

PICO HOLDINGS INC /NEW
Form 10-Q
May 09, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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: 0-18786

PICO HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

<p>California (State or other jurisdiction of incorporation or organization)</p>		<p>94-2723335 (I.R.S. Employer Identification No.)</p>
--	--	--

**875 Prospect Street, Suite 301
La Jolla, California 92037
(858) 456-6022**

(Address and telephone number of principal executive offices)

Indicate by check mark whether 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 R No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated filer R Non-accelerated filer £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's Common Stock, \$0.001 par value, was 13,271,440 as of March 31, 2006, excluding 3,228,300 shares of common stock held by the registrant's subsidiaries.

1

PICO HOLDINGS, INC.**FORM 10-Q****For the Three Months Ended March 31, 2006****TABLE OF CONTENTS**

	Page Number
Part I: Financial Information	
<u>Item 1: Condensed Consolidated Financial Statements</u>	
<u>Balance Sheets as of March 31, 2006 and December 31, 2005</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2006 and 2005</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2006 and 2005</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>7</u>
<u>Item 3: Quantitative and Qualitative Disclosure About Market Risk</u>	<u>14</u>
<u>Item 4: Controls and Procedures</u>	<u>14</u>
Part II: Other Information	
<u>Item 1: Legal Proceedings</u>	<u>14</u>
<u>Item 1A: Risk Factors</u>	<u>14</u>
<u>Item 2: Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>14</u>
<u>Item 3: Defaults Upon Senior Securities</u>	<u>14</u>

<u>Item 4: Submission of</u>	
<u>Matters to a Vote of Security</u>	<u>14</u>
<u>Holders</u>	
<u>Item 5: Other Information</u>	<u>14</u>
<u>Item 6: Exhibits</u>	<u>15</u>
<u>Signature</u>	<u>16</u>

Part I: Financial Information**Item I: Condensed Consolidated Financial Statements**

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2006	December 31, 2005
ASSETS		
Investments	\$ 242,885,636	\$ 287,446,334
Cash and cash equivalents	53,716,432	37,794,416
Notes and other receivables, net	28,058,356	14,692,888
Reinsurance receivables	15,935,177	16,186,105
Real estate and water assets, net	81,170,704	76,891,435
Property and equipment, net	1,559,307	1,572,492
Other assets	7,097,494	7,188,858
Other assets - Discontinued Operations	57,094	57,094
Total assets	\$ 430,480,200	\$ 441,829,622
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	\$ 45,607,573	\$ 46,646,906
Reinsurance balance payable	316,829	325,081
Deferred compensation	46,575,754	42,737,293
Bank and other borrowings	11,928,078	12,334,868
Deferred income taxes	12,219,278	17,239,062
Other liabilities	10,052,599	20,039,392
Other liabilities - Discontinued Operations	489,613	533,548
Total liabilities	127,189,724	139,856,150
Minority interest	1,086,056	1,098,515
Commitments and Contingencies (Note 4)		
Common stock, \$.001 par value; authorized 100,000,000 shares, 17,706,923 issued in 2006 and 2005	17,707	17,707
Additional paid-in capital	257,466,412	257,466,412
Retained earnings	68,944,061	61,725,860
Accumulated other comprehensive income	54,203,724	60,092,462
Treasury stock, at cost (common shares: 4,435,483 in (78,427,484) 2006 and 2005)	(78,427,484)	(78,427,484)
Total shareholders' equity	302,204,420	300,874,957

Total liabilities and shareholders' equity	\$	\$
	430,480,200	441,829,622

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues:		
Net investment income	\$ 2,072,476	\$ 1,190,132
Net realized gain on investments	14,685,947	3,479,951
Sale of real estate and water assets	1,256,335	2,154,080
Rents, royalties and lease income	186,855	294,184
Service revenue	998,484	889,054
Other	45,176	108,772
Total revenues	19,245,273	8,116,173
Costs and Expenses:		
Operating and other costs	7,121,180	7,185,428
Stock appreciation rights expense		9,878,347
Cost of real estate and water assets sold	379,886	742,048
Cost of service revenue	446,732	283,243
Depreciation and amortization	473,893	565,461
Interest	99,538	235,234
Total costs and expenses	8,521,229	18,889,761
Income (loss) before income taxes and minority interest	10,724,044	(10,773,588)
Expense (benefit) for income taxes	3,683,302	(3,001,172)
Income (loss) before minority interest	7,040,742	(7,772,416)
Minority interest in loss of subsidiaries	12,459	831,667
Income (loss) from continuing operations	7,053,201	(6,940,749)
Income (loss) from discontinued operations, net of tax	165,000	(22,599)
Net income (loss)	\$ 7,218,201	\$ (6,963,348)
Net income (loss) per common share - basic and diluted:		
Income (loss) from continuing operations	\$ 0.53	\$ (0.56)
Discontinued operations	0.01	
Net income (loss) per common share	\$ 0.54	\$ (0.56)
Weighted average shares outstanding	13,271,440	12,366,440

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)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
OPERATING ACTIVITIES:		
Net cash used in operating activities	\$ (15,833,591)	\$ (3,833,844)
Net cash provided by (used in) discontinued operations	(43,935)	157,185
	(15,877,526)	(3,676,659)
INVESTING ACTIVITIES:		
Purchases of available for sale investments	(8,376,341)	(5,373,462)
Proceeds from sale of available for sale investments	17,705,434	5,822,036
Proceeds from maturity of available for sale investments	26,217,857	605,000
Real estate and water asset capital expenditure	(2,389,307)	
Purchases of property and equipment	(203,573)	(368,743)
Capitalized software costs	(417,894)	(338,980)
Net cash provided by investing activities	32,536,176	345,851
FINANCING ACTIVITIES:		
Repayments of debt	(500,000)	(42,874)
Proceeds from exercise of stock options (HyperFeed)	1,728	1,428
Proceeds from borrowings		35,000
Purchase of treasury stock for deferred compensation plans		(839)
Net cash used in financing activities	(498,272)	(7,285)
Effect of exchange rate changes on cash	(238,362)	1,195,152
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,922,016	(2,142,941)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	37,794,416	17,407,138
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 53,716,432	\$ 15,264,197