

PICO HOLDINGS INC /NEW
Form DEF 14A
March 25, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

PICO HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

PICO HOLDINGS, INC.

875 Prospect Street, Suite 301

La Jolla, California 92037

March 20, 2009

Dear Shareholder:

You are cordially invited to attend our Annual Meeting of Shareholders to be held on Friday, May 15, 2009 at 3:00 p.m. local time at the Museum of Contemporary Art, Coast Room, 700 Prospect Street, La Jolla, California 92037.

The enclosed Notice and Proxy Statement contain details concerning the matters to be considered during the Annual Meeting. At the Annual Meeting, you will be asked to (i) elect as directors the two nominees named in the attached proxy statement; (ii) ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, and (iii) transact such other business as may properly come before the meeting. You will note that our board of directors recommends a vote FOR the election of each of the two director nominees and FOR the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm. Please complete, sign and return your Proxy in the enclosed envelope at your earliest convenience to assure that your shares will be represented and voted at the Annual Meeting, even if you cannot attend.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend our Annual Meeting of Shareholders, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum. If you attend the meeting, you will, of course, have the right to revoke the proxy and vote your shares in person. If you hold your shares through an account with a brokerage firm, bank or other nominee, please follow the instructions you receive from them to vote your shares.

We look forward to seeing you at the Annual Meeting and thank you for your support.

John D. Weil

Chairman

John R. Hart

President and Chief Executive Officer

Table of Contents

PICO HOLDINGS, INC.

875 Prospect Street, Suite 301

La Jolla, California 92037

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PICO Holdings, Inc.'s 2009 Annual Meeting of Shareholders will be held at the Museum of Contemporary Art, Coast Room, 700 Prospect Street, La Jolla, California 92037 on Friday, May 15, 2009 at 3:00 p.m. (PDT) for the following purposes:

1. **ELECTION OF DIRECTORS.** To elect as directors the two nominees named in the attached proxy statement, S. Walter Foulkrod, III, Esq. and Richard D. Ruppert, MD, to serve for three years until the Annual Meeting of Shareholders in 2012 and until their respective successors have been duly elected and qualified.
2. **RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.** To ratify Deloitte & Touche LLP as our independent registered public accounting firm to perform the annual audit of our 2009 financial statements.
3. To transact such other business as may be properly brought before the meeting and any adjournment of the meeting. Our board of directors recommends a vote for Items 1 and 2. Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which the Annual Meeting may be adjourned or postponed.

The board of directors has fixed the close of business on March 16, 2009 as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof. Only shareholders of record of our common stock, \$0.001 par value per share, at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

Important Notice regarding the availability of proxy materials for the shareholder meeting to be held on May 15, 2009. Our financial and other information is contained in our Annual Report to Shareholders for the fiscal year ended December 31, 2008. Pursuant to rules promulgated by the United States Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our 2008 Annual Report to Shareholders, including our Form 10-K for the year ended December 31, 2008, are available at our web site at <http://investors.picoholdings.com/financials.cfm>, which does not have cookies that identify visitors to the site.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the Annual Meeting of Shareholders, we urge you to vote and submit your proxy by the Internet, telephone or mail in order to ensure the presence of a quorum.

Registered holders may vote:

1. By Internet: go to www.investorvote.com;
2. By toll-free telephone: call 1-800-652-VOTE (8683); or
3. By mail: mark, sign, date and promptly mail the enclosed proxy card in the postage-paid envelope.

Any Proxy may be revoked by delivery of a later dated Proxy or a written notice of revocation or by attending the Annual Meeting and voting in person.

Beneficial Shareholders. If your shares are held in the name of a broker, bank or other holder of record, follow the voting instructions you receive from the holder of record to vote your shares.

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By Order of the Board of Directors,

John R. Hart

President and Chief Executive Officer

Dated: March 20, 2009

Table of Contents

TABLE OF CONTENTS

	Page
<u>SOLICITATION AND VOTING</u>	1
<u>Annual Report to Shareholders and Form 10-K</u>	1
<u>Voting Information</u>	2
<u>PROPOSAL NO. 1: ELECTION OF DIRECTORS</u>	4
<u>Nominees and Continuing Directors</u>	4
<u>Information Regarding Nominees and Directors</u>	4
<u>Vote Required for Election of Each Director</u>	6
<u>PROPOSAL NO. 2: RATIFICATION OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	7
<u>Independent Registered Public Accounting Firm Fees</u>	7
<u>Audit Committee Pre-Approval Policy</u>	8
<u>Vote Required for Ratification of the Appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm</u>	8
<u>CORPORATE GOVERNANCE</u>	9
<u>Director Independence</u>	9
<u>Committees of the Board of Directors</u>	9
<u>Audit Committee Financial Expert</u>	10
<u>Directors' Attendance</u>	10
<u>Shareholder Nomination of Directors</u>	11
<u>EXECUTIVE COMPENSATION</u>	12
<u>Compensation Discussion and Analysis</u>	12
<u>Company Stock Ownership Policy</u>	21
<u>Tax Deductibility of Executive Compensation</u>	21
<u>Compensation Committee Report</u>	21
<u>Summary Compensation Table</u>	22
<u>Grants of Plan-Based Awards</u>	24
<u>Option Exercises During Last Fiscal Year</u>	24
<u>Pension Benefits, Nonqualified Deferred Contributions and Other Nonqualified Deferred Compensation Plans</u>	24
<u>Nonqualified Deferred Compensation</u>	24
<u>Outstanding Equity Awards at Fiscal Year-End</u>	25
<u>Potential Payments upon Termination or Change in Control</u>	25
<u>Entry into Certain Employment Agreements in 2009</u>	26
<u>DIRECTORS' COMPENSATION</u>	29
<u>Director Compensation Table For 2008</u>	29
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	30
<u>EQUITY COMPENSATION PLAN INFORMATION</u>	33
<u>CERTAIN RELATIONSHIPS AND RELATED PERSONS TRANSACTIONS</u>	34
<u>Related Persons Transactions</u>	34
<u>Procedures for Approval of Related Persons Transactions</u>	34
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS</u>	34
<u>REPORT OF THE AUDIT COMMITTEE</u>	35
<u>CODE OF ETHICS</u>	36
<u>PROCESS FOR SHAREHOLDERS TO COMMUNICATE WITH BOARD OF DIRECTORS</u>	36
<u>SOLICITATION OF PROXIES</u>	36
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	37
<u>SHAREHOLDER PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING</u>	37
<u>TRANSACTION OF OTHER BUSINESS</u>	37

Table of Contents

PICO HOLDINGS, INC.
875 Prospect Street, Suite 301
La Jolla, California 92037
PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 15, 2009

PICO Holdings, Inc.'s board of directors is soliciting proxies for the 2009 Annual Meeting of the Shareholders. This proxy statement and proxy card contain information about the items you will vote on at the annual meeting. Distribution of these documents to shareholders is scheduled to begin on or about March 30, 2009. We pay the cost of soliciting proxies. The meeting will be held at the Museum of Contemporary Art, Coast Room, 700 Prospect Street, La Jolla, California at 3:00 p.m. (PDT) on Friday, May 15, 2009. The proxy may be revoked by appropriate written notice at any time before it is exercised or by voting in person at the meeting.

At the meeting the following matters will be considered:

1. To elect as directors the two nominees named herein, S. Walter Foulkrod, III, Esq. and Richard D. Ruppert, MD to serve for three years until the Annual Meeting of Shareholders in 2012 and until their respective successors have been duly elected and qualified.
 2. To ratify Deloitte & Touche LLP as our independent registered public accounting firm to perform the annual audit of our 2009 financial statements.
- To transact such other business as may be properly brought before the meeting and any adjournment of the meeting.

An electronic version of this proxy statement is available on our website at <http://investors.picoholdings.com/financials.cfm>.

Our principal executive office is located at 875 Prospect Street, Suite 301, La Jolla, California 92037, and our telephone number is (858) 456-6022.

SOLICITATION AND VOTING

Annual Report to Shareholders and Form 10-K

A copy of our Annual Report to Shareholders for 2008, including our Form 10-K for the year ended December 31, 2008 (which is not a part of our proxy soliciting materials), accompanies this proxy statement. The annual report and these proxy solicitation materials are being mailed on or about March 30, 2009 to all shareholders entitled to vote at the meeting. In most cases, only one annual report and proxy statement is being delivered to multiple shareholders sharing an address unless we have received a written or oral request for a separate copy of the annual report and proxy statement.

A separate copy of the annual report and proxy statement can be requested by calling us at (858) 456-6022 or by sending us a written request at:

875 Prospect Street
Suite 301
La Jolla, California 92037

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Shareholders sharing an address who are receiving multiple copies of the annual report and proxy statement may request delivery of a single copy of the annual report and proxy statement by either calling the number listed above or by sending a written request to the address listed above. The Form 10-K for the year ended December 31, 2008 and the exhibits filed with it are available at our web site at <http://investors.picoholdings.com/financials.cfm>. Upon request by any shareholder at the address or telephone number listed above, we will promptly furnish a copy of any or all exhibits to the Form 10-K for the year ended December 31, 2008.

Table of Contents

Voting Information

Record Date. The record date for our annual meeting is March 16, 2009. On the record date, there were 18,840,392 shares of our common stock outstanding.

Voting Your Proxy. Only shareholders of record as of the close of business on March 16, 2009 are entitled to vote at our annual meeting and any adjournment thereof. Except for shares held by our subsidiaries, which will not be voted at the annual meeting, each share of common stock entitles the holder to one vote on all matters brought before the annual meeting. Shareholders whose shares are registered in their own names may vote (1) by returning a proxy card, (2) via the Internet, or (3) by telephone. Specific instructions to be followed by any registered shareholder interested in voting via the Internet or by telephone are set forth on the enclosed proxy card. The Internet and telephone voting procedures are designed to authenticate the shareholder's identity and to allow the shareholder to vote his or her shares and confirm that his or her voting instructions have been properly recorded. If you do not wish to vote via the Internet or telephone, please complete, sign and return the proxy card in the postage paid envelope provided. Proxies will be voted as instructed by the shareholder or shareholders granting the proxy. Unless contrary instructions are specified, if the enclosed proxy is executed and returned (and not revoked) prior to the annual meeting, the shares of our common stock represented by the proxy will be voted (1) **FOR** the election of each of the two director candidates nominated by the board of directors; (2) **FOR** the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009, and (3) in accordance with the best judgment of the named proxies on any other matters properly brought before the annual meeting.

Cumulative Voting. In voting for the election of directors, all shareholders have cumulative voting rights if at least one shareholder gives notice, whether at the annual meeting or prior to the voting, of the shareholder's intention to cumulate votes. If cumulative voting is permitted in the election of directors, the proxy holders will have discretion as to the manner in which votes represented by the proxy are to be cumulated, unless the proxy indicates the manner in which such votes are to be cumulated. Accordingly, each shareholder may cumulate such voting power and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares held by the shareholder, or distribute such shareholder's votes on the same principle among two or more candidates, as such shareholder sees fit. Management is hereby soliciting discretionary authority to cumulate votes represented by proxies if cumulative voting is invoked.

Revoking Your Proxy. A shareholder who delivers an executed proxy pursuant to this solicitation may revoke it any time before it is exercised by: (1) executing and delivering a later dated proxy card to our corporate secretary prior to the annual meeting; (2) delivering written notice of revocation of the proxy to our corporate secretary prior to the annual meeting; or (3) attending and voting in person at the annual meeting.

Vote Required. The presence, in person or by proxy, of the holders of a majority of the shares entitled to vote is required to constitute a quorum for the transaction of business at the annual meeting. Abstentions and broker non-votes (shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter) are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the annual meeting.

If a quorum is present, the two nominees for election as directors receiving the highest number of votes will be elected. The following will not be votes cast and will have no effect on the election of any director nominee: (1) a share whose ballot is marked as withhold; (2) a share otherwise present at the meeting but for which there is an abstention; and (3) a share otherwise present at the meeting as to which a shareholder gives no authority or direction.

If a quorum is present, the approval of the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009, and all other matters that properly come before the meeting, require that the votes cast for such actions exceed the votes cast against

Table of Contents

such actions. As with the election of directors, abstentions and broker non-votes will have no effect on the proposal to ratify the selection of Deloitte & Touche LLP or other proposals.

Proxies and ballots will be received and tabulated by Computershare Investor Services, LLC, our transfer agent and the inspector of elections for the annual meeting. Except for contested proxy solicitations or as required by law, proxy cards and voting tabulations that identify shareholders are kept confidential.

Table of Contents**PROPOSAL NO. 1:****ELECTION OF DIRECTORS****Nominees and Continuing Directors**

We have a classified board of directors. Our directors are divided into three classes, with each class serving a three-year term. The terms of office of each class end in successive years. Pursuant to Section 3.2 of our bylaws, our total number of directors has been established at seven. Two of our directors are to be elected at our 2009 annual meeting for terms ending at the meeting in the year 2012 or until their respective successors have been duly elected and qualified.

Unless otherwise instructed, the proxy holders named on the enclosed form of proxy intend to distribute the votes represented by proxies in such proportions as they deem desirable to elect the two nominees named below or their substitutes. Although it is not contemplated that any nominee will decline or be unable to serve, if either occurs prior to the meeting, a substitute nominee will be recommended to the board by the Nominating Committee. See *Security Ownership of Certain Beneficial Owners and Management* for the number of shares of our common stock beneficially owned by these nominees.

The board of directors, at the recommendation of our Corporate Governance and Nominating Committee, has nominated S. Walter Foulkrod III, Esq. and Richard D. Ruppert, MD for election as directors at our annual meeting on May 15, 2009 for terms ending in 2012. A majority of the independent directors approved the nomination for election to the board of Mr. Foulkrod and Dr. Ruppert and each of the nominees has consented to be nominated and to serve if elected.

Information Regarding Nominees and Directors

The following table and biographical descriptions set forth certain information with respect to the two nominees and our other five directors, each of whom are currently serving and, unless otherwise specified, have served continuously since he was previously elected, based on information furnished to us by each such director. The following information is as of February 1, 2009, unless otherwise specified.

Name	Age	Term Expires	Director Since	Positions Held with the Company (other than Director)
S. Walter Foulkrod*	67	2009	1996	
Richard D. Ruppert*	77	2009	1996	
Carlos C. Campbell	71	2010	1998	
Kenneth J. Slepicka	52	2010	2005	
John R. Hart	49	2011	1996	President and Chief Executive Officer
Ronald Langley	64	2011	1996	
John D. Weil	68	2011	1996	

* Nominees for terms ending in 2012

The following provides certain biographical information with respect to the two nominees and the other five directors.

Nominees for Directors to be Elected in 2009 With Terms Ending in 2012

S. Walter Foulkrod has served as a member of our board of directors since 1996. Mr. Foulkrod is an attorney and a member of the Dauphin County Bar Association and the Pennsylvania Bar Association. From 2000 to 2006, he was a member of Foulkrod Ellis Professional Corporation, Attorneys at Law and prior to that was the sole owner of S. Walter Foulkrod, III & Associates, Attorneys at Law from 1994 to 2000. From 1984 to 1994, Mr. Foulkrod served as President and Chairman of Foulkrod, Reynolds & Havas, P.C.

Table of Contents

Richard D. Ruppert has served as a member of our board of directors since 1996. Dr. Ruppert is a physician and has served as a director of our subsidiary, Physicians Insurance Company of Ohio, since 1998. Dr. Ruppert currently serves as Trustee and has previously served as President of the Ohio Historical Society from 2006 to 2008. He is also a Trustee of the Fort Meigs Historical Society and an Emeritus President and an Emeritus Professor of Internal Medicine at Medical College of Ohio. Dr. Ruppert was President of the American Society of Internal Medicine from 1992 to 1993 and President of the Medical College of Ohio from 1978 to 1993.

Directors Whose Terms Continue Through 2009

Carlos C. Campbell has served as a member of our board of directors since 1998. Mr. Campbell has been President of C.C. Campbell & Co., a strategic advisory company, since June 1985. Mr. Campbell has served as a director of Herley Industries, Inc. since 2005 and of Resource America, Inc. since 1990. In addition, Mr. Campbell was a director of HyperFeed Technologies, Inc., our 80% owned subsidiary. On November 29, 2006, HyperFeed Technologies filed a petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court, District of Delaware.

Kenneth J. Slepicka has served as a member of our board of directors since 2005. Mr. Slepicka is currently the Chief Executive Officer of Synthomics Inc., an early stage biotechnology company. In addition, Mr. Slepicka has served as President and Treasurer of SBC Warburg Futures Inc. from 1994 to 1998 and as Executive of Fixed Income Trading for O Connor & Associates from 1985 to 1994. He has also held risk advisor and portfolio manager positions in the financial services industry. Mr. Slepicka has served as a member of the FIA Steering Committee and the Federal Reserve FCM Working Group and as a Governor of the Board of Trade Clearing Corporation. He is also a former member of the Chicago Board of Trade, Chicago Mercantile Exchange, Chicago Board of Options Exchange, and Pacific Options Exchange. Mr. Slepicka was also a director of HyperFeed Technologies, Inc., our 80% owned subsidiary. On November 29, 2006, HyperFeed Technologies, filed a petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court, District of Delaware.

John R. Hart has served as our President and Chief Executive Officer and as a member of our board of directors since 1996. Mr. Hart also serves as an officer and/or director of our following subsidiaries: Physicians Insurance Company of Ohio (President, Chief Executive Officer, and director since 1993), Vidler Water Company, Inc. (Chairman since 1997 and Chief Executive Officer since 1998), Citation Insurance Company (Chairman since 1996), and Nevada Land and Resource Company, LLC (Chairman and Chief Executive Officer since 1997). Mr. Hart was a director of HyperFeed Technologies, Inc., our 80% owned subsidiary. On November 29, 2006, HyperFeed Technologies filed a petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court, District of Delaware.

Ronald Langley has served as a member of our board of directors since 1996 and served as our Chairman from 1995 to 2007. Mr. Langley is currently a private investor. Mr. Langley previously served as an officer and/or director of our following subsidiaries: Physicians Insurance Company of Ohio from 1993 to 2007 (as Chairman from 1995 to 2007), Vidler Water Company, Inc. from 1995 to 2007, Citation Insurance Company from 1996 to 2007, and Nevada Land and Resource Company, LLC from 1997 to 2007. In addition, Mr. Langley was a director of HyperFeed Technologies, Inc., our 80% owned subsidiary. On November 29, 2006, HyperFeed Technologies filed a petition for bankruptcy under Chapter 7 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court, District of Delaware.

John D. Weil has served as a member of our board of directors since 1996. Mr. Weil served as our Lead Director from May 2007 until he was elected our Chairman in February 2008. Mr. Weil has also served as a member of the board of directors of Allied Health Products, Inc. and Baldwin & Lyons, Inc. since 1997. Mr. Weil currently serves as President of Clayton Management Company, an investment company, and has served in this capacity since 1978.

Table of Contents

Vote Required for Election of Each Director

The two nominees for election as directors receiving the highest number of votes will be elected.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

Table of Contents

PROPOSAL NO. 2:

RATIFICATION OF

DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT

REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accounting firm to audit our financial statements for the year ending December 31, 2009.

Although ratification by shareholders is not required by law, the board of directors has determined that it is desirable to request approval of this appointment by the shareholders. If the shareholders do not ratify the appointment, the Audit Committee will reconsider whether or not to retain Deloitte & Touche LLP and may decide to retain them notwithstanding the vote. Even if the appointment is ratified, the Audit Committee in its discretion may change the appointment at any time during the year if it determines that such a change would be in the best interests of the company and our shareholders. In addition, if Deloitte & Touche LLP should decline to act or otherwise become incapable of acting, or if the employment should be discontinued, the Audit Committee will appoint a substitute independent public registered public accounting firm. A representative of Deloitte & Touche LLP will be present at the Annual Meeting, will be given the opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

Independent Registered Public Accounting Firm Fees

The following table sets forth the aggregate fees billed by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates for the fiscal years ended December 31, 2008 and December 31, 2007:

	2008	2007
Audit Fees	\$ 998,875	\$ 995,520
Tax Fees	868,950	612,951
Audit-Related Fees	27,675	27,675
All Other Fees	-0-	-0-
Total	\$ 1,895,500	\$ 1,636,146

Audit Fees consist of fees we paid for (i) the audit of our annual financial statements included in our Annual Reports on Forms 10-K and reviews of our quarterly financial statements included in our Quarterly Reports on Forms 10-Q; (ii) services that are normally provided by Deloitte & Touche LLP in connection with statutory and regulatory audits or consents; and (iii) the audit of our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Tax Fees consist of fees for professional services for tax compliance, which totaled \$494,250 and \$295,895 in 2008 and 2007, respectively, and tax planning and advice services, which totaled \$374,700 and \$317,056 in 2008 and 2007, respectively. These services included assistance regarding United States federal, state, local and international tax return preparation, tax audits and appeals, and advice on structuring potential mergers, acquisitions and disposals, altering employee benefit plans, and intra-group restructuring.

Audit-Related Fees consist of fees we paid for the audit of PICO Holdings, Inc. Employees 401(k) Retirement Plan and Trust.

The Audit Committee has determined that the provision of non-audit services listed above is compatible with the independence of Deloitte & Touche LLP.

Table of Contents

Audit Committee Pre-Approval Policy

Consistent with SEC policies regarding independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the Audit Committee has recommended, and the board of directors has approved, pre-approval guidelines for all audit and non-audit services to be provided by the independent registered public accounting firm. These pre-approval guidelines are:

- (1) At the earliest possible date, management shall inform the Audit Committee of each audit or non-audit service which management desires our independent registered public accounting firm to perform.
- (2) Management shall promptly provide to the Audit Committee detailed information about the particular services to be provided by our independent registered public accounting firm.
- (3) The supporting documentation provided to the Audit Committee by management shall be sufficiently detailed so that the Audit Committee knows precisely what services it is being asked to pre-approve.
- (4) The Audit Committee has delegated pre-approval authority to the Chairman of the Audit Committee. All such pre-approvals shall be presented to the full Audit Committee at the Audit Committee's next scheduled meeting.

Vote Required for Ratification of the Appointment of Deloitte & Touche LLP as the Independent Registered Public Accounting Firm

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm requires the affirmative vote of a majority of all the votes cast on the matter at the annual meeting.

OUR BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2009.

Table of Contents**CORPORATE GOVERNANCE****Director Independence**

The board of directors has determined that Carlos C. Campbell, S. Walter Foulkrod, III, Esq., Richard D. Ruppert, MD, Kenneth J. Slepicka and John D. Weil are independent directors as defined by listing standards for the Nasdaq Global Market. The independent directors have regularly scheduled executive session meetings at which only the independent directors are present. Executive sessions are led by our Chairman, Mr. Weil. An executive session is held in conjunction with each regularly scheduled quarterly board meeting and other sessions may be called by the Chairman in his own discretion or at the request of the board of directors.

Committees of the Board of Directors

The board of directors has an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. Our audit and compensation committees are composed solely of independent directors. Our corporate governance and nominating committee is not composed entirely of independent directors. As a result, any nominations for our board of directors must be approved by a majority of our independent directors. The committees operate pursuant to written charters, which are available on our website at <http://investors.picoholdings.com/governance.cfm>. The following table sets forth the three standing committees of the board, the members of each committee during the last fiscal year and the number of meetings held by each committee.

Name of Director	Audit	Compensation	Corporate Governance and Nominating
Carlos C. Campbell	ü	ü	ü
S. Walter Foulkrod, III, Esq.	ü		Chair
John R. Hart			
Richard D. Ruppert, MD	Chair	ü	
Ronald Langley			ü
Kenneth J. Slepicka	ü	ü	
John D. Weil		Chair	
Number of Committee Meetings in 2008	5	1	3

Audit Committee. The Audit Committee consists of Dr. Ruppert (Chairman) and Messrs. Campbell, Foulkrod, and Slepicka, none of whom has been or is an officer or employee of our company. Each member of the Audit Committee, in the judgment of the board of directors, is independent as that term is defined in the listing standards for the Nasdaq Global Market. In 2008, this committee met five times. The functions of the Audit Committee include: (a) meeting with the independent registered public accounting firm to review their reports on their audits of our financial statements, their comments on our internal control over financial reporting and the action taken by management with regard to such comments; (b) reviewing auditor independence; (c) issuing an Audit Committee report to shareholders; and (d) the appointment of our independent registered public accounting firm. The Audit Committee has the authority, in its discretion, to order interim and unscheduled audits to investigate any matter brought to its attention and to perform such other duties as may be assigned to it from time to time by the board of directors.

Compensation Committee. The Compensation Committee consists of Messrs. Weil (Chairman), Slepicka and Campbell, and Dr. Ruppert. None of its members is or has been an officer or employee of our company, and the board of directors has determined that each member of the Committee is independent as that term is defined in the listing standards for the Nasdaq Global Market. The Compensation Committee met one time in 2008. The functions of the Compensation Committee include: (a) reviewing and approving the overall executive compensation program for our officers and the officers of our subsidiaries; (b) considering and reviewing compensation levels for services as a member of the board; (c) approving individual executive officer compensation packages; and (d) recommending to the board modifications of the compensation package for the

Table of Contents

Chief Executive Officer, Chief Operating Officer and other elected officers. The Compensation Committee's goals are to attract and retain qualified directors and key executives critical to our long-term success, to reward executives for our long-term success and the enhancement of shareholder value, and to integrate executive compensation with both annual and long-term financial results. Additional information on the Compensation Committee's processes and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis below.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee met three times in 2008. Its members consist of Messrs. Foulkrod (Chairman), Campbell and Langley. Mr. Campbell and Mr. Foulkrod are not and have not been an officer or employee of our company. In the judgment of the board of directors, Mr. Campbell and Mr. Foulkrod are independent as that term is defined in the listing standards for the Nasdaq Global Market. Mr. Langley was our employee until he resigned effective December 31, 2007.

The Corporate Governance and Nominating Committee works with the board of directors to determine the appropriate characteristics, skills, and experience for the board as a whole and its individual members. In evaluating the suitability of individual board members, the Corporate Governance and Nominating Committee and the board take into account many factors, including general understanding of marketing, finance, and other disciplines relevant to the success of a publicly traded company; understanding of our business; education and professional background, including current employment and other board memberships; and reputation for integrity. These factors, and others considered useful by the Corporate Governance and Nominating Committee, will be reviewed in the context of an assessment of the perceived needs of the board at a particular point in time. After assessing the perceived needs of the board, the Corporate Governance and Nominating Committee identifies specific individuals as a potential source of director candidates with relevant experience. The priorities and emphasis of the Corporate Governance and Nominating Committee and of the board may change from time to time to take into account changes in business and other trends and the portfolio of skills and experience of current and prospective board members. The Corporate Governance and Nominating Committee establishes procedures for the nomination process and recommends candidates for election to the board. Consideration of new board nominee candidates involves a series of internal discussions, review of information concerning candidates, and interviews with selected candidates. Board members or employees typically suggest candidates for nomination to the board. In 2008, we did not employ a search firm or pay fees to other third parties in connection with seeking or evaluating board nominee candidates.

The Corporate Governance and Nominating Committee will consider nominees recommended by shareholders; however, such recommendations must be submitted in writing to our corporate secretary along with the candidate's resume and any other relevant information. Because our Corporate Governance and Nominating Committee is not composed entirely of independent directors, any nominations for our board of directors must be approved by a majority of our independent directors.

Audit Committee Financial Expert

Pursuant to Section 407 of the Sarbanes-Oxley Act of 2002, the board of directors has determined that Richard D. Ruppert, MD is independent and qualified as an audit committee financial expert as defined in Regulation S-K, Item 407 of the Securities Exchange Act of 1934, as amended.

Directors Attendance

In 2008, there were four meetings of the board of directors. All of the directors attended 75% or more of the aggregate of their respective board and committee meetings.

It is the policy of the board that each director, in the absence of extenuating circumstances, should attend our annual meeting in person. All directors attended our 2008 annual meeting except for Mr. Langley, who was out of the country on business at the time of the annual meeting.

Table of Contents

Shareholder Nomination of Directors

Nominations for director candidates that are made by the shareholders must be in writing and delivered or mailed to our corporate secretary not less than 60 days prior to the meeting for consideration. However, such proposals may not be included in our proxy materials for our 2010 annual meeting of our shareholders if we do not receive them on or before November 15, 2009. Such nominations must include the information regarding each nominee required by our bylaws. Nominations not made according to these procedures will be disregarded. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders, when submitted in writing along with the candidate's resume and any other relevant information. A copy of the Corporate Governance and Nominating Committee's Charter is posted on our website at <http://investors.picoholdings.com/governance.cfm>.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee determines our compensation objectives, philosophy and forms of compensation and benefits for our executive officers. The committee generally seeks input from management and often requests reports and recommendations from the Consulting Division of Silverton Bank (formerly known as The Bankers Bank), an independent compensation consultant. This Compensation Discussion and Analysis discusses and analyzes our executive compensation program and the fiscal year 2008 amounts shown in the executive compensation tables that follow.

Our compensation programs are designed to support our business goals and promote economically sustainable growth. This section of the proxy statement discusses the principles underlying our compensation policies and the practices and decisions of the Compensation Committee with respect to our named executive officers. For the year ended December 31, 2008, our named executive officers were our chief executive officer, John R. Hart, our chief financial officer, Maxim C.W. Webb, and our three other most highly compensated executive officers: Richard H. Sharpe, Damian C. Georgino, and W. Raymond Webb.

2008 The Year In Review

Though our net income for 2008 increased over the prior year, the global financial and economic crisis and steep decline in investor and business confidence in 2008 had a negative impact on our business. Our book value per share declined and as a result, none of the named executive officers received a bonus or incentive payout.

2009 The Year Ahead

We expect to continue to face a very challenging economic environment throughout 2009. It is difficult to predict the effects that the unprecedented global financial and economic crises will have on our financial performance. As a result, the Compensation Committee evaluated compensation for 2009 with a goal of balancing retention of our executive officers with our compensation philosophy and costs to us. With that in mind, the Compensation Committee determined that it was in the company's best interest to retain Messrs. Sharpe, M. Webb, and Georgino through three year term employment agreements that formalize our compensation arrangement with each of them.

Our Compensation Philosophy and Programs

Our compensation philosophy centers on the principle of aligning pay and performance. We focus on developing an overall compensation package that helps to recruit, retain and motivate qualified executives upon whom we rely for our current and future success.

We have designed our compensation programs to achieve the following primary objectives:

- pay for performance,
- recruit, retain and motivate the highest quality executive officers who are critical to our success,
- align the interests of our named executive officers and other employees with those of our shareholders, and
- promote excellent corporate governance.

Table of Contents

The following table lists the components of our total executive compensation and the primary purpose of each.

Component	Objectives and Basis	Form
Base salary	Provide base compensation that is competitive for each role.	Cash
Annual incentive awards	Annual incentive to drive company and individual performance; attract executive talent and retain executives through potential wealth accumulation.	Cash
Long-term incentives	Long-term incentive to drive company performance and align the interests of our named executive officers and other employees with those of our shareholders; retain and motivate named executive officers through long-term vesting and potential wealth accumulation.	Stock-settled stock appreciation rights, stock options, restricted stock, restricted stock units, performance awards, deferred compensation awards, and other stock-based awards
Retirement benefits	Recruit and retain our named executive officers.	401(k) plan; non-qualified deferred compensation plan
Insurance and other benefits	Provide for the safety and wellness of our named executive officers.	Various
Termination and severance benefits	Recruit and retain our named executive officers.	Various, including cash and accelerated vesting of long-term incentives

Before 2009, we did not establish specific benchmarks to compare compensation we pay our executive officers against that paid by our peer groups. In setting compensation for 2008, we used a strategy that employed both a subjective and a formulaic approach. The Compensation Committee considered the prevailing general compensation practices of comparable companies in relevant industry segments, while recognizing our unique and diversified operations and assets. Our management gathered cost of living data and compensation information on our peer group, which was determined in 2007 by Silverton Bank, and made those findings to the Compensation Committee, who ultimately approved of the specific levels of the various elements of compensation for our named executive officers for 2008, as discussed below.

As described under Item 1. Business of our Annual Report on Form 10-K for the fiscal year ending December 31, 2008, we are a diversified holding company. To maximize long-term shareholder value, our strategic mission is to manage operations to achieve a superior return on net assets by:

Building and operating businesses with unique assets that we believe have potential to create significant value; and

Acquiring businesses that we identify as undervalued and where our management participation in operations can aid in the recognition of the businesses' fair value as well as create additional value.

This business strategy requires a management team with demonstrated expertise in asset acquisition, investment, and financial management and business operations of acquired entities in local as well as international markets. This team must review, operate and manage a broad and diversified range of investments, assets, and operations that currently include water resources and storage, real estate, and insurance, but may include related or unrelated businesses in the future.

Table of Contents

Goals of the Compensation Program

The Compensation Committee attempts to align compensation paid to our named executive officers with the value that they achieve for our shareholders. We offer all six elements of compensation listed above under *Our Compensation Philosophy and Programs*. However, the Compensation Committee focuses primarily on the combination of total cash compensation (base salary and annual incentive awards) and long-term incentives, because we believe these elements are the most critical and influential to attract, retain, and motivate executives with the skill sets necessary to maximize shareholder value.

The Role of the Compensation Committee in Determining Executive Compensation

Our Compensation Committee is a standing committee. The Compensation Committee is composed of independent, outside directors within the meaning of Section 162(m) of the Internal Revenue Code and independent, non-employee directors within the meaning of Rule 16b-3 of the Exchange Act, who also meet the independence requirements of the Nasdaq Global Market. John D. Weil is Chairman of the committee. The other committee members are Carlos C. Campbell, Richard D. Ruppert, MD, and Kenneth J. Slepicka.

The Compensation Committee is responsible for assuring that all of our executive compensation decisions are developed, implemented, and administered in a way that supports our fundamental philosophy that a significant portion of executive compensation is linked to our performance. To this end, the committee oversees and administers all of our executive compensation and benefit plans and policies, administers the PICO Holdings, Inc. 2005 Long-Term Incentive Plan (including reviewing and approving grants of awards under the 2005 Long-Term Incentive Plan), and annually reviews and approves individual elements of the named executive officers' total compensation package.

The Compensation Committee recognizes the importance of its role to maintain sound principles for the development, maintenance, and administration of compensation and benefit programs, and has taken steps to enhance our ability to carry out these responsibilities. Recent examples of these steps include:

The Compensation Committee has periodically retained independent compensation consultants. The Compensation Committee engaged Silverton Bank in 2007 and 2009 in connection with its review of the compensation packages to our executive officers. The results of the 2007 engagement impacted our compensation decisions for our 2008 fiscal year.

These independent compensation consultants do not advise our management, and do not receive any fees from us other than consulting fees for advice rendered to the Compensation Committee.

In February 2008, the Compensation Committee reviewed and revised its charter to reflect its goals and objectives. A copy of the Compensation Committee's Charter is posted on our website at <http://investors.picoholdings.com/governance.cfm>.

The Role of Consultants and Management in the Executive Compensation Process

Consultant's Role. In early 2007, the Compensation Committee engaged Silverton Bank to assist with the transition of executive management functions between Ronald Langley, our former Chairman who retired on December 31, 2007, and Mr. Hart. With respect to our executive officers, the consultant was asked to:

develop a transition plan for Messrs. Langley and Hart in 2007; and

identify our comparable companies and report on the current cash compensation levels of those peer companies for the top two executive positions.

Table of Contents

Our Compensation Committee directed Silverton Bank to compile a peer group of companies in industry categories that were comparable to our businesses and strategies. Such criteria included both of the following:

those in which management teams must have asset acquisition, investment, operational, and financial management skills similar to those required to implement our strategy; and

those in the industries in which we made acquisitions and conduct operations.

Based on that criteria, Silverton Bank recommended the peer group companies listed below in 2007. The list, which is categorized by type of company, was reviewed and confirmed by the Compensation Committee. The Compensation Committee carried forward the peer group companies and used them in setting compensation for 2008.

Asset Manager	Peer Group Companies Broker/Dealer	Investment Company
Affiliated Managers Group, Inc.	eSpeed, Inc.	