



Andrew Shapiro  
President

June 30, 2016

PICO Independent Directors  
c/o Ray Marino  
*by e-mail*

### **Lawndale Capital Management voting intent at 2016 Annual Meeting**

Dear PICO board members:

Lawndale Capital Management and its affiliated funds are shareholders of PICO Holdings, Inc. (NASDAQ: PICO). Upon review and analysis of information available for PICO's upcoming July 11, 2016 Annual Meeting, Lawndale intends to vote its shares as follows:

- Proposal 1a: AGAINST - re-election of Howard Brownstein
- Proposal 1b: AGAINST - re-election of Kenneth Slepicka
- Proposal 2: AGAINST - ratification of Named Executive Officer compensation ("Say-On-Pay")
- Proposal 3: FOR - ratification of auditors
- Proposal 4: AGAINST - changing state of incorporation from California to Delaware
- Proposal 5: FOR - amendments to eliminate the classified board structure ("De-Stagger")
- Proposal 6: AGAINST - authority to adjourn the Meeting to solicit additional re-incorporation votes

Lawndale's voting decision with respect to Proposal #1b, AGAINST re-election of Director Slepicka is influenced by his long board tenure during a period of sizable shareholder value destruction, excessive CEO compensation, and disturbing revelations regarding conflicts of interest involving investments by PICO and separately by PICO's CEO John Hart into Director Slepicka's company, Synthionics, Inc. These influences are magnified by the unnecessary sub-optimal 3-year staggered duration to Mr. Slepicka's proposed director term in advance of implementation of Proposal #5 (which we favor) to de-classify director terms to 1-year.

Lawndale's voting decision with respect to proposal #4, AGAINST re-incorporating PICO from California to a new Delaware corporation is influenced by clear restrictions / risks imposed on shareholders (eg. removal of cumulative voting rights, creation of unrestricted "blank check" preferred shares, etc.) in the ("NewCo") PICO articles of incorporation that greatly outweigh the prospective benefits incorporating in Delaware might offer. We note that a new improved reincorporation proposal with Delaware Articles that better preserve shareholder rights could be presented to shareholders by either written consent or shareholder meeting immediately following proposal #4's defeat. Lawndale would favorably consider a proposal containing similar Delaware Articles to the current Proposal #4 but having cumulative voting rights, while also limiting use of new preferred shares to solely protecting PICO's tax NOLs.

Lawndale's voting decision with respect to Proposal #1a, AGAINST re-election of Director Brownstein is influenced by a combination of both the company's poor current response to legitimate shareholder concerns regarding Mr. Slepicka and the removal of shareholder's cumulative voting rights in the Articles of Incorporation of the proposed new Delaware corporation. Director Brownstein chairs PICO's Audit Committee and also serves on PICO's Governance Committee, both of whose charters govern these actions or lack of actions. These influences are magnified by the unnecessary sub-optimal 3-year staggered duration to Mr. Brownstein's proposed director term in advance of implementation of Proposal #5 (which we favor) to de-classify director terms to 1-year.

(Next)

While we note PICO's late June 29, 2016 response to shareholder River Road's earlier inquiry addresses some, but not all, of our concerns regarding Mr. Brownstein's Audit Committee work, we also note that PICO's Governance Committee that Mr. Brownstein serves on chose, among other faster options, the slowest and least desirable route to de-stagger PICO's director terms. This slower route flies in the face of a clear mandate sent by shareholders who have suffered from sizable shareholder value destruction made worse by excessive CEO compensation. If there ever were a public company board in need of annual accountability, PICO's is one of the top candidates.

Lawndale would favorably consider a re-incorporation proposal containing similar Delaware Articles to the current Proposal #4 but having cumulative voting rights, while also limiting use of new preferred shares to solely protecting PICO's tax NOLs. Additionally, Lawndale would favorably consider a re-nomination of Mr. Brownstein to PICO's board but for only a 1-year term, implementing the company's de-classification a year earlier than proposed.

I look forward to having constructive dialogue with Board members on the above matters and will be attending PICO's July 11<sup>th</sup> annual meeting in person.

Sincerely,

Andrew E Shapiro  
President