

PICO HOLDINGS INC /NEW

Form 10-Q

August 11, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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, INC.

(Exact name of registrant as specified in its charter)

California

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 S 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 S No £

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

Large accelerated filer £ Accelerated filer S

Non-accelerated filer £ Smaller reporting company £

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

On August 8, 2014, the registrant had 22,767,800 shares of common stock, \$0.001 par value per share outstanding.

PICO HOLDINGS, INC.

FORM 10-Q

For the Six Months Ended June 30, 2014

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Part I: Financial Information

Item I: Condensed Consolidated Financial Statements (Unaudited)

PICO HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED
 (In thousands, except par value)

| | June 30, 2014 | December 31, 2013 |
|--|---------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$61,126 | \$138,039 |
| Investments (\$48,900 and \$50,600 measured at fair value at June 30, 2014, and December 31, 2013, respectively) | 75,797 | 78,657 |
| Real estate and tangible water assets, net of \$10,459 and \$10,019 of accumulated depreciation at June 30, 2014, and December 31, 2013, respectively | 315,876 | 254,208 |
| Property, plant and equipment, net of \$21,417 and \$16,631 of accumulated depreciation at June 30, 2014, and December 31, 2013, respectively | 124,045 | 123,444 |
| Intangible assets | 125,648 | 124,880 |
| Other assets | 57,219 | 43,324 |
| Total assets | \$759,711 | \$762,552 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Debt | \$134,017 | \$136,767 |
| Accounts payable, accrued expenses and other liabilities | 46,082 | 36,780 |
| Deferred compensation | 24,974 | 24,160 |
| Total liabilities | 205,073 | 197,707 |
| Commitments and contingencies | | |
| Common stock, \$0.001 par value; authorized 100,000 shares, 25,836 issued and 22,768 outstanding at June 30, 2014, and 25,821 issued and 22,747 outstanding at December 31, 2013 | 26 | 26 |
| Additional paid-in capital | 548,767 | 546,307 |
| Retained deficit | (28,492) | (17,083) |
| Accumulated other comprehensive income | 660 | 232 |
| Treasury stock, at cost (common shares: 3,068 at June 30, 2014 and 3,073 at December 31, 2013) | (56,482) | (56,593) |
| Total PICO Holdings, Inc. shareholders' equity | 464,479 | 472,889 |
| Noncontrolling interest in subsidiaries | 90,159 | 91,956 |
| Total shareholders' equity | 554,638 | 564,845 |
| Total liabilities and shareholders' equity | \$759,711 | \$762,552 |

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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES AND OTHER INCOME: | | | | |
| Sale of real estate and water assets | \$63,780 | \$51,385 | \$89,426 | \$63,191 |
| Sale of canola oil and meal | 48,960 | 44,913 | 83,819 | 84,469 |
| Sale of software | | 5,597 | | 9,247 |
| Other income | 4,740 | 3,312 | 5,511 | 5,107 |
| Total revenues and other income | 117,480 | 105,207 | 178,756 | 162,014 |
| COST OF SALES: | | | | |
| Cost of real estate and water assets sold | 51,601 | 38,219 | 72,656 | 46,272 |
| Cost of canola oil and meal sold | 40,889 | 49,408 | 75,062 | 94,070 |
| Cost of software sold | | 632 | | 1,933 |
| Total cost of sales | 92,490 | 88,259 | 147,718 | 142,275 |
| EXPENSES: | | | | |
| Operating and other costs | 20,326 | 22,670 | 37,179 | 40,785 |
| Impairment loss on real estate and water assets | | 1,410 | 2,865 | 1,410 |
| Interest | 1,403 | 1,719 | 2,880 | 3,418 |
| Depreciation and amortization | 763 | 762 | 1,305 | 1,299 |
| Total costs and expenses | 114,982 | 114,820 | 191,947 | 189,187 |
| Income (loss) before income taxes and equity in loss of unconsolidated affiliates | 2,498 | (9,613) | (13,191) | (27,173) |
| Benefit for federal, foreign, and state income taxes | (91) | (114) | (355) | (898) |
| Equity in loss of unconsolidated affiliate | (681) | | (1,160) | |
| Net income (loss) | 1,908 | (9,499) | (13,996) | (26,275) |
| Net (income) loss attributable to noncontrolling interests | (71) | 1,790 | 2,587 | 3,590 |
| Net income (loss) attributable to PICO Holdings, Inc. | \$1,837 | \$(7,709) | \$(11,409) | \$(22,685) |

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 June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Other Comprehensive Income (Loss): | | | | |
| Net income (loss) | \$1,908 | \$(9,499) | \$(13,996) | \$(26,275) |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on securities, net of deferred income tax and reclassification adjustments | (57) | 791 | 430 | 1,543 |
| Foreign currency translation | (42) | (279) | (2) | (43) |
| Total other comprehensive income (loss), net of tax | (99) | 512 | 428 | 1,500 |
| Comprehensive income (loss) | 1,809 | (8,987) | (13,568) | (24,775) |
| Comprehensive (income) loss attributable to noncontrolling interests | (71) | 1,790 | 2,587 | 3,590 |
| Comprehensive income (loss) attributable to PICO Holdings, Inc. | \$1,738 | \$(7,197) | \$(10,981) | \$(21,185) |
| Net income (loss) per common share – basic and diluted: | \$0.08 | \$(0.34) | \$(0.50) | \$(1.00) |
| Weighted average shares outstanding | 22,754 | 22,737 | 22,750 | 22,735 |

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY - UNAUDITED
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(In thousands)

| | Shares of Common Stock Issued | Common Stock | Additional Paid-in Capital | Retained Deficit | Accumulated Other Comprehensive Income | Shares of Treasury Stock | Treasury Stock, at Cost | Noncontrolling Interest | Total |
|---|---|-----------------|----------------------------------|-----------------------------------|---|-----------------------------------|-------------------------------|----------------------------|-----------|
| Beginning balance, January 1, 2014 | 25,821 | \$ 26 | \$546,307 | \$(17,083) | \$ 232 | 3,073 | \$(56,593) | \$ 91,956 | \$564,845 |
| Stock-based compensation expense | | | 2,814 | | | | | 1,249 | 4,063 |
| Sale of treasury stock | | | | | | (5) | 111 | | \$111 |
| Exercise of restricted stock units | 15 | | | | | | | | |
| Withholding taxes paid on vested restricted stock units at UCP, Inc. | | | (354) | | | | | (459) | (813) |
| Net loss | | | | (11,409) | | | | (2,587) | (13,996) |
| Unrealized appreciation on investments, net of deferred income tax of \$230 and reclassification adjustments of \$942 | | | | | 430 | | | | 430 |
| Foreign currency translation | | | | | (2) | | | | (2) |
| Ending balance, June 30, 2014 | 25,836 | \$ 26 | \$548,767 | \$(28,492) | \$ 660 | 3,068 | \$(56,482) | \$ 90,159 | \$554,638 |
| | Shares of Common Stock Issued | Common Stock | Additional Paid-in Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Loss | | | | |