

PICO HOLDINGS INC /NEW

Form 10-Q

May 03, 2018

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 March 31, 2018

OR

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

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

PICO HOLDINGS, 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
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 ý

On April 20, 2018, the registrant had 22,520,153 shares of common stock, \$0.001 par value per share outstanding.

PICO Holdings, Inc.

Form 10-Q
For the Three Months Ended March 31, 2018

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Part I: Financial Information

Item 1: Condensed Consolidated Financial Statements (Unaudited)

PICO Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets - Unaudited

(In thousands, except par value)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$29,854	\$ 37,128
Investments (\$1,913 and \$1,902 measured at fair value at March 31, 2018 and December 31, 2017, respectively)	3,225	3,214
Real estate and tangible water assets, net	44,496	44,675
Intangible assets	126,746	126,785
Other assets	2,576	2,600
Total assets	\$206,897	\$ 214,402
Liabilities and equity		
Deferred compensation	\$4,149	\$ 4,112
Other liabilities	2,409	2,431
Accounts payable and accrued expenses	883	696
Total liabilities	7,441	7,239
Commitments and contingencies		
Preferred stock, \$0.001 par value; authorized 10,000 shares, none issued		
Common stock, \$0.001 par value; authorized 100,000 shares, 22,818 issued and 22,711 outstanding at March 31, 2018, and 23,153 issued and 23,152 outstanding at December 31, 2017	23	23
Additional paid-in capital	375,736	379,388
Accumulated deficit	(175,069)	(172,767)
Accumulated other comprehensive income	—	544
Treasury stock, at cost (common shares: 107 and 1 at March 31, 2018 and December 31, 2017, respectively)	(1,234)	(25)
Total shareholders' equity	199,456	207,163
Total liabilities and shareholders' equity	\$206,897	\$ 214,402

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 March 31,	
	2018	2017
Revenues and other income:		
Sale of real estate and water assets	\$247	\$25,097
Other income, net	97	1,096
Total revenues and other income	344	26,193
Cost of sales and expenses:		
Cost of real estate and water assets sold	219	12,532
General, administrative, and other	2,966	4,090
Depreciation and amortization	22	98
Total cost of sales and expenses	3,207	16,720
Income (loss) from continuing operations before income taxes	(2,863)	9,473
Provision for federal and state income taxes		(180)
Income (loss) from continuing operations	(2,863)	9,293
Income from discontinued operations, net of tax		3,887
Loss on sale and impairment loss on classification of assets as held-for-sale, net of tax		(7,146)
Net loss from discontinued operations, net of tax	—	(3,259)
Net income (loss)	(2,863)	6,034
Net income attributable to noncontrolling interests		(1,391)
Net income (loss) attributable to PICO Holdings, Inc.	\$(2,863)	\$4,643

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 March 31,	
	2018	2017
Other comprehensive loss:		
Net income (loss)	\$(2,863)	\$6,034
Other comprehensive income (loss), net of tax:		
Unrealized loss on securities, net of deferred income tax and reclassification adjustments	(544)	(590)
Foreign currency translation		16
Total other comprehensive loss, net of tax	(544)	(574)
Comprehensive income (loss)	(3,407)	5,460
Comprehensive income attributable to noncontrolling interests		(1,391)
Comprehensive income (loss) attributable to PICO Holdings, Inc.	\$(3,407)	\$4,069
Net income (loss) per common share – basic and diluted:		
Income (loss) from continuing operations	\$(0.12)	\$0.40
Loss from discontinued operations		(0.20)
Net income (loss) per common share – basic and diluted	\$(0.12)	\$0.20
Weighted average shares outstanding	23,104	23,072

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

PICO Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity - Unaudited
Three Months Ended March 31, 2018
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Total
Beginning balance, December 31, 2017	23,154	\$ 23	\$379,388	\$(172,767)	\$ 544	1	\$(25)	\$207,163
Stock-based compensation expense			124					124
Purchases of treasury stock						442	(4,985)	(4,985)
Retirement of treasury stock	(336)		(3,776)			(336)	3,776	—
Net loss				(2,863)				(2,863)
Reclassification of unrealized gain on investments to accumulated deficit				561	(544)			17
Ending balance, March 31, 2018	22,818	\$ 23	\$375,736	\$(175,069)	\$ —	107	\$(1,234)	\$199,456

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

PICO Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Equity - Unaudited
Three Months Ended March 31, 2017
(In thousands)

	Shares of Common Stock Issued	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Shares of Treasury Stock	Treasury Stock, at Cost	Noncontrolling Interest	Total
Beginning balance, December 31, 2016	23,125	\$ 23	\$495,468	\$(173,231)	\$ 6,661	55	\$(927)	\$ 99,575	\$427,569
Stock-based compensation expense			717					181	898
Exercise of restricted stock units	25								—
Withholding taxes paid on vested restricted stock units			(279)					(121)	(400)
Changes in ownership of noncontrolling interest			(411)					411	—
Acquisition of interests held by noncontrolling owners									—
Distribution of treasury stock to deferred compensation plan participants									—
Distribution to noncontrolling interest								(26)	(26)
Purchase of treasury stock						13	(184)		(184)
Retirement of treasury stock	(13)		(184)			(13)	184		—
Net income (loss)				4,643				1,391	6,034
Unrealized loss on investments, net of deferred income tax of \$313 and reclassification adjustments of \$740					(590)				(590)
Foreign currency translation					16				16
Ending balance, March 31, 2017	23,137	\$ 23	\$495,311	\$(168,588)	\$ 6,087	55	\$(927)	\$ 101,411	\$433,317

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)

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Cash provided by (used in) operating activities - continuing operations	\$(2,272)	\$23,155
Cash used in operating activities - discontinued operations		(4,131)
Net cash provided by (used in) operating activities	(2,272)	19,024
Investing activities:		
Purchases of investments		(427)
Proceeds from sale of investments		2,474
Purchases of property, plant and equipment	(17)	(44)
Proceeds from sale of property, plant and equipment		258
Cash provided by (used in) investing activities - continuing operations	(17)	2,261
Cash provided by investing activities - discontinued operations		5,892
Net cash provided by (used in) investing activities	(17)	8,153
Financing activities:		
Payment of withholding taxes on exercise of restricted stock units		(122)
Purchases of treasury stock	(4,985)	(184)
Cash used in financing activities - continuing operations	(4,985)	(306)
Cash used in financing activities - discontinued operations		(754)
Net cash used in financing activities	(4,985)	(1,060)
Increase (decrease) in cash and cash equivalents	(7,274)	26,117
Cash and cash equivalents, beginning of the period	37,128	60,980
Cash and cash equivalents, end of the period	29,854	87,097
Less cash and cash equivalents of discontinued operations at the end of the period	—	34,270
Cash and cash equivalents of continuing operations, end of the period	\$29,854	\$52,827
Non-cash investing and financing activities:		
Issuance of common stock for vested restricted stock units		\$1,476

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

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

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1. Basis of Presentation and Summary of Significant Accounting Policies

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

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

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

Use of Estimates in Preparation of Financial Statements:

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

Recent Accounting Pronouncements:

In January 2016, the Financial Accounting Standards Board (“FASB”) issued guidance which makes several changes, including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in earnings. Effective January 1, 2018, the Company adopted the new guidance and recorded a cumulative effect adjustment to decrease opening retained deficit at January 1, 2018 by \$561,000 as required for our equity investments recorded at fair value, formerly available-for-sale-securities.

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

2. Tangible Water Assets and Real Estate, Net

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

	March 31, 2018	December 31, 2017
Real estate and improvements held and used, net of accumulated depreciation of \$12,003 at March 31, 2018 and December 31, 2017, respectively	\$ 9,469	\$ 9,469
Other real estate inventories	5,379	5,551
Tangible water assets	29,648	29,655
Total real estate and tangible water assets	\$ 44,496	\$ 44,675

3. Intangible Assets

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

	March 31, 2018	December 31, 2017
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	17,280	17,319
Total intangible assets	\$ 126,746	\$ 126,785

4. Investments

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

	Fair Value
March 31, 2018	
Debt securities: corporate bonds	\$ 654
Marketable equity securities	1,259
Total	\$ 1,913

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

Debt Securities

The Company owns 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 March 31, 2018 and December 31, 2017, there were no material unrealized losses on such securities. There were no impairment losses recorded on debt securities during the three months ended March 31, 2018 or 2017.

Marketable Equity Securities

At March 31, 2018, the Company reviewed its equity securities in an unrealized loss position and concluded that the securities in a 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 material impairment losses were recorded during the three months ended March 31, 2018 and 2017.

5. Disclosures About Fair Value

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

Recurring Fair Value Measurements

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

At March 31, 2018 (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 March 31, 2018
Assets				
Available-for-sale equity securities ⁽¹⁾	\$ 981	\$ 279		\$ 1,260
Available-for-sale debt securities ⁽¹⁾	653			653
Total	\$ 1,634	\$ 279		\$ 1,913

At December 31, 2017 (in thousands):

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