another. A significant portion of project expenses are incurred to maintain our assets in good standing.

Corporate

In conjunction with terminating the employment of our former CEO, in April 2017, we paid severance, stock-settled the vested RSU, and distributed certain deferred compensation balances valued at approximately $23.4 million to our former CEO.

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

Consolidated Cash and Securities

Currently we have significant working capital reserves. At September 30, 2017, we had unrestricted and available cash and securities of $91.9 million, which could be used for general corporate purposes. At December 31, 2016, we had unrestricted and available cash and securities of $18.7 million.

At September 30, 2017, we forecasted that our net operating cash burn for continuing operations for the next 12 months was approximately $6.4 million which was comprised of expected expenditures of approximately $7.1 million offset by anticipated recurring revenue and other certain cash receipts of approximately $669,000.

Given our current 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 Flow

Cash Flows From Operating Activities

We generated $1.1 million in cash from continuing operations for the first nine months of 2017 primarily from the $25 million sale of 100,000 long term storage credits. We used cash of $8.9 million for overhead and various project expenses and $18.1 million for 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 and lots and used cash of $216.9 million in acquisition and development of real estate and $37 million for overhead.

We used $12 million in cash from continuing operations for the first nine months of 2016. The cash outflow primarily related to $11.5 million for overhead and various project expenses. Our discontinued operations generated $243.2 million during the first nine months of 2016 from the sale of residential real estate lots and used cash of $225.4 million in acquisition and development of real estate and $24.3 million for overhead.

Cash Flows From Investing Activities

Our continuing operations used $61.6 million of cash 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 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.

We did not have any significant cash flows from investing activities in our continuing operations or discontinued operations for the first nine months of 2016.

Cash Flows From Financing Activities

There were no significant cash flows from financing activities in our continuing operations during the nine months ended September 30, 2017 and 2016. Our discontinued operations received cash of $86.7 million during the nine months ended September 30, 2017 provided from draws on its 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 was used to repay debt when certain real estate properties were sold.

During the nine months ended September 30, 2016, our discontinued real estate operations did not generate net cash, however, we had borrowings of $106.7 million provided by the debt arrangements, offset by repayments of debt of $105.5 million and UCP purchases of its own stock of $1 million.

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, 2017, we had no off-balance sheet arrangements, other than those disclosed in this Form 10-Q, 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.

Aggregate Contractual Obligations:

The following table proves a summary of our contractual cash obligations and other commitments and contingencies as of September 30, 2017 (in thousands):

	Payments Due by Period				
Contractual Obligations	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Operating leases	$ 86	$ 870			$ 956
Other[1]	4,066				4,066
Total	$ 4,152	$ 870			$ 5,022

[1] Amount represents deferred compensation that will be paid to plan participants no sooner than July 2018.

We had no liabilities or potential interest for unrecognized tax benefits associated with uncertain tax positions at September 30, 2017.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our balance sheet includes a significant amount of assets and liabilities whose fair value is subject to market risk. Market risk is the risk of loss arising from adverse changes in market interest rates or prices. We currently have interest rate risk as it relates to investments in debt securities, and equity price risk as it relates to our marketable equity securities. The estimated fair value of our debt is based on cash flow models discounted at the then-current interest rates and an estimate of the then-current spread above those rates at which we could borrow, which are Level 3 inputs in the fair value hierarchy.

At September 30, 2017, we had $70.9 million of marketable debt securities and $60.4 million of marketable equity securities, and at December 31, 2016, we had $4.4 million of debt securities and $20.7 million of marketable equity securities, which were subject to market risk.

Our debt securities principally consist of bonds with short and medium terms to maturity. The deferred compensation accounts have held both investment-grade and below investment-grade bonds. In the deferred compensation accounts, we manage interest rate risk by matching the maturities of the bonds to the participant's pre-selected payout schedule.

We use two models to report the sensitivity of our assets and liabilities subject to the above risks. For debt securities, we use duration modeling to calculate changes in fair value. The model calculates the price of a fixed maturity assuming a theoretical 100 basis point, or a 1% increase in interest rates and compares that to the current price of the security. At September 30, 2017 and September 30, 2016 the model did not calculate a material loss in fair value. For our marketable equity securities, we use a hypothetical 20% decrease in fair value to analyze the sensitivity. The hypothetical 20% decrease in fair value of our marketable equity securities would produce a loss in fair value of approximately $12.1 million and $4.1 million at September 30, 2017 and 2016, respectively, that would reduce our unrealized appreciation in shareholders' equity.

Actual results may differ from the hypothetical results assumed in this disclosure due to possible actions we may take to mitigate adverse changes in fair value, and because the fair value of securities may be affected by both factors related to the individual securities (e.g. credit concerns about a bond issuer) and general market conditions.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2017, 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, 2016. 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, 2016, 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.

All of our businesses are sensitive to general economic conditions, whether internationally, nationally, regionally, or locally. 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, 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 recovery of the residential 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 water assets. In light of the fact that our water resource and water storage operations represent a large percentage of our overall business at present, our long-term profitability and the fair value of the assets related to our water resource and water storage operations will 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 recent improvement that the homebuilding and land development industry has experienced 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, 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, California, Colorado, and New Mexico. However, in 2012, we noted a significant improvement in the housing market which led to increased levels of real estate development activity. The continuation of the recent improvement in residential and commercial real estate development process and activity is essential for our ability to generate operating income in our water resource and water storage, and land development and homebuilding businesses. We are unable to predict whether and to what extent this recovery will continue or its timing. Any future slow-down in real estate and homebuilding activity could adversely impact various development projects within the markets in which our real estate and water assets are located and this could materially affect 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.

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 and fair value of our and water assets are significantly affected by the growth in population and the general state of the local economies where our real estate and water assets are located. The local economies where our real estate and water assets are located, primarily in Arizona and northern Nevada, but also in Colorado and New Mexico, may be affected by factors such as the local level of employment and the availability and cost of financing for real estate transactions. 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 by impairments and write-downs.**

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 significant impairments 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, 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 segment revenue, results of operations and cash flows will come from a limited number of assets, which primarily consist of our water resources in Nevada and Arizona and our water storage operations in Arizona. Our two most significant assets are our water storage operations in Arizona and our water resources to serve the northern valleys of Reno, Nevada. As a result of this concentration, 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, and other regulatory action.

Our Arizona Recharge Facility is one of the few private sector water storage sites in Arizona. At September 30, 2017, we had approximately 251,000 acre-feet of water stored at the facility. In addition, we had approximately 56,400 acre-feet of water stored in the Phoenix Active Management Area at September 30, 2017. We have not stored any water on behalf of any customers and as of September 30, 2017, 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 profit, if at all.

We constructed a pipeline approximately 35 miles long to deliver water from Fish Springs Ranch to the northern valleys of Reno, Nevada. As of September 30, 2017, 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 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 northern valleys. 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. 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 currently have an effective shelf registration statement which allows us to sell up to $400 million of a variety of securities in one or more offerings in the public markets.

We may experience difficulty in raising necessary capital in view of the recent volatility in the capital markets and increases in the cost of finance. Increasingly stringent rating standards could make it more difficult for us to obtain financing. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing shareholders. Indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. The additional financing we may need may not be available to us, or on favorable terms. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations 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, it is possible that we could experience ownership changes in the future as a result of shifts in our stock ownership. As of September 30, 2017, we had federal and state net operating loss carryforwards of approximately $187.1 million and $235.5 million, respectively, which, depending on our value at the time of any ownership changes, could be limited.

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

To run our day-to-day operations and to successfully manage 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 assets related to our water resource business 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 the inclusion or exclusion of operating earnings from sold operations, one time transactions, and impairment losses. Statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we do business or relating to us specifically could result in an immediate and adverse effect on the market price of our common stock. Such fluctuations in the market price of our common stock could affect the value of your investment and your ability to sell your shares.

Litigation may harm our business or otherwise distract our management.

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

We have been, and continue to be, the subject of stockholder activism efforts that could cause a material disruption to our business.

Certain investors have taken 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 stockholder 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, 2017:

Period	Total number of shares of common stock purchased	Average price paid per share of common stock (including commissions)	Total number of shares of common stock purchased as part of publicly announced plans of programs	Maximum dollar value of shares of common stock that may yet be purchased under the plans of programs (in thousands) [(1)]
July 1 to July 31, 2017				$ 49,310
August 1 to August 31, 2017				
September 1 to September 30, 2017				
Total	—	$ —	—	$ 49,310

(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
2.1	Asset Purchase Agreement dated July 13, 2015, by and between PICO Northstar Hallock, LLC and CHS Hallock, LLC. (1)
3.1	Certificate of Incorporation of PICO Holdings, Inc. (2)
3.2	By laws of PICO Holdings, Inc. (2)
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock of PICO Holdings, Inc. (3)
4.1	Section 382 Rights Agreement, dated as of July 24, 2017, by and between PICO Holdings, Inc. and Computershare Trust Company, N.A. (3)
4.2	PICO Holdings, Inc. Stock Certificate (4)
4.3	PICO Holdings, Inc. Executive Change in Control Bonus Plan (5)
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 om Form 8-K filed with the SEC on July 17, 2015.

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

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

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

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

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 7, 2017	By: /s/ John T. Perri
		John T. Perri
		Chief Financial Officer
		(*Principal Financial Officer and Authorized Signatory)*

EXHIBIT 31.1

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, Maxim C.W. Webb, 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 7, 2017

/s/ Maxim C.W. Webb
Maxim C.W. Webb
President and Chief Executive Officer

EXHIBIT 31.2

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 7, 2017

/s/ John T. Perri
John T. Perri
Chief Financial Officer

EXHIBIT 32.1

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, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Maxim C.W. Webb, 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 7, 2017

/s/ Maxim C.W. Webb
Maxim C.W. Webb
President and Chief Executive Officer

EXHIBIT 32.2

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, 2017, 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 7, 2017

/s/ John T. Perri
John T. Perri
Chief Financial Officer