Pico Holdings, Inc.

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Max Webb: We'll now proceed with a presentation by President and Chief Executive Officer, Dorothy Timian-Palmer. And following this presentation by Dorothy, there will be ample opportunity for questions and answers by the board and management.

Dorothy Timian-Palmer: Thank you, Max. Good morning, everyone. I'm Dorothy Timian-Palmer. I'm the President and Chief Executive Officer of Pico Holdings. Thank you again to our shareholders present in Omaha today and also to our shareholders attending by virtual meeting. On behalf of the board and the company's employees, we wish to thank you for your support and to let you know of our continued commitment to maximize shareholder value.

I will now give you a presentation of our business plan, our assets, and an overview of the market of our assets. Before I start, though, I'll going to have you look at this picture up here and let you know that that is Fish Springs Ranch and that is a municipal well out at Fish Springs Ranch. There's five of those. And there's actually another hole that's been drilled and ready to be equipped but is not equipped. So, eventually, there will be six municipal wells out there.

And if you can all remember now, the Sierra Nevadas run along the border between California and Nevada. Fish Springs Ranch is on the eastern slope of the Sierra Mountains, and that mountain range right there is the Fort Sage Mountains.

And this is a very prolific groundwater aquifer. It's very important to this asset, and I wanted you all to have a picture. And that's what a 200% winter looks like out at Fish Springs Ranch. We had a very big water year out there.

So, however, before I begin this presentation I have to refer you to our Safe Harbor statement contained within the presentation that was furnished in a Form 8-K filed earlier this morning. Please note we also filed this morning our Form 10-Q and for the quarter ended March 31, 2019.

With that, let me turn to our presentation, and then management and the board look forward to answering any questions you might have.

Our business plan is as follows. We seek to monetize our assets at the highest possible value. We will return proceeds from asset monetizations to our shareholders after reviewing our ongoing working capital requirements. We may from time to time reinvest proceeds into existing assets and existing areas if we believe the return on capital justifies the investment and outweighs the benefits of return of capital and, as a result, enhances long-term shareholder value. I will go into detail later on in the presentation where we have done this with respect to our Carson/Lyon water rights inventory in northern Nevada.

We continue to seek ways to reduce our net operating costs.

Let me briefly review the steps taken with respect to this business plan in 2018 and the first quarter of 2019. In this 15-month period, we sold 511 acre-feet of water, enough to support over one thousand single-family homes in Lyon County – specifically, the town of Dayton – for $10.3 million. Such a substantial volume of water sold in this region for residential development speaks to the confidence we have in this market. I will review supply and demand factors for this area later in the presentation.

We sold 163 acre-feet of water rights from our Fish Springs Ranch for total proceeds of $5.7 million. We believe this demonstrates the commencement of the continual need for water from this project as a result of the growth that's occurring in the North Valleys region of Reno.

We also monetized our land and a small amount of our water inventory at Dodge Flat near Fernley, Nevada, for $8.9 million. We retained the land and water rights when we sold our subsidiary Nevada Land and Resource Company a few years ago. This asset has taken some time and effort to develop and monetize, but the gross margins of approximately $7.2 million realized on the sale of this land clearly justifies the time and effort that we spent.

In 2017, we returned $115.9 million of capital to shareholders by means of a special dividend that was characterized as a tax-free return of capital. Through March 31, 2019, we have also repurchased approximately 2.9 million of our shares on the open market, for approximately $32.6 million.

We have reduced costs throughout this period, primarily through declines in executive compensation and headcount and the closing of the La Jolla, California, office. We continue to seek ways to reduce our net operating costs further, whether through further reductions in direct project costs and overhead or increasing operating revenue on our assets.

Due to the efforts in the past two or three years we have now left our diversified holding company past behind us and we are now an entirely water resource development company. As can be seen from the chart on the slide, as of March 31, 2019, we have net assets that have a book value of approximately $179 million. Included in that total book value, we have $17.2 million of unrestricted cash; $161.8 million as our carrying value of Vidler's real estate and water assets; and net liabilities of $1.8 million, which is primarily severance and the transition costs of moving La Jolla to Nevada. Of our real estate and water assets' carrying value of $161.8 million, almost 90% is represented by our water assets located in northern Nevada and Arizona. Clearly, these assets are our most significant assets and remain the focus of our monetization efforts.

I would like to briefly go through some of the most recent relevant economic data of northern Nevada. As we have stated before, the demand for our northern Nevada assets – Fish Springs water credits and Carson/Lyon water rights – are highly dependent on the continued growth in the general Washoe and Lyon County areas.

As many of you might know, the Economic Development Agency of Western Nevada – which is referred to as EDAWN – which focuses on the economic development of the greater Reno-Sparks-Tahoe area, published a study late in 2014 – referred to as the Economic Planning Indicators Committee, EPIC, Report – to forecast how many jobs and residences will potentially be located in the study areas by 2020, based on current and anticipated growth trends. The study comprised of five counties in northwestern Nevada: Washoe County, Storey County, Lyon County, Douglas County, and Carson City, which is a consolidated city/county.

According to EDAWN, the where and how growth will occur is largely based on expected changes in land use and patterns and economic activity over time. As noted in EDAWN's website, EPIC used a well-accepted, widely used forecast model to project the demographic, economic, and associated public revenue changes the study is expected to see between 2015 and the end of 2019 for all three broad groups of data tracked by EPIC Report, which is population, employment, and households.

And this slide shows you population tracking, and the red is what they actually anticipated. And you can see that they're matching up clearly with what's happened out there. And the green is the new EPIC, which I'll talk about in a minute. But you can see what the historical was by the purple, the original – I'm sorry – is what they predicted, and the red is what actually occurred. So, you can actually see how they were pretty close on their predictions.

For all three broad groups of data tracked by EPIC Report – population, employment, and households – we can see that there has been strong growth in all three categories since 2014. I'll go back a slide. In percentage terms in the 15 months of February 2019, population is up by 7%, employment is up by 18%, and household is up by 9.5%.

Earlier this year the EPIC Report was updated for forecasts of population, employment, and households for the five-year period 2019 through 2023. This update forecasts that growth in the five-year period in the study area for population, employment, and households will be 8.6%, 12.7%, and 8.8%, respectively.

All of us at the company recognize that the business community and leadership exemplified by EDAWN has done and continue to do an outstanding job of attracting great companies and investment to this region. We are pleased to be part of this community as it goes through these very exciting times and to play an integral and vital part as the growth continues. However, population growth and job creation still requires that residential development gets approvals and new housing units get built.

This slide of new residential units per new job illustrates very clearly the housing crunch that the Reno MSA is clearly experiencing. As we saw within the EPIC Report, new Reno MSA employment since 2014 through 2018 has been very robust. Yet, the average new housing units, which are single-family/multifamily units, per new job was only 0.29.

This ratio improved in 2018 to 0.43, but is still well below the 0.79 average new housing units per new job that occurred between 1992 and 2006. Unsurprisingly and unfortunately, this lack of supply of new residential units for demand created by population and employment growth manifests itself very clearly in less affordable housing.

In Washoe County, median new home price sales have increased greatly. At January 2019, the median value for a new home is now over $480,000, compared to about $410,000 in January of 2018, an increase over 17% in a 12-month period; again surprisingly, given that the supply and demand dynamics. Existing single-family median home values in the greater Reno-Sparks area have increased dramatically, as can be seen by the data on this slide.

Housing supply, which is measured by how fast inventory would last at the current pace of sales minus new listings, is now under two months in the Reno-Sparks market. Most realtors would suggest that a balanced market is a six-month supply, which is desirable.

Just to continue the theme of lack of affordable housing, the slide shows the greater Reno-Sparks apartment vacancy rate is now 3.64% in the fourth quarter of 2018, and at December 2018 the average rent was over $1,300 per month. According to the Center of Regional Studies at UNR, you would need an annual income of over $52,000 to be able to afford this average rent.

This slide shows rapidly increasing cost and increasing lack of affordability of residential units is not healthy in the long term and sustainability. All the region's business leaders and elected officials recognize that housing affordability is a huge issue. Clearly, a large part of the answers to address this concern is to create more supplies of new residential units and to bring new residential developments online in a timely manner.

This slide shows all the regional residential development potential that currently exists. Obviously, not all these potential projects will get approved or built. But it is clear that the need for new and affordable housing is immediate, and we believe some of the required new housing will be built in the areas that our water assets serve.

Let me now get you to our water assets in northern Nevada. So, starting with our Vidler assets in northern Nevada, first up of course is Dodge Flat. As you all know, our Dodge Flat land asset comprising of 1,064 acres, together with 18 acre-feet of water, was sold during the first quarter of 2019 for $8.9 million. The remaining water rights we own in the Dodge Flat area is 1,378.5 acre-feet, and they are under an option to purchase with a closing on the first tranche of 470 acre-feet at $6,446 per acre-foot anticipated on September 1, 2019. Six months later we'll have another closing on Dodge Flat for 470 acre-feet, on March 1, 2020. That pricing is at approximately $6,700 per acre-foot. The remaining, the last part of the water will close a year later, on March 1, 2021, at $7,700 per acre-foot.

Now, this is an option to purchase. And they have the ability to close earlier on all the water if they so choose, but all the option moneys have been paid to date. But of course as with any option there is a risk of this transaction not closing.

Our next asset of course is Fish Springs Ranch. Our ranch consists of 7,309.78 deeded acres. On these lands we have haying and grazing operations and potentially some lease income from solar operations on the property. We have entered into an option agreement with an NextEra Energy to lease up to 2,600 acres of solar power generation project. The first phase of the project will be for 100 megawatt of power requiring 600 acres in mid-2020 at a lease price of $400 per acre per year, with a 2% escalator. NextEra already has a power purchase agreement for this power from Nevada Energy for the 100 megawatt power purchase.

Our Fish Springs water importation project has 7,821 acre-feet of permitted available for development in the North Valleys of Reno at March 31, 2019. In 2018, we sold 77 acre-feet for development, pricing at $35,000 per acre-foot. In the first quarter of 2019, a total of 86 acre-feet was purchased for development in the North Valleys.

We continue to monitor water right pricing throughout TMWA water service area of Reno-Sparks. After an extensive review of pricing within the various service areas, we have made the determination that our pricing of $35,000 per acre-foot is where it needs to be at this time and is consistent with comparable market pricing in the region. We will continue to review this pricing on a regular basis.

With some additional permitting and an additional 5,000 acre-feet from FSR may also be available for development, we believe our pipeline capacity which conveys the water from the ranch to the North Valleys is approximately 22,000 acre-feet and will allow us to transport additional water rights when the time comes into the Reno area, potentially allow us to charge a wheeling or transportation fee to others who want to transport their water resource to the Reno area.

Please also note this asset is owned by 51% owned subsidiary Fish Springs Ranch LLC. We are entitled to receive our preference capital from the partnership as a priority distribution. As of March 31, 2019, this balance was approximately $180 million, and we are currently accruing interest at approximately 7.1% per year.

Now on to Carson/Lyon. As of March 31, 2019, our Carson/Lyon project consists currently of 1,124.9 acre-feet of municipal water rights and 3,288.89 acre-feet of agricultural water rights that equate to 1,766.83 acre-feet of future municipal. We also have under an option to purchase 395.55 acre-feet of municipal water rights.

We believe that the future development requiring our water in Lyon County is along the Highway 50 corridor from the town of Dayton to Silver Springs, of which the majority falls within an opportunity zone. The specific areas highlighted in the purple color that you can see on the screen there have limited water resource supplies, and we have begun discussions with those landowners. We have the resources required for meeting the water needs of those future developments.

Some of our water resources will be conveyed in a pipeline that was constructed and funded by Vidler from Carson City to the town of Dayton. The pipeline has been dedicated to Lyon County. However, similar to Fish Springs, Vidler owns the exclusive right to use the pipeline capacity. The pipeline has a capacity of 5,000 acre-feet. We believe that the quantity that Vidler will convey is approximately 1,700 acre-feet. The remaining capacity could be used to move other third-party water resources, and Vidler could potentially charge a wheeling fee.

We also own 299.14 acre-feet of Truckee River water rights. These surface water rights can be utilized in the Reno-Sparks area outside of the North Valleys.

So, this slide, Slide 18, exhibits the developments within the North Valleys area and their water needs and the potential number of units. This table exhibits what developments have purchased water from us to date and what is the quantity of water the development will be required to purchase to receive final permits.

So, let me just explain to you how this works. A developer goes in with his maps. The Truckee Meadows Water Authority looks at his maps and approves the infrastructure, approves the map, sends out a demand letter, and the demand letter explains how much water he'll have to buy and that he'll be buying it from Fish Springs Ranch. And then at that time, TMWA notifies us that they sent out a demand for payment so we know what's coming in. And then once the payment comes in, TMWA notifies us.

Please note that this list of developments does not include the industrial or Stead Airport development water needs.

Slide 19 provides an update on the progress of some of the developments within the North Valleys. StoneGate development, which is number "1" on that map, has been approved and has begun the construction of offsite infrastructure. And we are anticipating selling water to the development towards the end of 2019, but the timetable for any take-down of our water is in the hands of the developers and, as such, sales might not occur until 2020 or beyond.

Due to the unusually high precipitation years in both 2017 and 2019, the North Valleys have suffered from stormwater runoff flooding, mainly along the Lemmon Valley Drive area, and that particular Lemmon Valley Drive is where you see the developments numbered "16," "15," and "14." That's the major road, Lemmon Valley Drive.

Those particular developments along Lemmon Valley Drive, such as Prado Ranch North Phase I, have been approved by local governmental entities, but residents have filed an action against the development due to the flooding issues. New development will help rectify the flooding problems with the proposed and required improvements, but there is a local contingent that would rather stop development until these flooding issues are addressed. Funding of storm runoff improvements without new developments' assistance creates a governmental funding issue, and, clearly, new development funding for building infrastructure to permanently resolve the situation is a good solution.

All right. So, we're going to move on to southern Nevada. This slide depicts the basins that Vidler, along with our partner, Lyon County, have filed for water rights and where current projects to utilize this water are located. The basins include Garden Valley, Coal Valley, Pahroc Valley, Dry Lake Valley, Clover Valley, Tule Desert, and Kane (ph) Springs.

In Tule Desert, Lincoln Vidler has 2,900 acre-feet, with the possibility to obtain an additional 4,340 acre-feet based on pumping data. These permits have been designated for the Lincoln County Lands Act project, which is 13,000 acres of residential/commercial property selling three units to the acre. Water needs of the Lincoln County Land Act are in excess of the 13,000 acre-feet. The majority of the property is owned by American West Homes, which is not true any longer when I wrote my script. Just two weeks ago, (inaudible) American West Homes was bought by Pulte Homes. Pulte Homes bought the home building business of American West Homes.

The family, Larry Canarelli, kept the land and he's still doing land development, but Pulte Homes bought American West home building. So, this land will still be developed by Larry Canarelli, and he can sell the land in lots to other home builders, per his agreement with Pulte Homes. So, we've been in discussions with Larry Canarelli, used to be American West Homes, and they wish to develop their property and the Lincoln County and Vidler are reviewing take-down strategies for the water rights.

Lincoln County and Vidler Water Company have additional water right filings in Clover Valley Groundwater Basin. It is also planned that these filings, if approved, in the future will be designated for the Land Act.

Currently, Vidler has 500 acre-feet of municipal groundwater rights in the Kane Springs Valley – and we're now on Slide 22. These rights are under an option to purchase with Coyote Springs Investment. Closing is to occur September 2019, at $7,300 per acre-foot. All option moneys have been paid to date. But again, it is also possible that the option holder may not close or want to renegotiate the option if the option holder does not have immediate use for the water.

Lincoln County and Vidler Water Company have additional filings in Kane Springs. We believe there's up to an additional 3,500 acre-feet of water rights that can be appropriated. We will pursue developing these water right applications as and when we believe the market needs for additional water is demonstrated.

On this slide we can see that Dry Lake Valley we have 600 acres of property located within a BLM-designated solar energy zone. We are currently in discussions with a major solar developer concerning a sale of this property. We believe we'll get to contract. And with our Lincoln County partner we also have 1,009 acre-feet of certificated agricultural water rights. The water could be utilized for the Coyote Springs project.

Our project site of property and water rights are adjacent to the Southern Nevada Water District pipeline corridor. Lincoln County/Coyote Springs has the ability to utilize that pipeline for moving water to benefit both the Coyote Springs project or other county projects.

Our last slide in southern Nevada is Vidler Water filings in Garden Valley, Coal Valley, and Pahroc Valley. Currently, we collect data from each basin on a quarterly basis. Data includes stream gauging monitoring, chloride runoff, and precipitation.

All right. I'm going to move to Arizona now. Vidler's asset in Arizona comprise of long-term storage credits. And if you can all remember, a long-term storage credit is earned when water is either banked or stored underground for at least one year. In Phoenix, in the Phoenix AMA, Vidler has 53,551.69 acre-feet of long-term storage credits. And in the Harquahala Groundwater Basin, which is an irrigation non-expansion area, we have 250,682.53 acre-feet of long-term storage credits.

In the Phoenix Active Management Area, we have 13,300 of our long-term storage credits which are under contract: 800 long-term storage credits are under contract with Apache Sun Golf Course, pricing from $327 to $375 per credit, and the contract terminates on September 30, 2021; 12,500 long-term storage credits are under option with the Roosevelt Water Conservation District, pricing from $404 to $423 per credit. The option terminates December 31, 2019.

As we have mentioned before, we have 250,682.53 acre-feet of long-term storage credits in Harquehala. In mid-2018, the Harquahala Groundwater Basin, on the La Paz County side of the line – and you can see it up there, that's in the blue; it says "Maricopa and La Paz County" – on the La Paz county side of the line was designated as an opportunity zone. The opportunity zone encompasses all of our properties and our long-term storage credits. As one of our parcels has already been zoned for industrial use, we do not feel that rezoning any of our properties for future use as an industrial would be problematic.

As most of you know, snowpack conditions throughout the Colorado River Basin as a whole is approximately 130% of average. Most likely, the Bureau of Reclamation will not declare a shortage for 2020, but that final determination is not made until August.

The drought contingency plan received all approvals, and the bill authorizing a plan for the western states to take less water was signed by President Trump on April 16, 2019. This slide, Slide #28, exhibits the quantity of water the state of Arizona has agreed to leave in Lake Mead based on lake levels. As Arizona is required to leave more water in the lake, water for existing uses and new developments must come from other sources.

Moving to New Mexico, our water rights in New Mexico are in the Middle and Lower Rio Grande. The Middle Rio Grande is from Santa Fe to Elephant Butte Reservoir, and the Lower Rio Grande is designated from Elephant Butte Reservoir to the Texas state line.

In the Middle Rio Grande, we have 99.09 acre-feet banked with the city of Santa Fe, available for sale at $25,000 per acre-foot. In the Lower Rio Grande, we have 1,214.78 acre-feet of irrigation water rights, which approximately 17 acre-feet is leased to farmers in the area. Our water rights are for sale; pricing is at $6,050 per acre-feet for agricultural use. We do not believe these water rights will become available – I'm sorry, we do believe these water rights will become more valuable in time due to their senior priority once the Texas-New Mexico lawsuit is settled, requiring farmers to replace more junior groundwater rights in a more senior priority. We've been very careful about the water rights we have purchased. We believe they have a more senior priority.

Moving to Colorado, we currently have 95.116 acre-feet of our Vidler Tunnel water for sale. We sell these water rights under an augmentation plan for specific uses at specific quantities. We sell in tenths of an acre-feet; hence, the 95.116 acre-feet. Pricing equates to, on average, of $49,000 per acre-foot. Obviously, if we make a larger sale in quantity, our pricing reduces. We also have ongoing perpetual leases of 57.06 acre-feet, which generates approximately $80,000 per year.

Our major assets are located in Arizona and northern Nevada. In Arizona, the need for our long-term storage credits will continue to increase due to the structural deficit on the Colorado River and the adoption of the drought contingency plan which requires Arizona to leave additional water resources in Lake Mead based on the levels of Lake Mead and the needs of new development. In Nevada, our water resources will be utilized for new development growth, both in the North Valleys of Reno and Lyon County, where supplies for new growth in these areas are limited.

All right. Now, I'll recap the return of capital to shareholders we have completed in the last 18 months. In aggregate, by means of a tax-free special dividend and open-market repurchases of our stock, we have returned approximately $148.6 million of capital to shareholders and repurchased at March 31, 2019, approximately 2.9 million shares.

Of course, any further significant monetization proceeds either later this year or in the future periods we would expect to return to shareholders through either a tender offer or open-market repurchases or a special dividend or a combination of some of all of these methodologies. The board will determine the most efficient methodology for our shareholders as facts and circumstances at the time of any receipt of proceeds dictate and, of course, ensuring we have sufficient working capital to operate the company and meet all our legal and regulatory obligations.

Nonetheless, we may from time to time reinvest proceeds into existing assets and existing areas if we believe return on the capital justifies the investment and outweighs the benefit of the return of capital and, as a result, enhances long-term shareholder value.

With respect to our working capital requirements, we are always attempting to reduce our net operating costs. We have closed the La Jolla, California, office. We have just completed the successful transition of all treasury, financing and accounting, IT, HR, and administrative functions to the company's new headquarters at Vidler's, Carson City, Nevada. This is a significant driver in the reduction of our future net operating costs, as we have significantly reduced headcount and overall payroll and other costs as a result of this transition. We have incurred a total of approximately $1.6 million in severance and retention costs as we completed the transition over the past several months.

I and the entire board wish to thank John Perry for his services as CFO and Chief Accounting Officer to the company over the years and for playing an integral part in the company's evolution to get us to where we stand today. The board at this time has appointed Max Webb to replace John Perry as CFO with immediate effect, in addition to his duties as its Executive Chairman.

We have an ongoing review of the cost base as assets are monetized, and we are always seeking ways to source reoccurring revenue streams on our assets, such as land leases, grazing leases, and water right leases on non-core assets. And from this point forward, we estimate that our annual net operating cash cost – that is, the direct project costs plus all overhead – net of operating income should be approximately $5.5 million. To be clear, this net cash cost does not include cash proceeds from any future asset monetizations.

So, now we're going to talk a bit about the Chase (ph) acquisition we made in Lyon County. As I noted previously, we may from time to time utilize a portion of the proceeds from asset monetizations to enhance our existing assets if after careful analysis we believe the benefits of any such acquisition outweigh the benefits of return of capital. In the second quarter of 2019, we made such a determination and have purchased for $4 million approximately 267 acre-feet of groundwater rights in Lyon County, Nevada. We have also entered into option agreements for a nominal sum for a further 403 acre-feet of groundwater rights in the same area which may be exercised in two installments, in the second quarter of 2020 and the second quarter of 2021. Of course, the exercise of these options will be dependent on the result of the same analysis and comparison to return of capital that we prepared for this acquisition based on the various inputs at the time of exercise.

From a supply perspective, the water rights we purchased and control through our options are a very good complement to our existing water right portfolio in Carson/Lyon. These particular water rights are groundwater rights. The majority of our current portfolio are surface water rights. These additions of these water rights provide a complete year-round water supply for a municipality, allowing for the future practice of conjunctive use management.

So, what conjunctive use management is in our part of the world in Lyon County is you can pull from the river from April through the end of September, and then you have to go on groundwater. So, you want to pull your surface waters when you can, which is during spring runoff throughout the summer, and then during the winter months you want to go to your groundwater. And then during the summer you want to rest your groundwater and pull from the river. And that's called conjunctive use management.

So, our portfolio in Lyon County, we had some groundwater, but the majority of it was surface water, which was okay because we can work with the local entities and say, "Okay, you've got this much groundwater. We'll bring in this much surface water and we'll use them together." But by purchasing groundwater, we can bring a total year-round supply to every buyer that walks through the door, and we can help these entities more work around their supply needs.

Furthermore, we believe that this water is, apart from our existing water portfolio, the last remaining significant volume of groundwater available to the residential/commercial developers in the area. So, let me just explain. We were looking at the – I've been looking at this groundwater, Vidler has been looking at this groundwater for a very long time. This has got a great priority. It's right in the town of Dayton. They're senior water rights.

And we always wanted this water, but it was tied to property. It had to go with the property. So, it really wasn't in competition with any of our water rights, so that developers that came in or builders came in and they wanted maybe not use Vidler, if they wanted to buy this water they had to buy this large piece of property, and that was not something they wanted to do.

Well, over time, they found out this particular property that was being offered was a Superfund site where a lot of mercury had been dumped with all the old millings. So, the owners, because they couldn't sell the water with the land, decided to separate the land from the water. So, all of a sudden, this water would be in competition.

We had just sold, as you know, 500 acre-feet at $20,000 per acre-foot, and then we sold another 11 acre-feet for $25,000. And with talking to the individuals that owned this water, they were willing to go down to $15,000 per acre-foot. So, we thought we need to purchase this water, take it off the market, set a good price. It works well with our portfolio. And again, we had done a lot of due diligence on this water.

From the demand perspective, as I noted earlier in the presentation, we have confidence in the continued economic growth of the Reno-Sparks-Tahoe areas which leads to the pressing requirement for more affordable housing. We believe that the Carson/Lyon-Dayton corridor areas are very well placed as a suitable and logical location for affordable housing and residential development. In addition, the recent designation of the opportunity zone from Stagecoach to Silver Springs along the Highway 50 corridor makes commercial and industrial and residential development a very real possibility in this area.

So, at this time, Max Webb and Eric Speron are going to come up and go through the next slide with you.

Max Webb: Thank you, Dorothy. Finally, if Vidler's asset sales are large enough to sustain the capital return program at levels similar to those of the last 18 months, we wanted to flag that with continued reductions in share count and assets our market capitalization may dip below the thresholds needed for the company to remain in the Russell 2000 Index and/or other indices and ETFs.

In that case, we would expect that many passive index holders of our stock may be forced to sell, which could have a negative impact on our other shareholders. The risk of this ownership volatility could also impact the timing, but not the intent, of our capital return program, especially if any consideration should arise regarding protecting our tax asset, which cannot be predicted at this time. You may note that we have added this as a risk factor in our Form 10-Q that was filed earlier this morning.

While we cannot be certain, based on our current shareholder base there appears to be a risk that as many as one-third of our shareholders may be constrained to holding stocks that are in major indices.

Eric Speron: The board wanted to surface this risk well in advance, and we're investigating strategies that may be available to the company to help manage the risk to shareholders. One of those strategies is alerting shareholders through this enhanced risk disclosure as early as possible. And having a complete and accurate list of our shareholder base, that would be extremely helpful in this analysis. So, we would appreciate as much candor as you'd be willing to provide on the shares owned and any index restrictions that you could have. To be clear, we're not asking for any disclosure of your trading intentions regarding the stock; we're simply trying to compile a better data base of our shareholders, especially those outside the 13-F filings.

Max Webb: Thanks, Eric. Any shareholder, large or small, is welcome to contact me or Eric to discuss this. My email address is "mwebb@picoholdings.com." We will continue to monitor our market cap, index thresholds, and registry composition and other factors and look to provide periodic updates to our shareholders as circumstances dictate.

That concludes our presentation. Dorothy, myself, and the entire board are now available to take your questions.

Andrew Shapiro: Andrew Shapiro, shareholder, from Lawndale Capital Management. A few questions, if I could. When you sell water from Fish Springs, the initial payback is against the preferred or the debt instrument on the pipeline, and then eventually it's split 50/50. With respect to the portion that is the payback on the pipeline investment, is that accounted for as income and taxable income going against the NOL? Or is that just simply a payback and a paydown of a debt or preferred stock investment that would not initially chew up the NOL?

Max Webb: Some complex tax questions. I think the simple answer is that we get a K-1 each year from the Fish Springs Ranch LLC partnership that does the accounting and taxable income, and most of that, because of the preference, will be allocated to Vidler Water Company. And as a result, that taxable income goes into Pico's consolidated tax return, in which we're able to utilize our NOLs.

Andrew Shapiro: So, the payback up to the holding company from the LLC itself is income, even though it may not be income up at the LLC level where it's a paydown against the preferred stock investment?

Max Webb: By generating cash, there's almost certainly likely to be taxable income.

Andrew Shapiro: Got it. Okay. Another question is, do you have at this point, since the measurement date is, I think, the last Friday of this month, do you have a range, an estimate, as to where you think the Russell 2000 cutoff might run this year?

Eric Speron: I've seen estimates that run (inaudible).

Andrew Shapiro: Okay. So, then...

Eric Speron: (inaudible)

Andrew Shapiro: So, this year's buyback...

Eric Speron: Sandler O'Neill put out that number, 159.2, and based on the number of IPOs market capital levels, the market levels, that will dictate it. But the estimates I've seen are within five million to 10 million of last year's.

Andrew Shapiro: Since it's an annual recon, it seems like your concerns are not for this year's recon, but it would be for the 2020 recon.

Eric Speron: And it assumes quite a bit of share repurchase. I think what Max was pointing out is it's been three million shares. After the next three million shares is when (inaudible)...

Andrew Shapiro: Is when you'll get there.

Eric Speron: ...is when you might have a more tangible risk.

Andrew Shapiro: Okay. Great. I have other questions, but I'll hand the mic over to whoever.

Kelly Cardwell: Hi. Kelly Cardwell, Central Square. Can you go back just on Arizona and talk about the drought contingency plan and how much – just compare how much Arizona needs to keep in the lake now versus what they had to keep in the lake before the new plan?

Dorothy Timian-Palmer: Right. So, if the lake is between 1,090 to 1,075 and you still haven't declared a shortage – I want to make that really clear: you're not in shortage, but lake levels are between 1,090 and 1,075 – they have to leave behind 192,000 acre-feet of water. If they go below 1,075 to 1,050, okay, now you're in tier one shortage; they have to leave 512,000 acre-feet of water behind. And if they go below 1,050 to 1,045, they have to leave almost 600,000: 592,000 acre-feet of water.

So, they're leaving this water behind. So, they're not banking for new development, because banking for new development is the last thing they do in Arizona. They take care of existing needs and then the CAGRD is the last one to get water rights to bank for new development. So, that's where our credits would most likely come in, is for new development or for Indian farming or actually a lot of cities. We're watching the CAG rates continue to go higher and higher, and our credits are becoming more attractive because of that.

Kelly Cardwell: How does that compare to their prior plan? Or was there a prior plan? Or is this all incremental in terms of what they have...?

Dorothy Timian-Palmer: This was never required before.

Kelly Cardwell: They didn't have anything. Okay. That's what I wanted to clarify.

Dorothy Timian-Palmer: They didn't have anything. It was zero. This is all new.

Kelly Cardwell: Got it. Thank you.

Andrew Shapiro: Andrew Shapiro, with some follow-ups. What's the status of the subletting of the closed-down La Jolla space? Is that done? Or when is the lease up?

Max Webb: The lease is up this time next year. And no, it has not yet been sublet.

Andrew Shapiro: And the prospects of it for the...?

Max Webb: We've spent the last four, five months trying to do so. We've been unsuccessful.

Andrew Shapiro: Okay. What kind of cash burn is that? Is it (inaudible)?

Max Webb: I think it will be about $150,000 between now and when the lease is up.

Andrew Shapiro: All right. So, not (inaudible). And then in terms of the New Mexico water rights and assets, what's the dollar value that has been capitalized on our balance sheets for those assets?

Max Webb: Well, for Aquifer Science, the project there is now zero. For the remaining New Mexico assets, it would be a couple of million dollars, approximately.

Andrew Shapiro: Okay. And other than the Aquifer Science, which was the Campbell Ranch, are the other properties subject to the litigation that Campbell Ranch was involved with?

Dorothy Timian-Palmer: No, they're permitted water rights.

Andrew Shapiro: Okay. I think that may be it. Thank you.

Max Webb: Online question?

Unidentified Participant: It's a three-part question. "It appears that Nevada's Senate Bill 327 could have a positive impact on development in Nevada. Can you discuss your view on the potential impact on demand for Pico Vidler water assets? If this superpad bill is signed into law, do you believe its passage could shorten the timeline for selling Vidler water assets, all else equal? And finally, what is your belief as to the likelihood of its passage? Thank you."

Dorothy Timian-Palmer: So, we're going to turn that question over to Steve Hartman, who's Vice President with Vidler Water Company. He's also our public relations guy out at the legislatures throughout the southwest, and currently he's been spending a lot of time in Nevada at the legislature.

Steve Hartman: And I do plumbing on the side. (laughter)

So, 327 had an amendment coming out of the state Senate. It's a Senate bill. That amendment was put on the last floor session by the final deadline date for bills to come out of the first house of origin. That amendment that was put on that bill significantly changed the operational issues that were attempted within the bill – which essentially was a land development issue, not a land planning issue – which allowed for parcel maps, tentative maps, and final maps to take an accelerated track post-approval of a project by the local governing body. The amendment that was put on provided that no project, no Planned Unit Development approved prior to July 1, 2019, could avail themselves of that accelerated development process.

That bill will be heard on the Assembly side on Wednesday of next week. I intend to be there to voice my concerns and opinion relative to the propriety of that as a land use planning tool, as opposed to a land development tool. There are a number of developers who will be impacted by this, and I don't believe that the members of the Senate were aware of the inherent issues that it creates on existing Planned Unit Developments, many of which are very large projects that develop over a period of time. This takes out an ability to accelerate the process of creating actual units through what some people call a superpad or a master pad, as opposed to the very tedious process of a single final map that then divides it into parcels that then follows another final map.

So, it's really an educational process, and hopefully there's enough days left to get that to a graduate level. So, that's the status. That's where we are. I have no idea until I get back in Cartoon City. So, that's it.

Dorothy Timian-Palmer: So, what Steve's referring to is this bill that's been introduced will probably require developers to seek their water sooner, but a legislator made an amendment that all existing development that's already been approved or has a master plan cannot fall underneath this new bill. And that's what – we think it should be equal for everyone across the board. Whether you have an approval six months ago or approval six months from now, you should be able to use this new planning tool.

So, that question is perhaps it will require developers to bring on water sooner. I don't know if that means we'll sell any more water, but it might speed up some of the purchases.

Andrew Shapiro: One or two follow-up questions that I did come across. First off – I assume you monitor this pretty regularly – what is the latest Lake Mead surface level for the, relative to the new measurements here?

Dorothy Timian-Palmer: Well, I can tell you – I don't know where it is today, but I can tell you that they're predicting that when they make the declaratory judgment on shortage in August, I believe – is that when they do it? – in August, it's supposed to be 10 feet above the shortage level of 1,075; so, somewhere between 1,075 and 1,085. So, they will not be going – I don't believe they'll be going into shortage in 2020.

Andrew Shapiro: Although that top tier that's on that slide on Page...

Dorothy Timian-Palmer: I think that we'll probably still have to leave behind the 192,000 acre-feet of water.

Andrew Shapiro: And have they – has Arizona had to do that already, in the past? Or, this is the new thing?

Dorothy Timian-Palmer: Well, this is required now, but Arizona has been trying to leave as much water in the lake, and so has Nevada and California. So, everybody has been trying to leave water behind, but it has never been a requirement.

Andrew Shapiro: Okay. So, it – do you feel that then this will create any modified behavior than what has been practiced in the last year when they didn't have to do it?

Dorothy Timian-Palmer: I think they – they want to leave – they have been leaving, and I don't think it's modifying their behavior.

Andrew Shapiro: It won't.

Dorothy Timian-Palmer: I think that's what they intend to do and what they have been doing.

Andrew Shapiro: Okay. And then, regarding the southern Nevada water rights and assets that you had a slide for and talked about, I think there were some options that are expiring soon. Is there any movement in the project itself that would trigger the exercise of the options? Or do you feel that it's more likely that that option will run off and then another option sale will take place, rather than an exercise?

Dorothy Timian-Palmer: You know it's really hard to predict what developers are going to do. But I believe – there is a lot going on at the Coyote – this water is in Kane Springs that the water is under option, and there's been a lot going on in Kane Springs. The developer is trying to move a map through the process to get signed, to begin building homes. He has built a water treatment plant, a wastewater treatment plant, and done all the storm drainage. Has an 18-hole golf course out there. It's a big development. So, I think its water will come from Kane. He might need, want an extension. I don't know. Have not started those discussions with him since his options expire September 1.

Andrew Shapiro: Okay. And then, in that area or in the surrounding county, the company has disclosed in the past several applications for additional water rights. Where do things stand in the timing and the milestones in those application process?

Dorothy Timian-Palmer: Well, we talked about Tule Desert earlier today and that we're actively involved in trying to move that water down to the Land Act. So, I think Tule Desert is in play.

Andrew Shapiro: Thank you.

Max Webb: Any other shareholder questions or questions from the webcast?

Great. Well, thank you all very much indeed for attending our annual meeting today. Dorothy and I and the rest of the board thank you for your support. We believe we've made great progress, and we're all incredibly excited about the future of the company, and we hope to repay your support and confidence in us. Thank you all very much.