PICO HOLDINGS INC /NEW
Form 10-K405
March 18, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-18786

PICO HOLDINGS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA	94-2723335
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

875 PROSPECT STREET, SUITE 301
LA JOLLA, CALIFORNIA 92037
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (858) 456-6022

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, $.001 PAR VALUE
(TITLE OF CLASS)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III or this Form 10-K or any amendment to this

Form 10-K. [X]

Approximate aggregate market value of the registrant's common stock held by non-affiliates of the registrant (based on the closing sales price of such stock as reported in the NASDAQ National Market) on March 13, 2002 was $75,185,221. This excludes shares of common stock held by directors, officers and each person who holds 5% or more of the registrant's common stock.

On March 13, 2002, the Registrant had 12,368,616 shares of common stock, $.001 par value, outstanding, excluding 4,415,607 shares of common stock which are held by the registrant and its subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE

(1) None.

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PICO HOLDINGS, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

THIS FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS. THESE INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS ABOUT OUR INVESTMENT PHILOSOPHY, PLANS FOR EXPANSION, BUSINESS EXPECTATIONS, AND REGULATORY FACTORS. THESE STATEMENTS REFLECT OUR CURRENT VIEWS ABOUT FUTURE EVENTS WHICH COULD AFFECT OUR FINANCIAL PERFORMANCE. ALTHOUGH WE AIM TO PROMPTLY DISCLOSE ANY NEW DEVELOPMENT WHICH WILL HAVE A MATERIAL EFFECT ON PICO, WE DO NOT UNDERTAKE TO UPDATE ALL FORWARD-LOOKING STATEMENTS UNTIL OUR NEXT PERIODIC SEC FILING. YOU SHOULD NOT PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS, BECAUSE THEY ARE SUBJECT TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING THOSE LISTED UNDER "RISK FACTORS" AND ELSEWHERE IN THIS FORM 10-K, WHICH COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM SUCH FORWARD-LOOKING STATEMENTS, OR FROM OUR PAST RESULTS.

ITEM 1. BUSINESS

INTRODUCTION

PICO Holdings, Inc. is a diversified holding company. We acquire interests in companies which our management believes:

- are undervalued at the time we buy them; and
- have the potential to provide a superior rate of return over time, after considering the risk involved.

Our over-riding objective is to generate superior long-term growth in shareholders' equity, as measured by book value per share. To accomplish this, we are seeking to build a profitable operating base and to realize gains from our investment holdings. In the long term, we expect that most of the growth in shareholders' equity will come from realized gains on the sale of assets, rather than operating earnings. Accordingly, when analyzing PICO's performance, our management places more weight on increased asset values than on reported earnings.

Over time, the assets and operations owned by PICO will change. Currently our major activities are:

- owning and developing water rights and water storage operations through Vidler Water Company, Inc.;
- owning and developing land and the related mineral rights and water rights through Nevada Land & Resource Company, LLC;
- property and casualty insurance in California and Nevada through Sequoia Insurance Company, and "running off" the property and casualty loss reserves of Citation Insurance Company;
- "running off" the medical professional liability loss reserves of Physicians Insurance Company of Ohio; and
- making long term value-based investments in other public companies.

The address of our main office is 875 Prospect Street, Suite 301, La Jolla, California 92037, and our telephone number is (858) 456-6022.

Our web-site at www.picoholdings.com contains further material about PICO, our Securities and Exchange Commission filings, and links to other sites, including some of the companies which we are associated with. You should check the site periodically during the year for press releases and updated information.

HISTORY

PICO was incorporated in 1981 and began operations in 1982. The company was known as Citation Insurance Group until a reverse merger with Physicians Insurance Company of Ohio on November 20, 1996. After the reverse merger, the former shareholders of Physicians owned approximately 80% of Citation Insurance Group, the Board of Directors and management of Physicians replaced their Citation counterparts, and Citation Insurance Group changed its name to PICO Holdings, Inc. You should be aware that information pre-dating the reverse merger relates to the old Citation Insurance Group only, and does not reflect the performance of Physicians prior to the merger.

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MAJOR OPERATING SEGMENTS & SUBSIDIARY COMPANIES

This section describes our operating segments and lists the important subsidiaries in each segment. Unless otherwise indicated, we own 100% of each subsidiary.

WATER RIGHTS AND WATER STORAGE

This segment is comprised of two distinct but inter-related activities: the ownership and development of water rights in Nevada, Arizona, and Colorado; and our interests in water storage facilities in Arizona and California.

We entered the water rights and water storage business with the acquisition of Vidler Water Company, Inc. in 1995. At the time, Vidler owned a limited quantity of water rights and related assets in Colorado. Since then, Vidler has acquired:

- additional water rights and related assets, predominantly in Arizona and Nevada. Vidler seeks to acquire water rights at prices consistent with their current use, with the expectation of an increase in value if the water right can be converted to a higher use. The majority of Vidler's water rights are in Nevada and Arizona, the two states which experienced the most rapid population growth in the past 10 years; and
- interests in water storage facilities in Arizona and California.

PICO currently owns approximately 96.2% of Vidler.

Vidler is the leading private company in the water rights and water storage business in the southwestern United States. PICO identified water rights and water storage as attractive niches to invest in due to the escalating supply/demand imbalance for water in the Southwest. There are already disparities between the time and place of highest demand and the time and place where supplies of water are available. Meanwhile, demand continues to rise rapidly, fueled by population growth, economic development, environmental requirements, and the claims of Native Americans.

While, physically, there is enough water in the region to meet foreseeable demand, some of the water is in remote locations and available water is allocated inefficiently, which creates opportunity for private providers such as Vidler. For example:

- the majority of water rights are currently controlled by agricultural users. In many locations, there are insufficient water rights controlled by municipal users to meet present and future demand;
- currently there are not effective procedures in place for the transfer of water from private parties with excess supply in one state to end-users in other states, although regulation and procedures are steadily being developed to facilitate the interstate transfer of water; and
- infrastructure to store water will be required to accommodate and allow interstate transfer, and transfers from wet years to dry years. Currently there is limited storage capacity in place.

The water rights and water storage business is relatively new and complex, and water law and terminology vary from state to state. A water right is the legal right to divert water and put it to beneficial use. Water rights are tradable assets which can be bought and sold. In some states, the use of the water can also be leased. The value of a water right depends on a number of factors, including location, the seniority of the right, and whether or not the water is transferable.

Vidler is engaged in the following activities:

- identifying end-users in the Southwest who require water, namely water utilities, municipalities, developers, or industrial users, and then locating a source of water and supplying the demand, utilizing the Company's own assets where possible;
- acquiring water rights, redirecting the water right to its highest and best use, and then generating cash flow from either leasing the water or selling the right;
- development of storage and distribution infrastructure, and then generating cash flow from charging customers fees for "recharge," or placing water into storage; and
- purchase and storage of water for resale in dry years.

After an acquisition and development phase spanning several years, Vidler's priority is to develop recurring cash flow from these assets and additional water assets which we may acquire or develop in the future.

If Vidler is successful in commercially developing its water and water storage assets, revenues could be significantly higher in future years if the company:

- secures significant supply contracts utilizing its water rights in Arizona and Nevada; and
- obtains contracts to store water at the Vidler Arizona Recharge Facility.

Vidler has also entered into joint ventures with parties who lack the capital or expertise to commercially develop water rights. Vidler continues to explore additional joint venture opportunities throughout the Southwest.

This table details the water rights and water storage assets owned by Vidler at December 31, 2001. Please note that this is intended as a summary, and that some numbers are rounded. Item 7 of this Form 10-K contains more detail about these assets, recent developments affecting them, and the current outlook.

An acre-foot is a unit commonly used to measure the volume of water. An acre-foot is the volume of water required to cover one acre to a depth of one foot. As a rule of thumb, one acre-foot of water would sustain two families of four persons each for one year.

NAME OF ASSET & APPROXIMATE LOCATION	BRIEF DESCRIPTION	PRESE
WATER RIGHTS		
ARIZONA:		
HARQUAHALA VALLEY GROUND WATER BASIN LA PAZ & MARICOPA COUNTIES 75 miles northwest of metropolitan Phoenix	16,520 acres of land, plus 4,814 acres under option 39,911 acre-feet of transferable ground water, plus 13,764 acre-feet under option State legislation allows use of the Central Arizona Project Aqueduct to convey up to 20,000 acre-feet of ground water from this area to cities and communities in the Phoenix metropolitan area as an assured municipal water supply	Lease
NEVADA:		
FISH SPRINGS RANCH, LLC (51% INTEREST) & V&B, LLC (50% INTEREST) Washoe County, 40 miles north of Reno	8,600 acres of deeded ranchland 8,000 acre-feet of permitted water rights, which are transferable to the Reno/Sparks area	Vidle prope prope
LINCOLN COUNTY JOINT VENTURE	Applications* for more than 100,000 acre-feet of water rights through a joint venture with Lincoln County, of which it is currently anticipated that up to 40,000 acre-feet will be permitted and put to use in Lincoln County. The purchase of approximately 822 acre-feet of permitted water rights at Meadow Valley is in escrow	Agre gene and per
SANDY VALLEY Near the Nevada / California state line in the Interstate 15 corridor	Application* for 2,000 acre-feet of water rights *The numbers indicated for water rights applications are the maximum amount which we have filed for. In some cases, we anticipate that the actual permits received will be for smaller quantities.	Agree addii the w
WEST WENDOVER Adjacent to the Nevada / Utah state line	Approximately 6,300 acres of land near West Wendover, Nevada	Agree land

in the Interstate 80 corridor		
BIG SPRINGS RANCH 65 miles from Elko in Elko County, Nevada	Approximately 37,500 acres of deeded ranch land 6,000 acre-feet of certificated water rights 6,000 acre-feet of permitted water rights	Lease

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COLORADO:		
CLINE RANCH	Approximately 500 acre-feet of senior water rights	Sale regul
VIDLER TUNNEL WATER RIGHTS (the Vidler Tunnel itself was divested in 2000)		Agree senio junio and t Golde Agree water Distr
	163 acre-feet of senior water rights	65.73 appli to be their
WET MOUNTAIN	600 acre-feet of priority water rights	Vidle users
WATER STORAGE		
ARIZONA:		
VIDLER ARIZONA RECHARGE FACILITY	An underground water storage facility with Harquahala Valley, Arizona estimated capacity exceeding 1 million acre-feet and permitted annual recharge capability of up to 100,000 acre-feet	
CALIFORNIA:		
SEMITROPIC WATER STORAGE FACILITY	The right to store 30,000 acre-feet of water underground for 35 years. This includes the right to recover up to approximately 6,800 acre-feet in any	

	one year and minimum guaranteed recovery of approximately 2,700 acre-feet every year	

LAND AND RELATED MINERAL RIGHTS AND WATER RIGHTS

In April 1997, PICO paid $48.6 million to acquire Nevada Land & Resource Company, LLC, which at the time owned approximately 1,352,723 acres of deeded land in northern Nevada, and the water, mineral, and geothermal rights related to the property. Much of Nevada Land's property is checker-boarded in square mile sections with publicly owned land. The lands generally parallel the Interstate-80 corridor and the Humboldt River from West Wendover, in northeast Nevada, to Fernley, in western Nevada.

Nevada Land is the largest private landowner in the state of Nevada. According to census data, the population of Nevada increased 66% in the 10 years ended April 1, 2000, which was the most rapid population growth of any state in the United States. In the fifteen months from April 1, 2000 to July 1, 2001, Nevada's population increased another 5.4%, to approximately 2.1 million people. Most of the growth is centered in southern Nevada, which includes the city of Las Vegas and surrounding municipalities. Governmental agencies own approximately 87% of the land in Nevada, so developable land is relatively scarce.

Before we acquired Nevada Land, the property had been under the ownership of a succession of railway companies, to whom it was a non-core asset. Accordingly, we believe that the potential of the property had never been exploited.

After acquiring Nevada Land, we completed a "highest and best use study." The study divided the land into 7 major categories and developed strategies to maximize the value of each type of asset. These strategies include:

- the sale of land and water rights. There is demand for land and water for a variety of purposes including residential development, residential estate living, farming, ranching, and from industrial users -- for example, electricity-generating companies, which wish to locate new plants in Nevada;

- land exchanges where Nevada Land transfers parcels of its land in return for land owned by government agencies or private parties. The Bureau of Land Management and other government agencies are motivated to conduct land exchanges for many purposes, including obtaining environmentally sensitive lands for conservation purposes or consolidating their land holdings into more manageable contiguous parcels. Nevada Land completed its first land exchange in 2000, and is working on other potential exchanges;
- the development of water rights. Nevada Land has applied for additional water rights on land owned by the company. Where water rights are permitted, we anticipate that the value and marketability of the related land will increase;
- the development of land in and around growing municipalities; and
- the management of mineral rights.

A cost basis has been assigned to each category of land and other asset, which, in aggregate, equals Nevada Land's original purchase price.

During the period from April 23, 1997 to December 31, 2001, Nevada Land received consideration of approximately $15.5 million from the sale and exchange of land and the sale of water rights. This is comprised of $13.6 million in sales of land, $1.3 million of cash and land received in a land exchange transaction, and $624,000 from the sale of water rights. Over this period, we sold 113,128 acres and divested 25,828 acres in a land exchange. The average price received in land disposals has been $112 per acre, compared to our average basis of $57 in the acres disposed of, and the average cost of $35 per acre for the total land, water, and mineral assets acquired. Therefore, the proceeds from selling and exchanging 10.3% of the land area acquired represent 31.5% of the cost basis of the original land, water, and mineral assets.

At December 31, 2001, Nevada Land owned approximately 1,213,767 acres of former railroad land. We anticipate continuing to sell parcels of land for residential, agricultural, and industrial use, and that significantly larger parcels could be divested through land exchanges.

In addition to the former railroad property, Nevada Land has acquired:

- 17,558 acres of land in a land exchange with a private landowner. This land is contiguous with Native American tribal lands and is culturally sensitive. We have agreed to a second transaction, with the Bureau of Land Management, where we will give up the 17,558 acres in exchange for lands in the Highway 50 corridor, which runs from the state capital of Carson City, Nevada to Fernley, Nevada. While agreement has been reached, it will likely take several years to complete the exchange; and
- Spring Valley Ranches, which is located approximately 40 miles west of Ely in White Pine County, Nevada. This property was purchased out of bankruptcy proceedings in 2000. We believe that the land has significant environmental value to federal agencies, making it suitable for a land exchange transaction. The real estate assets consist of approximately 9,500 acres of deeded land and 500,000 acres of Forest Service and Bureau of Land Management allotment land. There are 5,582 acre-feet of permitted agricultural water rights related to the property. Nevada Land intends to develop these water rights in conjunction with the property.

During 2000 and 2001, Nevada Land filed applications for an additional 105,516 acre-feet of water rights on the company's lands. The applications consist of:

- 39,076 acre-feet of water rights for the beneficial use of irrigating the related 9,769 acres of arable land, and 40,240 acre-feet of water rights for municipal and industrial use, on the former railroad lands; and
- 26,200 acre-feet of water rights for the beneficial use of irrigating another 6,550 acres of Spring Valley Ranches.

Progress continues on a number of potential land exchange transactions, in which Nevada Land will give up land with environmental, cultural, or historical value, in exchange for land which is either more marketable, or suitable for future development. In some cases, we may form joint ventures with developers in order to participate in the upside from developing the land acquired. Nevada Land is currently working on the following land exchange opportunities, each of which could take up to several years to complete:

- the exchange of mountain lands in Washoe County for land suitable for industrial use in Lincoln County;
- the exchange of mountain lands in Washoe County for land suitable for residential, commercial, and industrial use near Dayton, in Lyon County;
- the exchange of working ranch land at Spring Valley Ranches and mountain lands in Pershing County for developable land in southeastern Nevada; and
- the exchange of mountain lands in Elko County for land which would be suitable for agricultural use in Independence Valley, Elko County.

PROPERTY AND CASUALTY INSURANCE

PICO's Property and Casualty Insurance segment is comprised of our California-based subsidiaries Sequoia Insurance Company and Citation Insurance Company. Physicians Insurance Company of Ohio acquired Sequoia in 1995, and merged with Citation's parent company in 1996.

Sequoia's core business is property and casualty insurance in California and Nevada, focusing on the niche markets of commercial insurance for small to medium-sized businesses and farm insurance. While Sequoia had previously written some personal insurance in California, the company's book of business in personal lines of insurance increased significantly with the acquisition of the Personal Express Insurance Services, Inc. book of business in May 2000. Personal Express has a unique business model, writing insurance direct with the customer, but with branches providing local service for underwriting and claims. At present Personal Express operates in two central California cities -- Bakersfield and Fresno.

In the past, Citation wrote commercial property and casualty insurance, primarily in California and Arizona. After the merger was completed, we identified redundancy between Citation and Sequoia, and combined the operations of the two companies. After we assumed management of Citation, we tightened underwriting standards significantly and did not renew much of the business which Citation had written previously. Eventually all business in California and Nevada was transitioned to Sequoia. Citation ceased writing business at the end of 2000, and is now in "run off." This means that Citation is handling claims arising from its historical business, but not writing new business. Most of the revenues of an insurance company in "run off" come from investment income. Citation's loss reserve liabilities and corresponding investment assets are decreasing as claims are paid with the funds from maturing fixed-income securities.

Sequoia's management takes a selective approach to underwriting and aims to earn a profit from underwriting (that is, a profit before investment income). During the period of our ownership of both companies, there have also been a number of management initiatives to improve efficiency and reduce expenses. These include the combination of the operations of Sequoia and Citation, the introduction of an innovative information system, and the re-underwriting of each company's book of business. Sequoia has earned a profit from its insurance activities, before investment income, in 3 of the past 5 years.

In 1998 and 1999, Citation incurred losses from its insurance business due to a large number of claims in one line of business -- artisans/contractors construction defect insurance -- which Citation stopped writing in 1995, the year before the merger.

In this segment, revenues come from premiums earned on policies written and investment income on the assets held by the insurance companies. Typically more than 80% of the insurance companies' portfolios are invested in fixed-income securities, and up to 20% in equities. The fixed-income portfolios focus on high quality corporate bonds with 10 or less years to maturity. The equities portion of the Sequoia and Citation portfolios contains some of PICO's long term holdings, as well as a number of small-capitalization value investments.

MEDICAL PROFESSIONAL LIABILITY INSURANCE

Until 1995, Physicians Insurance Company of Ohio and The Professionals Insurance Company wrote medical professional liability insurance, mostly in the state of Ohio. In 1995, Physicians and Professionals stopped writing new

business and went into "run off." On December 21, 2001, Professionals merged with, and into, Physicians.

Although we periodically evaluate the strategic alternatives, we currently believe that the most advantageous option is for Physicians' own claims personnel to manage the "run off" and for us to retain management of the associated investment portfolios.

LONG TERM HOLDINGS

This segment contains our long-term investments in public companies, subsidiaries, and other assets which individually are too small to constitute a segment, and parent company assets.

PICO invests in companies which we identify as undervalued based on fundamental analysis. Typically, the stocks will be selling for less than tangible book value or appraised intrinsic value -- that is, our assessment of what the company is worth. Often the stocks will also be trading for low ratios of earnings and cash flow, or on high dividend yields. Additionally, the company must have special qualities, such as unique assets, a potential catalyst for change, or it may be in an industry with attractive characteristics.

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We invest for the long term, typically 5 years or more, and seek to develop a constructive relationship with the company. This may include an appropriate level of shareholder influence, such as encouraging companies to use proper financial criteria when making capital expenditure decisions, or providing financing or strategic input. In the case of large holdings, this will usually include board representation.

Before a substantial sum is invested, after significant research and analysis, we must be convinced that -- for an acceptable level of risk -- there is sufficient value to provide the opportunity for superior returns. On rare occasions, we will deviate from our strict value criteria. In these cases, given the higher level of risk, we invest smaller sums.

We sell investments if their price has significantly exceeded our objective, or if there have been changes in the business or in the company which we believe limit further appreciation potential, on a risk-adjusted basis.

PICO began to invest in European companies in 1996. We have been accumulating shares in a number of undervalued asset-rich companies, particularly in Switzerland, which we believe will benefit from pan-European consolidation.

Our largest long-term investments are in HyperFeed Technologies, Inc., Jungfraubahn Holding AG, and Australian Oil & Gas Corporation Limited. After allowing for related taxes, the carrying value of these three holdings on December 31, 2001 was approximately $29.2 million, which represents 14.1% of PICO's shareholders' equity.

DECEMBER 31, 2001	CARRYING VALUE	UN
Carrying value before taxes:		

HyperFeed Technologies, Inc.	Common	$2,128,000	10
	Warrants	527,000	4
	Total	2,655,000	
Jungfraubahn Holding AG		17,676,000	
Australian Oil & Gas Corporation Limited		7,489,000	9
Total carrying value before taxes		$27,820,000	
Deferred taxes		$1,363,000	
Carrying value		$29,183,000	

Notes: 1. Our HyperFeed common shares are carried under the equity method. This is cost, adjusted for our proportionate share of net income (or losses) and other events affecting equity. This is explained in the Long Term Holdings section of Item 7, and in Note 4 of Notes to Consolidated Financial Statements, "Investment in Unconsolidated Affiliates."

2. Our HyperFeed warrants are carried at estimated fair value, based on the Black-Scholes model. Full detail is provided in Note 4 of Notes to Consolidated Financial Statements, "Investment in Unconsolidated Affiliates"; however, the volatility of the common shares, and their price at December 31, 2001 are important inputs in the valuation. Since the HyperFeed price can be volatile, the carrying value of the warrants can fluctuate considerably from quarter to quarter. We are required to use this accounting treatment; however, it introduces volatility to our reported shareholders' equity.

3. At December 31, 2001, it would have cost $5.5 million to exercise our HyperFeed warrants.

We also have a small portfolio of alternative investments where, in previous years, we deviated from our traditional value criteria in an attempt to capitalize on areas of potentially greater growth without incurring undue risk. The total after-tax carrying value of this portfolio at year-end was $3.2 million, which represents approximately 1.5% of shareholders' equity. The largest investment in this group is SISCOM, Inc.

FUTURE STRATEGY

Over the past 4 years, the majority of PICO's new investments have been in private companies and foreign public companies. New investments were focused in these areas because we perceived that selected private companies and foreign public companies carried less downside risk and offered greater upside potential than investment in publicly-traded small-capitalization value equities in North America.

Although the actual investments which PICO makes depend on many factors, in the foreseeable future it is likely that new investments will be focused on domestic and foreign small-capitalization value equities, rather than private companies.

EMPLOYEES

At December 31, 2001, PICO had 139 employees. A total of 8 employees were engaged in land and related mineral rights and water rights operations; 4 in water rights and storage; 105 in property and casualty insurance operations; 4 in medical professional liability operations; and 18 in holding company activities.

EXECUTIVE OFFICERS

The executive officers of PICO are as follows:

Name	Age	Position
Ronald Langley	57	Chairman of the Board, Director
John R. Hart	42	President, Chief Executive Officer and Director
Richard H. Sharpe	46	Chief Operating Officer
James F. Mosier	54	General Counsel and Secretary
Maxim C. W. Webb	40	Chief Financial Officer and Treasurer

Except for Maxim C. W. Webb, each executive officer of PICO was an executive officer of Physicians prior to the 1996 merger between Physicians Insurance Company of Ohio and Citation Insurance Group, the predecessors to PICO Holdings, Inc. Each became an officer of PICO in November 1996 as a result of the merger. Maxim C. W. Webb was an officer of Global Equity Corporation and became an officer of PICO upon the effective date of the PICO/Global Equity Corporation Combination in December 1998.

Mr. Langley has been Chairman of the Board of PICO since November 1996 and of Physicians since July 1995. Mr. Langley has been a Director of PICO since November 1996 and a Director of Physicians since 1993. Mr. Langley has been a Director of HyperFeed Technologies, Inc., formerly, PC Quote, Inc. ("HyperFeed") since 1995 and a Director of Jungfraubahn Holding AG since 2000. Mr. Langley became a Director of Australian Oil & Gas Corporation Limited in September 2001.

Mr. Hart has been President and Chief Executive Officer of PICO since November 1996 and of Physicians since July 1995. Mr. Hart has been a Director of PICO since November 1996 and a Director of Physicians since 1993. Mr. Hart has been a Director of HyperFeed since 1997, and a Director of SISCOM, Inc. since November 1996.

Mr. Sharpe has served as Chief Operating Officer of PICO since November 1996, and in various executive capacities since joining Physicians in 1977.

Mr. Mosier has served as General Counsel and Secretary of PICO since November 1996 and of Physicians since October 1984 and in various other executive capacities since joining Physicians in 1981.

Mr. Webb has been Chief Financial Officer and Treasurer of PICO since May 14, 2001. Mr. Webb served in various capacities with the Global Equity Corporation group of companies since 1993, including Vice President, Investments of Forbes Ceylon Limited from 1994 through 1996. Mr. Webb became an officer of Global Equity Corporation in November 1997 and Vice President, Investments of PICO on November 20, 1998. Mr. Webb has been a Director of SISCOM, Inc. since November 1996.

ITEM 2. PROPERTIES

PICO leases approximately 6,354 square feet in La Jolla, California for its principal executive offices.

Physicians leases approximately 1,892 square feet of office space in Columbus, Ohio for its headquarters. Sequoia leases office space for its and Citation's headquarters in Monterey, California and for regional claims and underwriting offices in Modesto, Monterey, Ventura, Visalia, Orange, Pleasanton, San Jose, Bakersfield, Clovis and Sacramento, California as well as Midvale, Utah. Nevada Land leases office space in Carson City, Nevada. Vidler and Nevada Land hold significant investments in land, water rights and mineral rights in the western United States. See "Item 1-Business-Introduction."

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various litigation that arises in the ordinary course of its business. Members of PICO's insurance group are frequently a party in claims proceedings and actions regarding insurance coverage, all of which PICO considers routine and incidental to its business. Based upon information presently available, management is of the opinion that such litigation will not have a material adverse effect on the consolidated financial position, the results of operations or cash flows of the Company. Neither PICO nor its subsidiaries are parties to any potential material pending legal proceedings other than the following:

On January 10, 1997, Global Equity Corporation ("Global Equity"), a wholly owned PICO subsidiary, commenced an action in British Columbia against MKG Enterprises Corp. ("MKG") to enforce repayment of a loan made by Global Equity to MKG. On the same day, the Supreme Court of British Columbia granted an order preventing MKG from disposing of certain assets pending resolution of the action. In March 1999 Global Equity filed an action in the Supreme Court of British Columbia against a third party. This action states the third party had fraudulently entered into loan agreements with MKG. Accordingly, under this action Global Equity is claiming damages from the third party and restraining the third party from further action.

During 2000 and 2001, Global Equity entered into settlement negotiations with a third party to dispose of the remaining assets of MKG. Due to the protracted nature of these discussions and the increasing uncertainty of whether the remaining asset can be realized, Global Equity wrote off the remaining balance of $500,000 of the investment in the quarter ended June 30, 2001. (See Long Term Holdings in "Management's Discussion and Analysis of Financial Condition and Results of Operations".) Global Equity is currently reviewing its legal options before deciding if it will continue pursuing the outstanding legal actions.

As disclosed in our 2000 Annual Report on Form 10-K and subsequent SEC filings, in September and December 2000, PICO Holdings loaned a total of $2.2 million to Dominion Capital Pty. Ltd. ("Dominion Capital"), a private Australian company. In May 2001, one of the loans for $1.2 million became overdue. Negotiations between PICO and Dominion Capital to reach a settlement agreement on both the overdue loans of $1.2 million and the other loan of $1 million proved unsuccessful. Accordingly, PICO has commenced legal actions through the

Australian courts against Dominion Capital to recover the total amount due to PICO Holdings. Due to the inherent uncertainty involved in pursuing a legal action and our ability to realize the assets collateralizing the loans, PICO fully provided for these loans and interest accrued in 2001.

PICO has been awarded summary judgment in relation to the principal and interest on the $1.2 million loan and, as a result, Dominion Capital has been placed in receivership. The court appointed receiver is in the process of ascertaining Dominion Capital's assets and liabilities. The court trial in connection with PICO's $1 million loan (with interest) has been adjourned pending the receiver's investigations. In addition, PICO has commenced proceedings in Australia to secure the proceeds from the sale of real estate in Australia offered as collateral under the $1.2 million loan.

See Note 15 of Notes to Consolidated Financial Statements, "Commitments and Contingencies."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Company held its Annual Meeting of Shareholders on October 11, 2001.

(b) At the October 11, 2001 Annual Meeting of Shareholders, Robert R. Broadbent and Carlos C. Campbell were elected to terms ending in 2004. The other Directors whose terms continued after the meeting are John R. Hart, Ronald Langley, John D. Weil, S. Walter Foulkrod, III, Esq., and Richard D. Ruppert, MD.

(c) The following matters were voted upon and approved by the Company's shareholders at the Company's October 11, 2001 Annual Meeting of Shareholders:

1) To elect Robert R. Broadbent and Carlos C. Campbell as Directors. Both Mr. Broadbent and Mr. Campbell were elected as Directors for terms ending in 2004. The vote for Mr. Broadbent was 9,287,300 votes in favor, no votes against, and 240,887 abstentions. The vote for Mr. Campbell was 9,288,291 votes in favor, no votes against, and 239,890 abstentions.
2) To ratify the Board's selection of Deloitte & Touche LLP to serve as the Company's independent auditor for the fiscal year ended December 31, 2001. There were 7,981,086 votes in favor, 1,541,702 votes against, and 5,393 abstentions.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of PICO is traded on the NASDAQ National Market under the symbol PICO. The following table sets forth the high and low sale prices as reported on the NASDAQ National Market. These reported prices reflect inter-dealer prices without adjustments for retail markups, markdowns or commissions.

	2001	2000

	High	Low	High	Low
1st Quarter	$ 14.38	$ 11.88	$ 14.13	$ 9.88
2nd Quarter	$ 14.62	$ 12.50	$ 14.06	$ 10.00
3rd Quarter	$ 15.91	$ 10.80	$ 14.06	$ 11.59
4th Quarter	$ 14.25	$ 10.70	$ 13.38	$ 10.44

On December 31, 2001, the closing sale price of PICO's common stock was $12.50 and there were 1,179 holders of record.

PICO has not declared or paid any dividends in the last two years and does not expect to pay any dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents PICO's selected consolidated financial data. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Form 10-K and the consolidated financial statements and the related notes thereto included elsewhere in this document.

	Year Ended Dece		
	2001	2000	1999
OPERATING RESULTS		(In thousands, excep	
Revenues:			
Premium income earned	$ 43,290	$ 34,436	$ 36,3
Net investment income	9,767	8,238	6,3
Other income	16,523	2,679	11,7
Total revenues	$ 69,580	$ 45,353	$ 54,4
Income (loss) from continuing operations before extraordinary gain and cumulative effect	$ 5,754	$ (4,562)	$ (7,2
Income from discontinued operations, net			
Extraordinary gain, net of tax			4
Cumulative effect of change in accounting principle	(981)	(4,964)	
Net income (loss)	$ 4,773	$ (9,526)	$ (6,8
INCOME (LOSS) PER COMMON SHARE: BASIC			
Income (loss) from continuing operations	$ 0.47	$ (0.39)	$ (0.
Income from discontinued operations			
Extraordinary gain, net of tax			0.
Cumulative effect of change in accounting principle	$ (0.08)	$ (0.43)	
Net income (loss)	$ 0.39	$ (0.82)	$ (0.

Weighted Average Shares Outstanding	12,384,682	11,604,120	8,998,4
INCOME (LOSS) PER COMMON SHARE: DILUTED			
Income (loss) from continuing operations	$ 0.47	$ (0.39)	$ (0.8
Income from discontinued operations			
Extraordinary gain, net of tax			0.0
Cumulative effect of change in accounting principle	(0.08)	(0.43)	
Net income (loss)	$ 0.39	$ (0.82)	$ (0.
Weighted Average Shares Outstanding	12,384,682	11,604,120	8,998,4

	2001	2000	1999
		(In thousands, except per sha	
FINANCIAL CONDITION			
Assets	$ 373,135	$ 395,145	$ 380,049
Unpaid losses and loss adjustment expenses, net of discount (1999 and prior)	$ 98,449	$ 121,542	$ 139,133
Total liabilities and minority interest	$ 166,495	$ 189,952	$ 206,657
Shareholders' equity	$ 206,640	$ 205,193	$ 173,392
Book value per share	$ 16.71	$ 16.56	$ 19.15

Note: Prior year share values have been adjusted to reflect the 1-for-5 Reverse Stock Split effective December 16, 1998, the treatment of American Physicians Life Insurance Company as discontinued operations and to reflect the investment results of HyperFeed and Jungfraubahn using the equity method of accounting (Jungfraubahn was accounted for using the equity method until April 1, 2001). Book value per share is computed by dividing shareholders' equity by the net of total shares issued less shares held as treasury shares.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

COMPANY SUMMARY, RECENT DEVELOPMENTS AND FUTURE OUTLOOK

WATER RIGHTS AND WATER STORAGE ASSETS

WATER RIGHTS

ARIZONA

At December 31, 2001, Vidler owned or had the right to acquire approximately 53,675 acre-feet of transferable ground water in the HARQUAHALA VALLEY, approximately 75 miles northwest of metropolitan Phoenix, Arizona. Vidler owns 39,911 acre-feet, and we have the option to purchase a further 13,764 acre-feet.

The Arizona State Legislature has passed several pieces of legislation which recognize the Harquahala Valley ground water as a special resource. In 1991, the expansion of irrigated farming in the Valley was prohibited, and the transfer of the ground water to municipalities was authorized. In order to protect the Harquahala Valley ground water from large commercial and industrial users which were moving into the Basin, Vidler supported legislation, which was enacted in 2000, placing restrictions on commercial and industrial users utilizing more than 100 acre-feet of water annually. These users are required to purchase irrigable land and to withdraw the water that they need from the land at no more than 3 acre-feet per annum per acre of land.

One of the constraints on beginning to supply Harquahala Valley water to municipalities is the need for the water to be conveyed through the Central Arizona Project Aqueduct. The Arizona State Legislature has passed legislation which commits the CAP to convey up to 20,000 acre-feet per annum of Harquahala groundwater to cities and communities in Arizona as an assured municipal water supply. Any new residential development in Arizona must obtain a permit from the Arizona Department of Water Resources certifying a "designated assured water supply" sufficient to sustain the development for at least 100 years. The Harquahala Valley ground water meets the designation of assured water supply, and Vidler is meeting with communities and developers in the Phoenix metropolitan area, some of whom need to secure further water to support expected growth.

On March 1, 2002, Vidler closed the sale, to developers near Scottsdale, of 3,645 acre-feet of water rights and 1,215 acres of land in the Harquahala Valley ground water basin, for approximately $5.3 million, or $1,450 per acre-foot of water. The sale was originally scheduled to close in 2001, but closing was extended until 2002 and the price was increased. This transaction is expected to add $5.3 million to revenues and approximately $2.3 million to segment income in the first quarter of 2002.

There is also demand for the water within the Harquahala Basin. On March 19, 2001, Vidler closed the sale of 6,496.5 acre-feet of water rights and 2,589 acres of land in the Harquahala Valley to a unit of Allegheny Energy, Inc. for approximately $9.1 million. The purchase price equated to $1,400 per acre-foot of water. This transaction added $9.4 million to revenues and $2.3 million to pre-tax income for Vidler in 2001; however, we paid $4.4 million in cash to acquire the assets which were sold, resulting in a $5 million cash surplus. Most of the difference between the $2.3 million pre-tax income on an accounting basis and the $5 million cash surplus was recorded as an increase in book value of the assets when PICO acquired Vidler's ultimate parent company, Global Equity Corporation, in 1998.

Following these sales, Vidler owns or has the right to acquire approximately 50,030 acre-feet of transferable Harquahala Valley ground water.

NEVADA

Vidler has been increasing its ownership of water rights in northern Nevada through the purchase of ranch properties and entering into joint ventures with parties owning water rights, which they wish to maximize the value of. Nevada is the state experiencing the most rapid population growth in the United States.

1. THE LINCOLN COUNTY JOINT VENTURE

In October 1999, Vidler announced a public/private joint venture with Lincoln County, Nevada for the location and development of water resources in Lincoln County. The joint venture has filed applications for more than 100,000 acre-feet of water rights, covering substantially all of the unappropriated water in the County, with the intention of supplying water to rapidly growing communities and industrial users. Vidler anticipates that up to 40,000 acre-feet of water rights will ultimately be permitted from these applications, and put to use in Lincoln County.

Under the Lincoln County Land Act, more than 13,000 acres of publicly owned land in southern Lincoln County will be offered for sale near the fast growing City of Mesquite. Additional water supply will be required if this land is to be developed.

Agreement has been reached to sell an electricity-generating company a minimum of 6,700 acre-feet of water, and a maximum of 9,000 acre-feet of water, at $3,300 per acre-foot. Among other things, the agreement is subject to the water rights being permitted, and the electricity-generating company obtaining permitting and financing for a new power plant. The agreement specifies a closing date of July 2003. Under the terms of the Lincoln County joint venture, when a water sale occurs, Vidler will first recover its costs, and then the remaining revenues will be split on a 50:50 basis.

Vidler has agreed to purchase 822.29 acre-feet of permitted water rights in Meadow Valley, which is located in Lincoln County. The agreement went into escrow in March 2001. Vidler is in discussions to commercially utilize these water rights by supplying the water to an industrial user through the joint venture with Lincoln County.

The Lincoln County joint venture is an example of a transaction where Vidler can partner with an entity, in this case a governmental entity, to provide the necessary capital and skills to commercially develop water assets.

2. SANDY VALLEY, NEVADA

Vidler has filed an application for approximately 2,000 acre-feet of water rights near Sandy Valley, Nevada.

A hearing related to the application was held in December 2001. The Nevada State Engineer is expected to announce a decision regarding the permitting of the water rights in the second quarter of 2002. When, and if, the water rights are permitted, we expect to close an agreement to supply water to support additional growth at Primm, Nevada, a resort town on the border between California and Nevada, in the Interstate 15 corridor.

3. FISH SPRINGS RANCH

During 2000, Vidler purchased a 51% interest in Fish Springs Ranch, LLC and a 50% interest in V&B, LLC. These companies own the Fish Springs Ranch and other properties totaling approximately 8,600 acres in Honey Lake Valley in Washoe County, 45 miles north of Reno, Nevada. Approximately 8,000 acre-feet of permitted water rights associated with Fish Springs Ranch are transferable to the Reno/Sparks area.

Vidler is holding discussions with a number of potential users for the Fish

Springs water rights, including developers and industrial users. There is strong demand for water in Nevada's north valleys, and few alternative sources of supply. If water from Fish Springs could be supplied to the north valleys, this would reduce their reliance on river water which comes through Reno, thereby providing additional water to support growth in and around Reno, an area which has been experiencing consistent growth. Alternatively, if the capacity of nearby transmission lines can be expanded, we believe that Fish Springs Ranch would be an attractive site for gas-fired electricity generation.

4. BIG SPRINGS RANCH

During 2001, a partnership dispute was resolved which resulted in Vidler attaining full ownership and direct management of Big Springs Ranch and related assets. See Item 3, "Legal Proceedings."

Big Springs Ranch consists of approximately 37,500 acres of deeded ranch land, located approximately 65 miles east of Elko, Nevada, in the northeastern part of the state. Currently the ranch land is leased to farmers, although parts of the property have the potential for a higher and better use.

There are 6,000 acre-feet of certificated water rights at Big Springs Ranch, which are the only known practical source of water to support new growth for West Wendover, Nevada and Wendover, Utah.

In addition, there are 6,000 acre-feet of permitted water rights related to the ranch, and Vidler has filed applications for an additional 5,950 acre-feet of water rights.

5. WEST WENDOVER, NEVADA

In 1999, a land exchange was completed in which approximately 70,500 acres of ranchland at Big Springs Ranch was exchanged with the Bureau of Land Management for several parcels of developable land near West Wendover, Nevada, totaling approximately 6,300 acres. West Wendover is adjacent to the Nevada/Utah border in the Interstate 80 corridor. Governmental officials are considering a proposal to move the state line and then merge the cities of West Wendover, Nevada and Wendover, Utah. West Wendover is approximately 120 miles from Salt Lake City, Utah, and attracts a significant number of drive-in visitors from Utah, a state where gaming is prohibited. The land owned by Vidler will stay in Nevada.

Following the resolution of the partnership dispute, Vidler attained direct management of this land in 2001. The first parcel to be developed is approximately 82 acres of industrial land. Vidler has agreed to sell approximately 7 acres of unimproved land to a user who will then be responsible for installing offsite utilities and access road improvements for an industrial park. The transaction is expected to close later in 2002. We anticipate that these improvements will allow Vidler to sell the remaining 75 acres as higher-value industrial land.

Vidler is examining alternatives for the remaining parcels, including industrial, commercial, hotel/casino, and residential development.

COLORADO

Vidler is progressing with the sale of all of its Colorado water assets, in

order to focus resources on states experiencing faster growth in demand for water.

In December 2000, Vidler closed the sale of various water rights and related assets to the City of Golden, Colorado for $1 million, and granted the City options to acquire other water rights. The City exercised an option to acquire water assets for $390,000 in 2001. If the remaining options are exercised, the aggregate purchase price is approximately $1.3 million.

On December 15, 2000, Vidler entered into a definitive agreement to sell 86 acre-feet of water rights to the East Dillon Water District for $3.1 million. The agreement must be approved by a referendum, so closing is not expected until late 2002. In the meantime, part of the senior water rights is being leased out for approximately $110,000 per annum.

Vidler has agreed to sell its interest in Cline Ranch to Centennial Water and Sanitation District for approximately $2.1 million. This sale requires the approval of the Denver Water Court, which is expected during 2002.

Discussions are continuing to either lease or sell the remaining water rights in Colorado, including the 97 acre-feet of senior water rights which are currently unutilized. Vidler has applied to upgrade these water rights, which would increase their commercial value.

WATER STORAGE

1. VIDLER ARIZONA RECHARGE FACILITY

During 2000, Vidler completed the second stage of construction at its facility to "bank", or store, water underground in the Harquahala Valley, and received the necessary permits to operate a full-scale water "recharge" facility. "Recharge" is the process of placing water into storage underground. Vidler has the permitted right to recharge 100,000 acre-feet of water per year at the Vidler Arizona Recharge Facility, and anticipates being able to store in excess of 1 million acre-feet of water in the aquifer underlying much of the valley. When needed, the water will be "recovered," or removed from storage, by ground water wells.

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The Vidler Arizona Recharge Facility is the first privately owned water storage facility for the Colorado River system, which is a primary source of water for the Lower Division States of Arizona, California, and Nevada. The water storage facility is strategically located adjacent to the Central Arizona Project aqueduct, a conveyance canal running from Lake Havasu to Phoenix and Tucson. The water to be recharged will come from surplus flows of CAP water. We believe that proximity to the CAP is a competitive advantage, because it minimizes the cost of water conveyance.

Vidler is able to provide storage for users located both within Arizona and out-of-state. Potential users include industrial companies, developers, and local governmental political subdivisions in Arizona, and out-of-state users such as municipalities and water agencies in Nevada and California. The Arizona Water Banking Authority has the responsibility for intrastate and interstate storage of water for governmental entities.

Vidler intends to charge customers a fee based on the amount of water

"recharged," and then an additional fee when the water is "recovered." The revenues generated from this asset will depend on the quantity of water which the AWBA, and private users, store at the facility. The quantity of water stored will depend on a number of factors, including the availability of water and available storage capacity at publicly owned facilities.

We believe that a number of events in recent years have increased the scarcity value of the project's storage capacity. At a public hearing on March 14, 2000, the AWBA disclosed that the Bureau of Reclamation has indicated that, before permits are issued for new facilities to store water for interstate users, extensive environmental impact studies will be required. The AWBA also indicated that the first priority for publicly owned storage capacity in Arizona is to store water for Arizona users. At the same hearing, the states of California and Nevada again confirmed that their demand for storage far exceeds the total amount of storage available at existing facilities in Arizona. Consequently, interstate users will need to rely, at least in part, on privately owned storage capacity.

The Southern Nevada Water Authority Water Resource Plan, which can be viewed at www.snwa.com, calls for 1.2 million acre-feet of water to be stored in Arizona in order to meet forecast demand after 2015. The AWBA is currently finalizing agreements to store water on behalf of Nevada. Once these agreements have been concluded, the AWBA can begin to negotiate storage for California. The AWBA will be able to store water at existing publicly owned sites and at the Vidler Arizona Recharge Facility, which is one of the largest water storage facilities. In April 2001, Vidler reached agreement with the Arizona Water Banking Authority concerning the terms under which water can be stored at the facility for the users represented by the Authority -- $45.00 per acre-foot of water recharged in 2001, rising to $46.50 in 2002, and $48.00 in 2003. The agreement concludes on December 31, 2003.

In addition to the potential demand from the public users represented by the AWBA, demand from private users could potentially utilize up to 100% of the site's storage capacity.

Vidler has not stored water for customers at the facility yet, but the company has been recharging water for its own account since 1998, when the pilot plant was constructed. Vidler purchased the water from the CAP, and intends to resell this water at an opportune time. At December 31, 2001, Vidler had recharged approximately 4,800 acre-feet of water at the facility.

Once Vidler has concluded agreements to store water, it will know the rate at which customers will need to be able to recover water. At that time, Vidler will be able to design, construct and finance the final stage of the project which will allow full-scale recovery. It is anticipated that the users of the facility will bear the capital cost of the improvements required to recover water at commercial rates.

It is anticipated that Vidler will be able to recharge 100,000 acre-feet of water per year at the facility, and to store in excess of 1 million acre-feet of water in the aquifer. Vidler's estimate of the aquifer's storage volume is primarily based on a hydrological report prepared by an independent engineering firm for the Central Arizona Water Conservation District in 1990. The report concluded that there is storage capacity of 3.7 million acre-feet, which is in excess of the 1 million acre-feet indicated by Vidler.

Recharge and recovery capacity is critical, because it indicates how quickly water can be put into storage or recovered from storage. In wet years, it is important to have a high recharge capacity, so that as much available water as possible may be stored. In dry years, the crucial factor is the ability to recover water as quickly as possible. There is a long history of farmers recovering significant quantities of water from the Harquahala Valley aquifer.

2. SEMITROPIC

Vidler originally had an 18.5% right to participate in the Semitropic Water Banking and Exchange Program, which operates a 1,000,000 acre-foot water storage facility at Semitropic, near the California Aqueduct, northwest of Bakersfield, California.

Over the first 10 years of the agreement with the Semitropic Water Storage District, Vidler was required to make a minimum annual payment of $2.3 million. Vidler began making the annual payments in November 1998. In return, Vidler had the right to store up to 185,000 acre-feet of water underground over a 35-year period. Vidler had the right to recover up to 42,000 acre-feet of water in any one year, including the right to a guaranteed minimum recovery of 16,650 acre-feet every year. Vidler was also required to make an annual payment for operating expenses.

The interest in Semitropic is Vidler's only asset in California, which has proved a difficult state to operate in due to the large number of entities involved in the water industry, each serving different, and sometimes conflicting, constituencies. In the meantime, the strategic value of the guaranteed right to recover an amount of water from Semitropic every year -- even in drought years -- became clear to water agencies, developers, and other parties seeking a reliable water supply. For example, developers of large residential projects in Kern County and Los Angeles County must now be able to demonstrate that they have sufficient back-up supplies of water in the case of a drought year before they are permitted to begin development. Accordingly, during 2001, Vidler took advantage of current demand for water storage capacity with guaranteed recovery, and began to sell its interest in Semitropic.

On May 21, 2001, Vidler closed the sale of 29.7% of its original interest (i.e., approximately 55,000 acre-feet of water storage capacity) to The Newhall Land and Farming Company for $3.3 million, resulting in a pre-tax gain of $1.6 million. This transaction added $1.6 million to revenues and segment income in 2001.

On September 30, 2001, Vidler closed the sale of another 54.1% of its original interest (i.e., approximately 100,000 acre-feet of water storage capacity) to the Alameda County Water District for $6.9 million, resulting in a pre-tax gain of $4.1 million. This transaction added $4.1 million to revenues and segment income in 2001.

Vidler's remaining interest includes approximately 30,000 acre-feet of storage capacity, and the right to recover up to approximately 6,800 acre-feet in any one year and minimum guaranteed recovery of approximately 2,700 acre-feet every year. We are considering various alternatives for the remaining interest, including sale to developers or industrial users. Currently Vidler is not storing any water at Semitropic for third parties.

OTHER PROJECTS

Vidler routinely evaluates the purchase of further water-righted properties in Arizona and, potentially, Nevada. Vidler also continues to be approached by parties who are interested in obtaining a water supply, or discussing joint ventures to commercially develop water assets and/or develop water storage

facilities.

SUMMARY

In 2002, Vidler's focus will be on:

- generating cash flow from the water rights in Nevada and Arizona through lease agreements or the sale of water rights;
- leasing storage capacity to customers at the Vidler Arizona Recharge Facility; and
- pursuing present and additional water rights applications and partnerships to commercially develop water rights.

LAND AND RELATED MINERAL RIGHTS & WATER RIGHTS

The majority of Nevada Land & Resource Company, LLC's revenues come from the sale of land and water rights. In addition, various types of recurring revenue are generated from use of the company's lands, including leasing, easements, and mineral royalties. Nevada Land also generates interest revenue from land sales contracts where the company has provided partial financing, and from temporary investment of the proceeds of land and water rights sales.

Nevada Land recognizes revenue from land sales, and the resulting gross profit or loss, when transactions close. On closing, the entire sales price is recorded as revenue, and a gross margin is recognized depending on the cost basis attributed to the land which was sold. Since the date of closing determines the accounting period in which the sales revenue and gain are recorded, Nevada Land's reported revenues and income fluctuate from period to period, depending on the date when specific transactions close.

In 2001, Nevada Land generated $1.9 million in revenues from the sale of:

- 15,352 acres of former railroad land for $1.7 million. The average sales price of $113 per acre compares to our average basis of $43 per acre in the parcels which were sold, and our average cost of $35 per acre for all of Nevada Land's land, water, and mineral assets; and
- 280 acres of land at Spring Valley Ranches for $178,000, resulting in a gross profit of $70,000. This land was not contiguous with the main property, and was not part of the land exchange transaction we are proposing for the bulk of the land assets at Spring Valley Ranches.

In 2001, 86% of land sales were settled for cash, and Nevada Land provided partial financing for the balance. Vendor financing has been collateralized by the land conveyed, carries a 10% interest rate, and is subject to a minimum 20% down payment.

PROPERTY AND CASUALTY INSURANCE

From 1997 until 1999, intense competition in the California market led many insurance companies to lower premiums in an attempt to attract business. In this environment, given that our strategy is to price policies with the objective of earning an underwriting profit, Sequoia declined to write policies which its management felt were inadequately priced, even if this resulted in lower volume overall. Faced with inadequate underwriting returns, during 1999 the focus of many companies in the California market returned to adequate pricing of policies, and some of our competitors began to raise premium rates.

Consequently, the rate of decline in Sequoia's premium volume steadily slowed throughout 1999, before turning around to low-single-digit percentage growth from January 2000. Growth in premium volume then accelerated significantly as a result of two developments in the second quarter of 2000.

First, commercial insurance premium volume increased as a result of new policies issued after A.M. Best Company, a leading insurance company rating service, upgraded Sequoia's claims paying ability from "B++" (Very Good) to "A"-(Excellent). This allowed Sequoia to compete for business in an additional market segment -- customers who can only purchase coverage from "A-" rated insurance companies.

Second, in May 2000, Sequoia acquired the Personal Express Insurance Services, Inc. book of business for approximately $3 million. Personal Express had few tangible assets, so the bulk of the purchase price was allocated to the book of business and recorded as an intangible asset, which is being charged off over 10 years. Personal Express markets personal insurance products to customers in the central California cities of Bakersfield and Fresno. Historically, this book of business has generated an underwriting profit. The acquisition greatly expanded Sequoia's business in personal lines of insurance, bringing approximately $7.5 million in additional premiums in 2001.

As a result of these factors, Sequoia Insurance Company generated strong growth in direct written premiums in 2000 and 2001.

In 2000, direct written premiums increased by 33.5% to $47.1 million, as a result of both growth in the existing book of business, which was principally in commercial lines of insurance, and new policies issued after the A.M. Best upgrade and the acquisition of Personal Express.

Direct written premiums in commercial lines increased 17.8% to $39.7 million in 2000. This included 29.1% growth to $21.4 million in the second half of 2000, following the change in Sequoia's A.M. Best rating.

Direct written premiums in personal lines began to increase markedly in the second quarter of 2000, as new revenues from the Personal Express book of business began. In mid-May, Sequoia began to write new policies which were generated by the Personal Express Bakersfield office. From July 1, the amount of premium written for Personal Express customers increased significantly as Sequoia had the opportunity to renew existing policies for clients of the Bakersfield office as these expired with the former carrier. Reflecting a full contribution from Personal Express, written premium in personal lines reached $6.4 million in the second half of 2000.

In 2001, direct written premiums rose another 14.9%, to $54.1 million, comprised of $45 million in commercial lines and $9.1 million in personal lines. The growth in premium volume in 2001 was primarily due to growth in the commercial insurance book of business.

In 2002, Sequoia is budgeting for approximately 10% growth in direct written premiums, with approximately 84% of direct written premiums coming from commercial lines and approximately 16% from personal lines.

During 2001 and 2000, Sequoia's loss ratio, and consequently underwriting results, deteriorated because growth in claims costs (e.g., for construction,

medical care, and automobile repair) had outpaced growth in effective premiums in recent years. In 2001, Sequoia introduced a number of initiatives to improve its loss ratio. Sequoia further tightened underwriting standards, for example, by ceasing to provide coverage for certain types of business. In addition, Sequoia increased rates for commercial automobile coverage. Rate increases are planned in most other commercial lines in 2002. While these initiatives have led to an increase in average premiums per policy, the effect on total written premiums was partially offset by a reduction in the number of policies issued. Average direct premiums per policy in commercial lines increased approximately 15% in 2001, but the number of commercial policies written declined by approximately 2.6%. The overall effect on profitability is expected to be positive. Due to the lag between a policy being "written" and the premium being "earned," the full effect of these initiatives will not be reflected in Sequoia's reported results until 2002.

The growth in commercial premium volume and the acquisition of the Personal Express book of business have helped to reduce Sequoia's underwriting expense ratio (i.e., underwriting expenses as a percentage of earned premiums). Since some costs are fixed (i.e., do not vary with changes in volume), Sequoia's operating expenses have increased at a slower rate than premium volume, which has reduced Sequoia's average operating expense per policy and underwriting expense ratio.

In December 2000, Citation ceased writing business and is now in "run off" (i.e., handling claims arising from policies written in previous years, but not writing new policies). In 1997, 1998, and 1999, Citation took charges to increase claims reserves in the artisans/contractors line of business, including a pre-tax charge of $10.1 million in 1999. Citation did not need to increase claims reserves in the artisans/contractors line of business in 2000 or 2001. If current claims trends continue, we believe that our loss reserves in this line of business are adequate; however, if the trend in claims worsens in the future, then additional charges could be required to increase reserves.

The artisan/contractors business was written under Citation's previous management. In fact, Citation ceased writing this type of insurance coverage in 1995, the year before the reverse merger with Physicians Insurance Company of Ohio, and no artisans/contractors business was renewed after the merger. The decline in the California real estate market in the early 1990's encouraged property owners to try and improve their position by filing claims against contractors and related parties for alleged construction defects. Citation's average loss ratio (i.e., the cost of making provision to pay claims as a percentage of earned premium) for all years from 1989 to 1995 for this insurance coverage is over 375%. This experience is not unique to Citation, but is shared by all insurers who wrote this type of coverage in California in the 1980's and 1990's.

Income from the investment of funds held as part of their insurance business is an important component of the profitability of insurance companies. Investment income consists of interest from fixed-income securities and dividends from stocks held in the insurance company portfolios. In addition, from time to time, gains or losses are realized from the sale of investments.

The duration of a bond portfolio measures the amount of time it would take for the cash flows from scheduled interest payments and bond maturities to equal the current value of the portfolio. Duration is important because it indicates the sensitivity of the market value of a bond portfolio to changes in interest rates. Typically, the longer the duration, the greater the sensitivity of the value of the bond portfolio to changes in interest rates.

To minimize interest rate risk (i.e., the potential decrease in the market value of the bond portfolio which would be brought on by higher interest rates), Sequoia targets a duration of 5 years or less. At December 31, 2001, the

duration of Sequoia's bond portfolio was 4.4 years. The maturity of securities in Citation's bond portfolio is structured to match the projected pattern of claims payouts. At December 31, 2001, the duration of Citation's bond portfolio was 3.1 years.

Apart from treasury bonds which are held as deposits and collateral with regulators, and government-sponsored enterprise bonds (i.e., Freddie Mac and FNMA) held for capital purposes, the bond portfolio consists of high quality corporate issues. Our insurance companies do not own any bonds in the telecommunications, technology, utilities, energy, or consumer finance sectors which experienced difficulties in 2001 and the first two months of 2002.

MEDICAL PROFESSIONAL LIABILITY INSURANCE

Physicians Insurance Company of Ohio is in "run off." Physicians obtains the funds to pay claims from the maturity of fixed-income securities, the sale of investments, and collections from reinsurance companies (i.e., insurance companies who share in our claims risk). During the "run off," this segment will shrink as the level of claims reserve liabilities and investment assets decrease, as claims are paid with the proceeds of investment maturities and sales. Accordingly, it is anticipated that investment income, and therefore revenue, in this segment will decline over time. We are attempting to minimize segment overhead expenses as much as possible. For example, in 2000 and 2001 we reduced head count and office space. On December 21, 2001, Professionals Insurance Company was merged into Physicians. This will simplify administration and result in cost savings, for example, from the elimination of duplication.

During 2001, our medical professional liability insurance claims reserves, net of reinsurance, decreased from $51.6 million to $34.9 million. Actuarial analysis of Physicians' loss reserves as of September 30, 2001 concluded that Physicians' reserves against claims were significantly greater than the actuary's projections of future claims payments. Accordingly, Physicians reduced its claims reserves by approximately $11.2 million in the fourth quarter, which accounts for 67% of the net decrease in reserves during 2001. It should be noted that such actuarial analyses involves estimation of future trends in many factors which may vary significantly from expectation, which could lead to further reserve adjustments -- either increases or decreases -- in future years.

We manage the Physicians investment portfolio with the objective of having sufficient cash and maturing fixed-income securities to meet the claims payments projected for at least the following twelve months. At December 31, 2001, the duration of the Physicians bond portfolio was 1.6 years.

LONG TERM HOLDINGS

1. HYPERFEED TECHNOLOGIES, INC.

HyperFeed provides financial market data and data-delivery solutions to the financial services industry.

PICO first invested in HyperFeed in 1995 through the purchase of common stock. We invested further capital in HyperFeed as debt, which was later converted to equity, and received warrants for providing financing. During December 2000 and January 2001, we purchased 245,000 shares of common stock on the open market. In September 2001, the principal and accrued dividends on the HyperFeed Series A and Series B preferred stock held by PICO and its subsidiaries were converted into HyperFeed common shares at a conversion price

of $1.03 per share. PICO received 7,462,856 shares on conversion, increasing our voting ownership of HyperFeed from approximately 35% to approximately 42.4%.

At December 31, 2001, PICO and its subsidiaries held the following securities in HyperFeed:

- 10,077,856 common shares, which had a carrying value of $2.1 million (before taxes), compared to a potential market value of $6.1 million (before taxes) based on the last sale price of $0.61 on December 31, 2001; and
- warrants to buy 4,055,195 shares. The exercise price for the warrants to buy 3,106,163 shares is fixed at $1.575 per share. However, the warrants to buy 949,032 shares are exercisable at the lesser of the stated exercise price, which averages approximately $1.844, or the then market price of the common stock. At December 31, 2001, the warrants were carried at estimated fair value of $527,000 (before taxes).

Since our initial investment in HyperFeed, the Company's revenues have grown from $13.4 million in 1995 to $33.3 million in 2001.

For full year 2001, HyperFeed generated revenues of $33.3 million, gross margin of $12.9 million, EBITDA (i.e., earnings before depreciation, amortization, interest and tax, a non-GAAP measure which investors frequently use as a proxy for gross cash flow) of $4 million, and a net loss from operations of $1.5 million, excluding non-cash preferred dividends of $927,000. Net cash flow from operating activities was $2.8 million.

In the fourth quarter of 2001, HyperFeed generated revenues of $6.2 million, gross margin of $3.8 million, EBITDA of $1.2 million, and a net loss of $303,000. Net cash flow from operating activities was $522,000.

We use the equity method to account for the common shares. HyperFeed contributed an equity loss of $1.2 million to the Long Term Holdings segment in 2001.

The HyperFeed warrants are carried in our financial statements at estimated fair value. Following the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", the change in estimated fair value of warrants during an accounting period is recorded in the Consolidated Statement of Operations for that period. See Note 4 of Notes to Consolidated Financial Statements, "Investments."

2. JUNGFRAUBAHN HOLDING AG

PICO owns 112,672 shares of Jungfraubahn, which represents approximately 19.3% of the company.

At December 31, 2001, our investment in Jungfraubahn had a cost basis of $17.4 million, a market value of $17.7 million, and a net carrying value of $16.4 million, after allowing for taxes.

Jungfraubahn announced its result for the 2000 financial year on May 21, 2001, so the 2001 result will probably not be released until after this 10-K has been filed. Jungfraubahn described 2000 as an exceptional year, whose results "will not easily be repeated." Passenger numbers and revenues in 2000 were unusually high due to a 100-year anniversary promotion by Raiffeisen, a Swiss bank, which is estimated to have generated more than 50% of the increase in

passenger visits to Jungfraujoch, and due to 22.4% growth in group travel. Revenues increased 19.7% to CHF (Swiss Francs) 110.3 million, EBITDA (i.e., earnings before depreciation, amortization, interest and tax, a non-GAAP measure which investors frequently use as a proxy for gross cash flow) increased 30.4% to CHF40.8 million, and net income increased 19.5% to CHF17.9 million, or CHF30.6 per share. Jungfraubahn's operating activities generated net cash flow of CHF35.2 million.

On August 31, 2001, Jungfraubahn announced its results for the first six months of 2001. Revenues declined by CHF5.4 million, or 10.6%, year over year to CHF45.7 million, principally due to the absence of revenues from the Raiffeisen promotion. Due to the CHF5.4 million reduction in revenue and a CHF2.1 million increase in operating expenses, EBITDA declined CHF7.5 million to CHF10.3 million, and net income dropped CHF7.6 million to CHF3.3 million, or CHF5.6 per share. In addition, the sale of art contributed an extraordinary profit of CHF1.4 million.

On January 23, 2002, Jungfraubahn issued a press release containing an initial review of 2001 operations. The full text is available on Jungfraubahn's web-site www.jungfraubahn.ch (in the "Shareholders" tab of the "Inside" section).

In the press release, Jungfraubahn indicated that it expected transport revenues of approximately CHF74.5 million for 2001, an 11.6% reduction from the record CHF84.3 million of 2000, but the second highest in the company's history. Jungfraubahn signaled that "a satisfactory result" was anticipated, "despite the reduction in numbers of guests from Asia and the USA in the fourth quarter," although the result will likely be below the previous year.

Jungfraubahn indicated that it expects that the September 11 terrorist attacks in the U.S. will lead to a redistribution in passenger numbers in 2002. Visitors from Japan, the most important inbound market, are expected to be down due to a fear of flying, compounded by the weak Japanese economy, although Jungfraubahn noted "positive signs" suggesting that "a recovery in the travel market may be expected as early as May 2002". Jungfraubahn expects this to be offset, to some extent, by increased visitation from the domestic Swiss market and nearby countries. Jungfraubahn noted that the U.S. is a "relatively small" inbound market.

Jungfraubahn's most recent published balance sheet is as of December 31, 2000, when book value per share was CHF485. On December 31, 2001, Jungfraubahn's stock price was CHF270, and CHF1 equaled $US0.6034.

During 2000, we began to use the equity method to account for our investment in Jungfraubahn Holding AG, given that we owned approximately 19.3% of the company, that we had a representative on the board of directors, and that we received the necessary quarterly financial information in a timely manner. After we adopted the equity method, we included our proportionate share of Jungfraubahn's net income in the line "Equity Share of Investees' Net Income" in our consolidated statement of operations, and the investment was carried in our balance sheet at our proportionate share of Jungfraubahn's net assets.

However, based on our inability to obtain financial information for the second quarter of 2001, and the absence of a commitment to provide quarterly financial statements on an on-going timely basis, we concluded that we do not have the requisite ability to exercise "significant influence" to apply the equity method. Accordingly, we ceased to account for the investment under the equity method from the start of the second quarter (i.e., from April 1, 2001), and reverted to market value accounting under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." The impact of this change on our financial statements is:

- in our income statement for 2001, we recorded a $669,000 dividend received from Jungfraubahn in investment income, and $241,000 of income in the line "Equity Share of Investees' Net Income" for the portion of the year when the equity method was applied; and
- in our balance sheet, we now record the investment at market value. At December 31, 2001, this was approximately $7.4 million less than our previous carrying value because the share price of Jungfraubahn is less than that company's book value per share (i.e., net assets). This caused a net reduction in shareholders' equity of approximately $6.8 million, or $0.55 per PICO share. This is a change in accounting treatment only, and does not reflect any change in the potential value of our investment in Jungfraubahn. See "Significant Accounting Policies" later in this section.

3. AUSTRALIAN OIL & GAS CORPORATION LIMITED

During 2001, we acquired another 1,441,347 shares in AOG, lifting our shareholding to 9,867,391 shares, representing approximately 20.7% of the company at December 31, 2001.

At December 31, 2001, our investment in AOG had a cost basis of $8.2 million, a market value of $7.5 million, and a net carrying value of $7.7 million after allowing for taxes. This investment was funded in US dollars. To this point, depreciation in the Australian dollar relative to the US dollar has offset the unrealized gain in local Australian currency terms.

On September 5, 2001, AOG announced that it had returned to profit in the financial year ended June 30, 2001. AOG's revenues increased 86.1% to $A130.1 million ($A1.00 = $US0.5094), and the company reported net income of $A8 million, or $A0.17 per share. Rig utilization improved during the financial year, from 54% in the first half, to 65% in the second half. The increase in utilization during the year appears to have translated into profit growth, with net income for the second half estimated at $A5 million, compared to $A3 million in the first half. In the letter accompanying the results, AOG indicated that rig utilization was "running at over 75%".

On January 17, 2002, AOG announced that it was raising additional capital to purchase a new deep capacity drilling rig and to refit two existing rigs to perform new long term drilling contracts with ExxonMobil Indonesia and Petroleum Development - Oman. In January 2002, PICO provided AOG with a short term $US4 million bridging facility, and was issued 333,333 shares in AOG as a loan establishment fee. AOG is to repay the advance with the proceeds of a rights offering which closes on March 18, 2002. PICO is underwriting part of the offering, and has been issued with another 333,333 shares in AOG as an underwriting fee.

On February 27, 2002, AOG announced its results for the six months ended December 31, 2001. Revenues increased 26.6% to $A76.1 million ($A1.00 = $US0.5094), and net income increased 21% to $A3.7 million, or $A0.077 per share. Net cash flow from operating activities was $A10.2 million, shareholders' equity was $A100.7 million, and tangible book value per share was $A2.10. In the letter to shareholders accompanying the results, AOG indicated that "the contract book is satisfactory and the Company can look forward to continuing and increasing profitability for the rest of this calendar year."

AOG provides its shareholders with half-yearly financial information in accordance with the requirements of the Australian Stock Exchange and Australian securities laws. Given our 20.7% voting ownership at December 31, 2001, and that our Chairman joined AOG's Board of Directors in September 2001, we asked AOG for

an on-going commitment to provide timely quarterly financial statements, so that the equity method could potentially be applied to this investment. AOG has declined to provide us with quarterly financial statements and other financial information which is not publicly available to other AOG shareholders. Consequently, we concluded that PICO does not have the ability to exercise significant influence over AOG which is required to apply the equity method of accounting. Instead, the investment is carried at market value, with the unrealized after-tax gain or loss being included in shareholders' equity.

See the next section in Item 7, "Significant Accounting Policies."

4. DISCLOSED EUROPEAN INVESTMENTS

ACCU HOLDING AG

PICO owns 8,125 shares in Accu Holding, which represents a voting ownership interest of approximately 28.3% of the company. Since PICO was not able to obtain the necessary financial information, we do not have the ability to exercise significant influence over Accu Holding's activities in 2001, so this investment is not accounted for under the equity method. Instead, the investment is carried at market value, with the unrealized after-tax gain or loss being included in shareholders' equity.

At December 31, 2001, our investment in Accu Holding had a cost basis of $4.6 million, a market value of $4.5 million, and a net carrying value of $4.5 million, after allowing for taxes.

Accu Holding manufactures batteries at two plants in Switzerland.

SIHL

During 2001, we participated in a restructuring and capital raising by Sihl, a Swiss public company. Sihl's core business is digital imaging, but the company has surplus property assets in and around Zurich. We own 158,056 shares in Sihl, or approximately 10.4% of the company, with a cost basis of $4.3 million, a market value of $2.1 million, and a net carrying value of $2.3 million after taxes at December 31, 2001.

5. ALTERNATIVE INVESTMENTS

At December 31, 2001, PICO's remaining alternative investments had an aggregate carrying value of $3.2 million after taxes, or 1.5% of Shareholders' Equity.

The principal alternative investment is SISCOM, Inc., which is a consolidated subsidiary. SISCOM is a software developer and systems integrator for video-based content management systems for the professional broadcast, sports, and entertainment industries. We are pursuing a number of alternatives to realize the value of this investment, including assisting SISCOM to enter into strategic licensing agreements with companies which have multi-national marketing and distribution channels.

SIGNIFICANT ACCOUNTING POLICIES

PICO's principal assets and activities comprise:

- land, water rights, and water storage assets;
- property and casualty insurance, and the "run off" of property and casualty

insurance and medical professional liability insurance loss reserves; and
- long term investment in other companies.

Following is a description of what we believe to be the critical accounting policies affecting our company, and how we apply these policies.

1. ESTIMATION OF RESERVES IN INSURANCE COMPANIES

We must estimate future claims and ensure that our loss reserves are adequate to pay those claims. This process requires us to make estimates about future events. The accuracy of these estimates will not be known for many years. For example, part of our claims reserves cover "IBNR" claims (i.e., the event giving rise to the claim has occurred, but the claim has not been reported to us). In other words, in the case of IBNR claims, we must provide for claims which we do not know about yet.

At December 31, 2001, the loss reserves, net of reinsurance, of our three insurance subsidiaries were:

- Sequoia Insurance Company, $21.2 million;
- Citation Insurance Company, $19.2 million; and
- Physicians Insurance Company of Ohio, $34.9 million. Physicians wrote its last policy in 1995. However, under current law, claims can be made until 2017 for events which allegedly occurred during the periods when we provided insurance coverage to medical professionals.

Our medical professional liability insurance reserves are certified annually by an independent actuary, as required by Ohio insurance law. Actuarial estimates of our future claims obligations have been volatile. In 2001, we reduced claims reserves by $11.2 million after actuarial studies by two independent firms concluded that Physicians' claims reserves were significantly greater than projected claims payments. However, based on actuarial analysis, we increased reserves by $2 million in 2000 and by $5 million in 1999. Accordingly, there can be no assurance that our claims reserves are adequate and there will not be reserve increases or decreases in the future.

As required by California insurance law, the loss reserves of Sequoia Insurance Company and Citation Insurance Company are reviewed quarterly, and certified annually, by an independent actuarial firm.

2. CARRYING VALUE OF LONG-LIVED ASSETS

Our principal long-lived assets are land, water rights, and interests in water storage assets owned by Vidler, and land at Nevada Land. At December 31, 2001, the total carrying value of land, water rights, and interests in water storage assets was $126 million, or 33.7% of PICO's total assets.

As required by GAAP (i.e., generally accepted accounting principles), our long-lived assets are rigorously reviewed at least quarterly to ensure that the estimated future undiscounted cash flows from these assets will at least recover their carrying value. Our management conducts these reviews utilizing the most recent information available. The review process inevitably involves the significant use of estimates and assumptions.

In our water rights and water storage business, we develop some projects and assets from scratch. This can require cash outflows (e.g., to drill wells to prove that water is available) in situations where there is no guarantee that the project will ultimately be commercially viable. If we determine that it is probable that the project will be commercially viable, the costs of developing

the asset are capitalized (i.e., recorded as an asset in our balance sheet, rather than being charged as an expense). If the project ends up being viable, in the case of a sale, the capitalized costs are included in the cost of land and water rights sold and applied against the purchase price. In the case of a lease transaction or when the asset is fully developed and ready for use, the capitalized costs are amortized (i.e., charged as an expense in our income statement) and match any related revenues.

If we determine that the carrying value of an asset cannot be justified by the forecast future cash flows of that asset, the carrying value of the asset is written down, or written off, immediately.

At December 31, 2001, our balance sheet contained capitalized costs of $3 million for two projects at Vidler, which require regulatory approval to proceed.

3. ACCOUNTING FOR INVESTMENTS AND INVESTMENTS IN UNCONSOLIDATED AFFILIATES

At December 31, 2001, PICO and its subsidiaries held equities with a carrying value of approximately $56.4 million. These holdings are primarily small-capitalization value stocks in the US, Switzerland, and Australia. Depending on the circumstances, and our judgment about the level of our involvement with the investee company, we apply one of two accounting policies.

In the case of most holdings, we apply Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under this method, the investment is carried at market value in our balance sheet, with unrealized gains or losses being included in shareholders' equity, and the only income recorded is from dividends.

In the case of investments where we have the ability to exercise significant influence over the company we have invested in, we apply the equity method under Accounting Principles Board No. 18, "The Equity Method of Accounting for Investments in Common Stock."

The application of the equity method (ABP No. 18) to an investment may result in a different outcome in our financial statements than market value accounting (SFAS No. 115). The most significant difference between the two policies is that, under the equity method, we include our proportionate share of the investee's earnings or losses in our statement of operations, and dividends received are used to reduce the carrying value of the investment in our balance sheet. Under market value accounting, the only income recorded is dividends.

The assessment of what constitutes the ability to exercise "significant influence" requires our management to make significant judgments. We look at various factors in making this determination. These include our percentage ownership of voting stock, whether or not we have representation on the investee company's Board of Directors, transactions between us and the investee, the ability to obtain timely quarterly financial information, and whether PICO management can affect the operating and financial policies of the investee company. When we conclude that we have this kind of influence, we adopt the equity method and change all of our previously reported results of the investee to show the investment as if we had applied equity accounting from the date of our first purchase. This adds volatility to our reported results.

While the method of accounting we use clearly has no impact on the underlying performance of the investee, the use of market value accounting or the equity method can result in significantly different carrying values at discrete balance sheet dates and contributions to our statement of operations over the course of the investment. It should be noted that the total impact of the investment on PICO's shareholders' equity over the entire life of the investment will be the same whichever method is adopted.

For example, our investment in HyperFeed is carried under the equity method of accounting as we have determined that we have the ability to exercise significant influence over HyperFeed. As a result, at December 31, 2001, the carrying value of HyperFeed in our balance sheet is significantly below what it would be if we recorded this investment at market. Also, during 2001 we ceased accounting for our investment in Jungfraubahn Holding under the equity method after we determined that we no longer had the ability to exercise significant influence over Jungfraubahn. When we readopted market value accounting, we recorded a reduction in shareholders' equity because the market value of our investment in Jungfraubahn was significantly below the carrying value under the equity method.

RESULTS OF OPERATIONS -- YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

SUMMARY

PICO reported net income of $4.8 million, or $0.39 per diluted share in 2001, compared with a net loss of $9.5 million, or $0.82 per diluted share, in 2000, and a net loss of $6.8 million, or $0.76 per diluted share, in 1999. The weighted average number of shares outstanding in 2001 and 2000 increased as a result of the rights offering in March 2000.

At December 31, 2001, PICO had shareholders' equity of $206.6 million, or $16.71 per share, compared to $205.2 million, or $16.56 per share, at the end of 2000. The principal factors leading to the $1.4 million increase in shareholders' equity were:

- net income of $4.8 million for the year; and
- a foreign currency translation credit of $628,000; which were partially offset by
- net unrealized depreciation in investments of $3.7 million. This includes a $6.8 million reduction when we ceased to account for the investment in Jungfraubahn Holding AG under the equity method from April 1, 2001. This is explained in the Long Term Holdings section of the preceding "Company Summary, Recent Developments and Future Outlook"; and
- a $299,000 increase in treasury stock due to the purchase of PICO shares in deferred compensations plans.

Total assets at December 31, 2001 were $373.1 million, compared to $395.1 million at December 31, 2000. Most of the $22 million decrease in total assets is attributable to the "run off" of Physicians and Citation, which reduced both insurance liabilities and the corresponding assets. Total liabilities decreased by $22.6 million, primarily due to a $16.7 million reduction in medical professional liability insurance loss reserves during the year.

The $4.8 million in net income reported in 2001 consisted of $5.8 million in net income before an accounting change, or $0.47 per share, and a change in accounting principle which had the cumulative effect of reducing income by $981,000 after taxes, or $0.08 per share. The $5.8 million in net income before an accounting change was comprised of $7.7 million in income before taxes and minority interest, a $2.3 million provision for income tax expense, and the addition of $359,000 in minority interest. This reflects the interest of minority shareholders in the losses of subsidiaries which are less than 100%-owned by PICO. The accounting change was due to the adoption of the

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This non-cash charge recognized the accumulated after-tax decline in the estimated fair value of warrants we own to buy shares in other companies (principally HyperFeed Technologies, Inc.) from the date we acquired the warrants through to January 1, 2001. The decline in the estimated fair value of warrants during 2001 is recorded in the Long Term Holdings segment.

The $2.3 million net provision for income tax expense for 2001 consists of several items, which are detailed in Note 7 of Notes to Consolidated Financial Statements, "Federal Income Tax." A gross provision for tax of approximately $2.9 million was partially offset by $630,000 in tax benefits, primarily represented by a cash refund following a successful appeal of a prior year tax ruling in Canada. We do not need to pay any taxes in cash for 2001 because prior year net operating loss carry-forwards offset our tax provision for the year.

PICO incurred a net loss of $9.5 million in 2000. The $4.5 million net loss before an accounting change consisted of a $13.5 million pre-tax loss, which was partially offset by $8.2 million in income tax benefits and the addition of $717,000 in minority interest. In addition, the cumulative effect of a change in accounting principle reduced income by $5 million after-tax. Until December 31, 1999, PICO had discounted the carrying value of its medical professional liability claims reserves, to reflect the fact that some claims will not be paid until many years in the future, but funds from the corresponding premiums can be invested in the meantime. After December 31, 1999, PICO's medical professional liability insurance subsidiaries were no longer allowed to discount claims reserves in the statements they file with the Ohio Department of Insurance, which are prepared on the statutory basis of accounting. With this change in accounting principle, we have also eliminated the discounting in our financial statements which are prepared on a GAAP basis.

The $8.2 million in tax benefits recorded in 2000 is made up of several items. These include a $4.4 million cash refund resulting from the successful appeal of a prior year tax ruling in Canada, and a $3.3 million expense which was recognized to increase federal income tax valuation allowances recorded against tax assets in some of our subsidiaries.

In 1999, the $6.8 million net loss was comprised of a $20.5 million pre-tax loss, which was partially offset by the addition of $12.5 million in income tax benefits, $706,000 in minority interest, and a $442,000 after-tax extraordinary gain from the early settlement of debt. The income tax benefits recognized include an $8.4