PICO HOLDINGS INC /NEW
Form 10-K/A
March 31, 2003

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

(MARK ONE)

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

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

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

Portions of the registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2002 Annual Meeting of Stockholders, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Report. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the conclusion of the registrant's fiscal year ended December 31, 2001.

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PICO HOLDINGS, INC.

ANNUAL REPORT ON FORM 10-K/A

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EXPLANATORY NOTE

This amended Annual Report on Form 10-K/A amends and restates in its entirety PICO Holdings, Inc. ("PICO") Annual Report on Form 10-K for the fiscal year ended December 31, 2001 as of the date of the filing of the original Form 10-K, March 18, 2002. PICO has filed this amended Annual Report on Form 10-K/A as a result of the restatement of its consolidated financial statements for all years from 1996 to 2001, inclusive. The effects of the restatement are incorporated into our consolidated financial statements included herein as well as in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other portions of this Report. See Note 22 to the Consolidated financial statements in Item 8 for the nature of the restatement. This amended Annual Report on Form-K/A speaks as of the end of the fiscal year 2001 as required by Form 10-K or as of the date of filing the original Annual Report on Form 10-K. It does not update any of the statements contained therein except with respect to the effect of the restatement.

PART I

THIS FORM 10-K/A 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. 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/A, 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. ("PICO," or "the Company") 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.

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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.

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. ("Vidler") 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/A 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	PRES
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	Leas
NEVADA:		
FISH SPRINGS RANCH, LLC (51% INTEREST) &	8,600 acres of deeded ranchland	Vidl

V&B, LLC (50% INTEREST) Washoe County, 40 miles north of Reno	8,000 acre-feet of permitted water rights, which are transferable to the Reno/Sparks area	prop prop
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 elec with feet

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.	Agre addi once perm
WEST WENDOVER Adjacent to the Nevada / Utah state line in the Interstate 80 corridor	Approximately 6,300 acres of land near West Wendover, Nevada	Agre indu
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	Leas
COLORADO:		
CLINE RANCH	Approximately 500 acre-feet of senior water rights	
VIDLER TUNNEL WATER RIGHTS (the Vidler Tunnel itself was divested in 2000)		

	163 acre-feet of senior water rights
WET MOUNTAIN	600 acre-feet of priority water rights
WATER STORAGE	
ARIZONA:	
VIDLER ARIZONA RECHARGE FACILITY Harquahala Valley, Arizona	An underground water storage facility with 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 ("Nevada Land"), 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 properties owned by Nevada Land. 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.

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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.

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 $30.2 million, which represents 14.5% 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		$2,399,000	
Carrying value		$30,219,000	

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.

4. Our investments in Jungfraubahn and Australian Oil & Gas Corporation are accounted for under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

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 a 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 Treasure

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, 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/A and the consolidated financial statements and the related notes thereto included elsewhere in this document.

	Year Ended December		
	2001 (1)	2000 (1)	1999 (1
OPERATING RESULTS			(In thousands, excep
Revenues:			
Premium income earned	$ 43,290	$ 34,436	$ 36,3
Net investment income	9,767	8,861	6,6
Other income	18,215	2,517	10,6
Total revenues	$ 71,272	$ 45,814	$ 53,6
Income (loss) from continuing operations before extraordinary gain and cumulative effect	$ 6,095	$ (6,337)	$ (10,1
Income from discontinued operations, net			
Extraordinary gain, net of tax			4
Cumulative effect of change in accounting principle	(981)	(4,964)	
Net income (loss)	$ 5,114	$ (11,301)	$ (9,7
INCOME (LOSS) PER COMMON SHARE: BASIC			
Income (loss) from continuing operations	$ 0.49	$ (0.55)	$ (1.
Income from discontinued operations			
Extraordinary gain, net of tax			0.
Cumulative effect of change in accounting principle	(0.08)	(0.43)	
Net income (loss)	$ 0.41	$ (0.97)	$ (1.
Weighted Average Shares Outstanding	12,384,682	11,604,120	8,998,4
INCOME (LOSS) PER COMMON SHARE: DILUTED			
Income (loss) from continuing operations	$ 0.49	$ (0.55)	$ (1.
Income from discontinued operations			
Extraordinary gain, net of tax			0.
Cumulative effect of change in accounting principle	(0.08)	(0.43)	
Net income (loss)	$ 0.41	$ (0.97)	$ (1.
Weighted Average Shares Outstanding	12,384,682	11,604,120	8,998,4

(1) Restated to reflect a change in the equity method of accounting for the investment in Jungfraubahn and the recording of other-than-temporary impairments on marketable securities. See Note 22, Restatement of Previously Reported Financial Information, in the notes to consolidated financial statements.

	Year Ended December 31			
	2001 (1)	2000 (1)	1999 (1)	1998 (
	(In thousands, except per share data)			

FINANCIAL CONDITION				
Assets	$374,419	$392,082	$376,171	$395,4
Unpaid losses and loss adjustment expenses, net of discount (1999 and prior)	$ 98,449	$121,542	$139,133	$155,0
Total liabilities and minority interest	$166,520	$189,977	$206,665	$221,7
Shareholders' equity	$207,899	$202,105	$169,506	$173,7
Book value per share	$ 16.81	$ 16.31	$ 18.72	$ 19.

(1) Restated to reflect a change in the equity method of accounting for the investment in Jungfraubahn and the recording of other-than-temporary impairments on marketable securities. See Note 22, Restatement of Previously Reported Financial Information, in the notes to consolidated financial statements.

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 using the equity method of accounting. 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

INTRODUCTION

As discussed in Note 22, "Restatement of Previously Reported Financial Information" in the Notes to the Consolidated Financial Statements, the Company has filed this amended Form 10-K. ("Form 10-K/A") to restate its previously issued financial statements for the years ended December 31, 2001, 2000, and 1999. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation," reflects this restatement.

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 ("CAP"). 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.

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.

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.

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 ("AWBA") 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 Vidler 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 AND WATER RIGHTS

The majority of Nevada Land's revenues come from the sale of land and water rights. In addition, various types of recurring revenue are generated from use of Nevada Land's properties, including leasing, easements, and mineral royalties. Nevada Land also generates interest revenue from land sales contracts where Nevada Land 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 involve 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.

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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.

Our holding in Jungfraubahn is accounted for under 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, and the only income recorded is from dividends. At December 31, 2001, our investment in Jungfraubahn had a cost basis of $14.9 million and a carrying (market) value of $17.7 million.

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 ($US65.5 million). EBITDA (i.e., earnings before depreciation, amortization, interest and tax, a non-GAAP measure which investors frequently use as a proxy for gross cash flow) increased 30.4% to CHF40.8 million ($US24.2 million). Net income increased 19.5% to CHF17.9 million ($US10.6 million), or CHF30.6 ($US18.20) per share. Jungfraubahn's operating activities generated net cash flow of CHF35.2 million ($US20.9 million).

On August 31, 2001, Jungfraubahn announced its results for the first six months of 2001. Revenues declined by CHF5.4 million ($US3.2 million), or 10.6%, year over year to CHF45.7 million ($US27.1 million), principally due to the absence of revenues from the Raiffeisen promotion. Due to the CHF5.4 million ($US3.2 million) reduction in revenue and a CHF2.1 million ($US1.3 million) increase in operating expenses, EBITDA declined CHF7.6 million ($US4.5 million) to CHF10.3 million ($US6.1 million). Net income dropped CHF7.6 million ($US4.5 million) to CHF3.3 million ($US2 million), or CHF5.6 ($US3.33) per share. In addition, the sale of art contributed an extraordinary profit of CHF1.4 million ($US830,000).

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 ($US44.2 million) for 2001, an 11.6% reduction from the record CHF84.3 million ($US50 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 ($US292.64). On December 31, 2001, Jungfraubahn's stock price was CHF270 ($US162.92), and CHF1 equaled $US0.6034.

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. We reviewed the unrealized loss at December 31, 2001, and determined that an other-than-temporary impairment did not exist. This investment was funded in US dollars.

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 $A130.1 million ($US66.3 million), and the company reported net income of $A8 million ($US4.1 million), or $A0.17 ($US0.09) 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 $A5 million ($US2.6 million), compared to $A3 million ($US1.5 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 $A76.1 million ($US38.8 million), and net income increased 21% to $A3.7 million ($US1.9 million), or $A0.077 ($US0.04) per share. Net cash flow from operating activities was $A10.2 million ($US5.2 million), shareholders' equity was $A100.7 million ($US51.3 million), and tangible book value per share was $A2.10 ($US1.07). 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. Based on this and other factors, 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. OTHER DISCLOSED EUROPEAN INVESTMENTS

SIHL

During 2000 and 2001, we acquired approximately 10.6% of SIHL, a Swiss public company, through participation in a restructuring/capital raising and on-market purchases. SIHL's core business is digital imaging, but the company has surplus property assets in and around Zurich, including a major development project known as Sihlcity. Our investment in SIHL is accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

SIHL's operations were adversely affected by the economic downturn in 2001, and the company was unable to improve profitability and reduce debt as previously expected. Based on these developments and the extent and duration of the decline in the market value of SIHL's common stock, we concluded that the decline in SIHL's market value was other-than-temporary, and we recorded a $2.1 million pre-tax charge for impairment in the investment in 2001. This charge reduced our basis in the investment to its total market (carrying) value of $2.1 million at December 31, 2001.

A charge for other-than-temporary impairment is a non-cash charge recorded as a realized loss. The basis of the investment is written down from its original cost to current carrying value, which typically is the market price at the balance sheet date when the charge is recorded.

It should be noted that:

- the charges for other-than-temporary impairment relating to SIHL do not affect book value per share, as the after-tax decline in the market value of investments carried under SFAS No. 115 is already reflected in shareholders' equity in our balance sheet; and

- the carrying value of the holding does not change. The impairment simply reclassifies the decline from an unrealized decrease in shareholders' equity to a realized loss in the statement of operations.

The written-down value becomes our new basis in the investment. In future accounting periods, unrealized gains or losses from that level will be recorded in shareholders' equity, and when the investment is sold, a realized gain or loss from that level will be recorded in the statement of operations. See "Results of Operations -- Years Ended December 31, 2001, 2000, and 1999."

ACCU HOLDING AG

PICO owns 8,125 shares in Accu Holding, which represents a voting ownership interest of approximately 28.3% of the company. Due to a number of factors, we have concluded that 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 accounted for under SFAS No. 115 and 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, and a carrying (market) value of $4.5 million.

Accu Holding manufactures batteries at two plants in Switzerland.

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., accounting principles generally accepted in the United States of America), 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 to fair value.

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 ("SFAS") 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 Opinion No. 18 ("APB No. 18"), "The Equity Method of Accounting for Investments in Common Stock."

The application of the equity method (APB 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.

For equity and debt securities accounted for under SFAS No. 115 which are in an unrealized loss position, we are required to regularly review whether the decline in market value is other-than-temporary. In general, this review requires management to consider several factors, including specific adverse conditions affecting the issuer's business and industry, the financial condition of the issuer, and the long-term prospects for the issuer. Accordingly, management has to make important assumptions regarding our intent and ability to hold the security, and our assessment of the overall worth of the security. Risks and uncertainties in our methodology for reviewing unrealized losses for other-than-temporary declines include our judgments regarding the overall worth of the issuer and its long-term prospects, our ability to realize on our assessment of the overall worth of the business.

In a subsequent quarterly review, if we conclude that an unrealized loss previously determined to be temporary is other-than-temporary, an impairment loss will be recorded. There will be no impact on our financial condition or book value per share, as the decline in market value has already been recorded through shareholders' equity. However, there will be an impact on our net income before and after tax and on our reported earnings per share, due to recognition of the unrealized loss and related tax effects. When a charge for other-than-temporary impairment is recorded, our basis in the security is decreased. Consequently, if the market value of the security later recovers and we sell the security, a correspondingly greater gain will be recorded in the statement of operations. However, there will be no impact on book value as the gain, after related taxes, will already have been recorded in the unrealized appreciation component of shareholders' equity.

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

SUMMARY

PICO reported net income of $5.1 million, or $0.41 per diluted share in 2001, compared with a net loss of $11.3 million, or $0.97 per diluted share, in 2000, and a net loss of $9.7 million, or $1.08. 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 $207.9 million, or $16.81 per share, compared to $202.1 million, or $16.31 per share, at the end of 2000. The principal factors leading to the $5.8 million increase in shareholders' equity were:

- net income of $5.1 million for the year;
- net unrealized appreciation in investments of $1.9 million; which were partially offset by
- a foreign currency translation debit of $955,000; 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 $374.4 million, compared to $392.1 million at December 31, 2000. Most of the $17.7 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 $5.1 million in net income reported in 2001 consisted of $6.1 million in net income before a change in accounting principle, or $0.49 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 $6.1 million in net income before a change in accounting principle was comprised of $9.1 million in income before taxes and minority interest, a $3.4 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 $3.4 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 $4 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 $11.3 million in 2000. The $6.3 million net loss before an accounting change consisted of a $16.1 million pre-tax loss, which was partially offset by $9 million in income tax benefits and the addition of $717,000 in minority interest. In addition, the cumulative effect of the accounting change 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 U.S. GAAP basis.

The $9 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 $9.7 million net loss was comprised of a $24.3 million loss before taxes and minority interest, which was partially offset by the addition of $13.4 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 million reduction in valuation allowances that had previously been recorded to reduce income tax assets. Of this amount, $6.5 million became available as a result of changes in federal income tax legislation in 1999.

From 1998, PICO began to report comprehensive income (loss) in addition to the income (loss) reported in the Consolidated Statement of Operations. Comprehensive income includes items resulting in unrealized changes in shareholders' equity. For PICO, comprehensive income (loss) includes foreign currency translation and change in unrealized investment gains and losses on securities which are available for sale.

PICO reported comprehensive income of $6.1 million in 2001, consisting of net income of $5.1 million and a $1.9 million after-tax increase in net unrealized change in investments, which were partially offset by a foreign currency translation debit of $955,000. In 2000, PICO incurred a $17.2 million comprehensive loss. This was comprised of the $11.3 million net loss, a decrease in net unrealized change in investments of $4.3 million after-tax, and a foreign currency translation debit of $1.6 million. A $6.8 million comprehensive loss was recorded in 1999, consisting of a $9.7 million net loss, a $1.5 million decrease due to foreign currency translation, and a $4.4 million increase in net unrealized change in investments.

Detailed information on the performance of each segment is contained later in this report; however, the principal items in the 2001 $9.1 million income before taxes and minority interest were:

Water Rights and Water Storage

- Vidler generated $17.8 million in revenues and a $5 million pre-tax profit. The principal contributors to segment income were $2.3 million from the sale of land and related water rights in the Harquahala Valley Irrigation District, and $5.7 million in pre-tax gains from the sale of part of Vidler's interest in the Semitropic water storage facility;

Land and Related Mineral Rights & Water Rights

- income of $131,000 from Nevada Land on revenues of $3.2 million, which included $1.9 million in land sales;

Property and Casualty Insurance

- segment income of $6.2 million, consisting of a $3.3 million pre-tax profit from Sequoia and $2.9 million from Citation;

Medical Professional Liability Insurance

- a pre-tax profit of $13.1 million, principally due to an $11.2 million reduction in claims reserves;

Long Term Holdings

- a $15.3 million loss before taxes, primarily due to parent company overhead of $4.8 million, a $3 million provision for other-than-temporary impairment in two unrelated equity securities, a $2.5 million SFAS No. 133 decrease in the value of warrants during the year, a $2.3 million provision against loans to Dominion Capital Pty. Ltd., and our $1.5 million share of the net losses of investments accounted for under the equity method.

Revenues and income before taxes and minority interests by business segment were:

OPERATING REVENUES:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Water Rights and Water Storage	$ 17,763,000	$ 3,123,000	$ 1,056,000
Land and Related Mineral Rights & Water Rights	3,221,000	5,276,000	7,147,000
Property and Casualty Insurance	51,349,000	39,257,000	39,836,000
Medical Professional Liability Insurance	2,601,000	3,396,000	3,121,000
Long Term Holdings	(3,662,000)	(5,238,000)	2,494,000
Total Revenues	$ 71,272,000	$ 45,814,000	$ 53,654,000

In 2001, total revenues were $71.3 million, compared to $45.8 million in 2000, and $53.7 million in 1999. Revenues in 2001 were $25.5 million higher than 2000, primarily due to $14.6 million higher revenues from Vidler and $12.1 million higher revenues in the Property and Casualty Insurance segment. The most significant items in the revenue growth at Vidler were revenues of $9.4 million from the sale of water rights and land in the Harquahala Valley, and $5.7 million from pre-tax gains on the sale of interests in Semitropic. The principal sources of the $12.1 million revenue growth in the Property and Casualty Insurance segment were $10 million higher earned premiums, and a $1.6 million increase in realized investment gains. From 1999 to 2000, total revenues declined by $7.9 million, primarily due to the recognition of a $7.8 million net realized investment loss which reduced revenues in the Long Term Holdings segment in 2000.

Total expenses in 2001 were $60.6 million, unchanged from $60.6 million in 2000, and compared to $73.9 million in 1999. The largest expense item in each of the past 3 years was loss and loss adjustment expense in our insurance businesses (i.e., the cost of making provision to pay claims). In 2001, loss and loss adjustment expense was $18.3 million, compared to $24 million in 2000, and $35.2 million in 1999. Loss and loss adjustment expense for 2001 was reduced by favorable reserve development of $11.2 million in the Medical Professional Liability segment. Due to the greater amount of land and water rights sold in 2001, the cost of land, water rights and water sold was higher than previous years at $7.6 million, compared to $4 million in 2000, and $4.5 million in 1999.

INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Water Rights and Water Storage	$ 4,989,000	$ (4,854,000)	$ (3,947,
Land and Related Mineral Rights & Water Rights	131,000	1,918,000	
			1,094,
Property and Casualty Insurance	6,178,000	2,541,000	

			(3,803,
Medical Professional Liability Insurance	13,132,000	768,000	
			(4,805,
Long Term Holdings	(15,288,000)	(16,438,000)	(12,850,
Income (Loss) Before Taxes and Minority Interest	$ 9,142,000	$(16,065,000)	$(24,311,

WATER RIGHTS AND WATER STORAGE
VIDLER WATER COMPANY, INC.

	Year Ended December 31,		
	2001	2000	1999
REVENUES:			
Sale of Land, Water Rights, & Water	$ 9,487,000	$ 1,509,000	$ 270,000
Gain on sale of Semitropic Water Storage interests	5,701,000		
Lease of Water	235,000	188,000	185,000
Lease of Agricultural Land	795,000	959,000	477,000
Other	1,545,000	467,000	124,000
Segment Total Revenues	$ 17,763,000	$ 3,123,000	$ 1,056,000
EXPENSES:			
Cost of Land, Water Rights, & Water Sold	(6,796,000)	(2,244,000)	(185,000
Commission and Other Cost of Sales	(553,000)		
Depreciation & Amortization	(1,285,000)	(988,000)	(810,000
Interest	(646,000)	(821,000)	(678,000
Operations & Maintenance	(311,000)	(612,000)	(214,000
Other	(3,183,000)	(3,312,000)	(3,116,000
Segment Total Expenses	(12,774,000)	(7,977,000)	(5,003,000
INCOME (LOSS) BEFORE TAX	$ 4,989,000	$ (4,854,000)	$ (3,947,000

We entered the water business with the realization that most of the assets which Vidler acquired were not ready for immediate commercial use, and that there would be a lead-time in developing and commercializing these assets. Vidler's water assets did not begin to generate significant revenues until the first quarter of 2001. In 2000 and prior years, Vidler was generating modest revenues from the lease and sale of water assets in Colorado and from leasing agricultural land, and incurring significant costs associated with the development of assets and expansion of the water rights portfolio. Consequently, Vidler reported operating losses until 2001.

Vidler generated total revenues of $17.8 million in 2001, compared to $3.1 million in 2000, and $1.1 million in 1999.

In 2001, Vidler's results were dominated by three transactions, which generated $15.1 million in revenues:

- the sale of 6,496.5 acre-feet of transferable ground water and 2,589 acres of land in Arizona's Harquahala Valley Irrigation District to a unit of Allegheny Energy, Inc. This transaction added $9.4 million to revenues, comprised of the $9.1 million sales price and a $300,000 option fee earned which is included in Other Revenues, and contributed $2.3 million to segment income;

- the sale of 29.7% of Vidler's original interest in the Semitropic Water Banking and Exchange Program (i.e., approximately 55,000 acre-feet of storage capacity, out of the original 185,000 acre-feet) for $3.3 million. This transaction added $1.6 million to revenues and to segment income; and

- the further sale of 54.1% of Vidler's original interest in the Semitropic Water Banking and Exchange Program (i.e., approximately 100,000 acre-feet of storage capacity) for $6.9 million. This transaction added $4.1 million to revenues and to segment income.

Over the past three years, Vidler has sold water rights, water, and related assets which were not essential to its strategy in Nevada and Arizona. In addition to the Allegheny transaction described in the preceding paragraph, in 2001 Vidler recognized revenues of $390,000 from the sale of water rights to the City of Golden, Colorado. In 2000, Vidler sold 3,691 acre-feet of water which had been "banked" at the Semitropic water storage facility for $509,000, and water rights and the related land and tunnel assets to the City of Golden for $1 million. Due to the potential for significant capital outlays for repairs and maintenance, Vidler disposed of the land and tunnel assets in conjunction with the water rights in 2000, even though this resulted in a loss of $1.2 million being recognized on the sale of the land and tunnel assets. In 1999, Vidler sold 300 acre-feet of priority water rights at Wet Mountain, Colorado for $270,000.

The leasing of agricultural land generated revenues of $795,000 in 2001, $959,000 in 2000, and $477,000 in 1999. Agricultural land lease revenues decreased in 2001 as a result of the sale of farm properties in the Harquahala Valley to Allegheny, as described above. The increase from 1999 to 2000 primarily reflects the purchase of additional Harquahala Valley farm properties during 1999.

Vidler generated revenue of $235,000 in 2001, $188,000 in 2000, and $185,000 in 1999, from leasing some of the company's Colorado water rights. These assets are leased in perpetuity. The lease payments are indexed for inflation, with a minimum annual escalation of 3%.

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Other Revenues were $1.5 million in 2001, $467,000 in 2000, and $124,000 in 1999. The most significant items in Other Revenues in 2001 were a $600,000 gain from granting an easement to El Paso Natural Gas Company in the Harquahala Valley, interest revenue of $357,000, and various revenues from properties farmed by Vidler (e.g., sales of hay and cattle). In 2001, Other Revenues were reduced by a $202,000 loss on the condemnation (i.e., compulsory acquisition) of a commercially zoned property in Mesa, Arizona due to freeway construction. This property, which was located in greater metropolitan Phoenix, was not part of Vidler's water business. It was acquired in conjunction with MTB Ranch in 1996, and was being held for sale. Originally, a $442,000 provision for loss on condemnation was recorded in the first quarter of 2001; however, this was partially offset by an additional $240,000 payment to be received from a negotiated settlement after Vidler challenged the value at which the property was condemned.

Total segment expenses, including the cost of water rights and other assets sold, increased from $5 million in 1999, to $8 million in 2000, and $12.8 million in 2001.

Segment operating expenses (i.e., excluding the cost of water rights and other assets sold and related selling costs, and the $40,000 Silver State write-down described in the "Land and Related Mineral Rights & Water Rights" section) were $4.8 million in 1999, $5.7 million in 2000, and $5.4 million in 2001. Segment operating expenses in 2000 and 2001 were higher than in 1999 due to growth in Vidler's asset base (e.g., the acquisition of Fish Springs Ranch), including expenses related to individual projects (e.g., depreciation and interest) which were recognized prior to the related revenues being earned.

The $348,000 net reduction in segment operating expenses in 2001 from 2000 was primarily attributable to decreases of $301,000 in operations and maintenance expense, $175,000 in interest expense, and $129,000 in other expenses. The decrease in operations and maintenance expense was primarily due to a lower obligation to contribute to operations and maintenance expense at the Semitropic water storage facility, as our interest in the asset reduced. Interest expense declined due to the repayment of the non-recourse debt on the Harquahala Valley farm properties which were sold to Allegheny. These expense reductions were partially offset by a $297,000 increase in depreciation and amortization expense, primarily due to the start of amortization of improvements at the Vidler Arizona Recharge Facility. Since construction of the improvements required to recharge water is complete and the facility is ready for use, on March 1, 2001, Vidler began to amortize the improvements at the facility over 15 years. The annual amortization charge will be approximately $518,000. The amortization charge for 2001 was $421,000.

Segment operating expenses increased $915,000 from 1999 to 2000, due to increases of $398,000 in operations and maintenance, $178,000 in depreciation and amortization, $143,000 in interest, and $196,000 in other expenses. The increase in segment expenses reflected the growth in Vidler's asset base, including the purchase of farm properties and the related water rights in the Harquahala Valley.

Vidler recorded segment income of $5 million in 2001, compared to segment losses of $4.9 million in 2000, and $3.9 million in 1999.

The principal causes of the $9.9 million improvement in the segment result from 2000 to 2001 were the contributions to income of $5.7 million from the sale of interests in Semitropic, $2.3 million from the Allegheny transaction, and $600,000 from the easement granted in 2001.

The $907,000 increase in segment loss from 1999 to 2000 was caused by the $1.2 million realized loss on the sale of the land and tunnel assets described above. Excluding this item, the segment loss declined by $296,000, primarily due to a $342,000 gross profit on the sale of the water "banked" at Semitropic and $482,000 higher agricultural lease revenues, which were partially offset by higher charges for depreciation, interest, and other expenses.

LAND AND RELATED MINERAL RIGHTS & WATER RIGHTS
NEVADA LAND & RESOURCE COMPANY, LLC

	Year Ended December 31,		
	2001	2000	1999
REVENUES:			
Sale of Land	$ 1,918,000	$ 3,725,000	$ 5,432,000
Sale of Water Rights		244,000	379,000
Gain on Land Exchange		270,000	
Lease and Royalty	734,000	716,000	980,000
Interest and Other	569,000	321,000	356,000
Segment Total Revenues	$ 3,221,000	$ 5,276,000	$ 7,147,000
EXPENSES:			
Cost of Land and Water Rights Sold	(772,000)	(1,751,000)	(4,273,000)
Operating Expenses	(1,777,000)	(1,607,000)	(1,780,000)
Write-down of Silver State Resources, LLC	(541,000)		
Segment Total Expenses	$(3,090,000)	$(3,358,000)	$(6,053,000)
INCOME BEFORE TAX	$ 131,000	$ 1,918,000	$ 1,094,000

Nevada Land generated revenues of $3.2 million in 2001, compared to $5.3 million in 2000, and $7.1 million in 1999.

Most of the variation in revenue from year to year is caused by fluctuations in the level of land sales. In 2001, Nevada Land recorded revenues of $1.9 million from the sale of 15,632 acres of land. In 2000, we generated $3.7 million in revenues from the sale of 28,245 acres of land, compared to $5.4 million from the sale of 48,715 acres in 1999.

Lease and royalty income amounted to $734,000 in 2001, compared to $716,000 in 2000, and $980,000 in 1999. Most of this revenue comes from land leases, principally for grazing, agricultural, communications, and easements.

Interest and other revenues contributed $569,000 in 2001, compared to $321,000 in 2000, and $356,000 in 1999.

Nevada Land also generated revenues from a gain on a land exchange transaction in 2000, and the sale of water rights in 2000 and 1999.

In the 2000 land exchange, we exchanged 25,828 acres of land for assets with an exchange value of approximately $1.3 million, or $52 per acre. The consideration received consisted of $430,000 in cash and 17,558 acres of land, which we believe will be more readily marketable, with an exchange value of $913,000, or $52 per acre. The revenue recorded as a result of this transaction was the $270,000 net gain on the cash portion of the total exchange value (i.e., approximately 32%). This gain represents the difference between the cash received and our basis in approximately 32% of the land given up in the exchange. No gain was recognized on the portion of the exchange value for which land was received (i.e., approximately 68%). Any gain related to the land received will be recorded when that land is sold.

In 2000, Nevada Land sold 61 acre-feet of certificated water rights for $244,000. In 1999, we sold 125 acre-feet of certificated water rights for $379,000.

After deducting the cost of land sold, the gross margin on land sales was $1.1 million in 2001, $2.2 million in 2000, and $1.5 million in 1999. This represented a gross margin percentage of 59.8% in 2001, 59.2% in 2000, and 28% in 1999.

Operating expenses were little changed over the three-year period, at $1.8 million in 2001, $1.6 million in 2000, and $1.8 million in 1999.

As part of our strategy of increasing our ownership of water rights in northern Nevada, in 1998 Nevada Land and Vidler jointly acquired a controlling interest in Silver State Land, LLC, which had filed applications for approximately 51,000 acre-feet of water rights in various locations that were geographically unrelated to Nevada Land's properties. In 1999, 2000, and 2001, our priority has been to pursue the water rights applications filed by the Vidler/Lincoln County joint venture, and by Nevada Land on its own properties. Accordingly, due to the uncertainty of realizing the value of these applications, in 2001 we reduced the carrying value of Silver State to zero, which resulted in expenses of $541,000 in this segment and $40,000 in the "Water Rights and Water Storage" segment. The Silver State water rights applications were the only water rights applications with a carrying value in our financial statements.

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Nevada Land recorded income of $131,000 in 2001, compared to $1.9 million in 2000, and $1.1 million in 1999. Segment income decreased $1.8 million from 2000 to 2001, principally due to a $1.1 million reduction in the gross margin on land sales, the $541,000 write down of Silver State, and the $270,000 land exchange gain included in 2000. In 2000, segment income was $824,000 higher than 1999, principally due to a $685,000 higher gross profit from land sales and the $270,000 gain from the land exchange transaction.

PROPERTY AND CASUALTY INSURANCE

	Year Ended December 31,		
	2001	2000	1999
P&C INSURANCE REVENUES:			
Earned Premiums	$ 42,535,000	$ 32,583,000	$ 34,439,000
Net Investment Income	5,997,000	5,381,000	4,951,000
Realized Investment Gains	1,818,000	172,000	(310,000)
Negative Goodwill	568,000	568,000	568,000
Other	431,000	553,000	188,000
Segment Total Revenues	$ 51,349,000	$ 39,257,000	$ 39,836,000
P&C INSURANCE EXPENSES:			
Loss and Loss Adjustment Expense	$(29,460,000)	$(22,963,000)	$(28,613,000)
Underwriting Expenses	(15,711,000)	(13,753,000)	(15,026,000)
Segment Total Expenses	$(45,171,000)	$(36,716,000)	$(43,639,000)
P&C INSURANCE INCOME (LOSS) BEFORE TAXES:			
Sequoia Insurance Company	$ 3,314,000	$ 1,344,000	$ 2,083,000
Citation Insurance Company	2,864,000	1,197,000	(5,886,000)
Total P&C Income (Loss) Before Taxes	$ 6,178,000	$ 2,541,000	$ (3,803,000)

The Property & Casualty Insurance segment generated total revenues of $51.3 million in 2001, compared to $39.3 million in 2000, and $39.8 million in 1999.

Most revenues in this segment come from earned premiums. When an insurance company writes a policy, the premium charged is referred to as "written" premium. The "written" premium is recognized as revenue, or "earned," evenly over the term of the policy. Therefore, there is a time lag between changes in written premium and the resulting change in earned premium.

As described in the Property and Casualty Insurance section of "Company Summary, Recent Developments and Future Outlook" in Item 7, the amount of premium "written" by Sequoia and Citation declined in 1998 and 1999. This led to a corresponding decrease in segment "earned" premium from $34.4 million in 1999 to $32.6 million in 2000.

In 2000, Citation wrote only a minor amount of premium in one state, and Sequoia was responsible for practically all written premiums in the segment. During 2000, Sequoia experienced 33.5% growth in written premiums to $47.1 million, due to an improved pricing environment, the increase in the company's A.M. Best rating to "A-" (Excellent), and the acquisition of Personal Express. Due to the lag between changes in written premium and earned premium, the increase in premium written in 2000 led to the $9.9 million increase in earned premium, from $32.6 million to $42.5 million, in 2001.

Segment investment income increased 8.7% to $5.4 million during 2000. The average income yield on the bond portfolio increased throughout 2000 due to the higher prevailing level of interest rates and the purchase of high quality corporate bonds with 5 years or less to maturity with the proceeds of lower-yielding treasury bills and money market funds. The increase in the income yield was partially offset by the purchase of several small-capitalization value stocks with lower income (i.e., dividend) yields but greater appreciation potential than bonds.

Segment Investment income increased another 11.4% to $6 million in 2001. This reflected a higher average yield to maturity in the bond portfolio, resulting from the purchase of high quality corporate bonds with 5 to 10 years to maturity and the sale of some shorter term securities whose yields had fallen to low levels.

Investment gains of $1.8 million were realized in 2001, primarily due to the sale of bonds with 5 years or less to maturity, compared to realized gains of $172,000 in 2000. Given the historic drop in interest rates during 2001, particularly in shorter-term (5 years or less) interest rates, realized gains of this magnitude from bonds are unlikely to be repeated. The $310,000 net realized

investment loss in 1999 represented a $186,000 realized loss on the sale of a portfolio investment and a $124,000 provision for other-than-temporary impairment in the value of an unrelated portfolio investment.

The Property and Casualty Insurance segment produced $6.2 million of pre-tax income in 2001, consisting of a $3.3 million pre-tax profit from Sequoia and $2.9 million from Citation. This compares to segment income of $2.5 million in 2000, and a segment pre-tax loss of $3.8 million in 1999.

During 1998 and 1999, Sequoia and Citation "pooled," or shared, most of their premiums and expenses, and all business in California and Nevada was transitioned to Sequoia. From January 1, 2000, the pooling arrangement was terminated, and Citation only wrote a minor amount of premium in Arizona. Citation ceased writing business in December 2000, and went into "run off" in 2001. Citation's last policy expired in December 2001. Due to these factors, as well as the acquisition of the Personal Express book of business, the individual results of Sequoia and Citation for 2001 cannot be directly compared to previous years.

In 2000, the $2.5 million segment profit was comprised of a $1.3 million pre-tax profit from Sequoia and a $1.2 million pre-tax profit from Citation. The $3.6 million increase in segment income in 2001 over 2000 is primarily due to $1.6 million higher realized investment gains and a $616,000 increase in investment income for the segment, and a $1.4 million decrease in expenses at Citation after the company went into "run off."

The 1999 $3.8 million segment loss consisted of $2.1 million in income from Sequoia, which was more than offset by a $5.9 million loss from Citation. From 1999 to 2000, the segment result improved by $6.3 million, from a $3.8 million loss in 1999 to a $2.5 million profit in 2000. The 1999 segment loss was caused by a $10.1 million pre-tax charge to strengthen Citation's claims reserves, principally in the artisan/contractors line of business.

SEQUOIA INSURANCE COMPANY

In 2001, Sequoia's revenues included earned premiums of $42.3 million, investment income of $3.7 million, and realized gains of $1.5 million. Earned premiums increased 29.2% from the previous year, and consisted of $34.1 million from commercial lines and $8.2 million from personal lines. Earned premiums for 2001 reflected most, but not a full 12 months, of the annualized increase in premium resulting from the acquisition of the Personal Express book of business. For 2001, Sequoia reported a loss from operations (i.e., income before investment income, realized gains, and taxes) of $1.9 million, and income before taxes of $3.3 million. This included an additional expense of $738,000 to recognize adverse development in prior year loss reserves.

In 2000, Sequoia's revenues included $32.7 million in earned premiums, $2.8 million in investment income, and realized gains of $99,000. The earned premiums were composed of $29.6 million from commercial lines and $3.1 million from personal lines, which included some initial revenues from the Personal Express book of business. For 2000, Sequoia reported a loss from operations of $1.5 million, which included an additional expense of $252,000 to recognize adverse development in prior year loss reserves, and income before taxes of $1.3 million.

In 1999, when the pooling agreement with Citation was still in force, Sequoia's revenues included $16.9 million in earned premium and $2.1 million in investment income. The company earned a profit from operations of $114,000 and income before taxes of $2.1 million, including the benefit of a $401,000 credit from favorable development in prior year loss reserves.

The operating performance of insurance companies is frequently analyzed using their "combined ratio." A combined ratio below 100% indicates that the insurance company made a profit on its base insurance business, prior to investment income, realized gains or losses, taxes, extraordinary items, and other non-insurance items.

Sequoia manages its business so as to have a combined ratio of less than 100% each year; however, this is not always achieved. Sequoia's combined ratio, determined on the basis of generally accepted accounting principles, for the past 3 years have been:

SEQUOIA'S GAAP INDUSTRY RATIOS

	2001	2000
Loss and LAE Ratio	69.1%	67.6%
Underwriting Expense Ratio	36.3%	38.6%
Combined Ratio	105.4%	106.3%

For 2001, Sequoia's combined ratio was 105.4%, compared to 106.3% in 2000, and 99.8% in 1999.

Sequoia's loss and loss adjustment expense ratio (i.e., the cost of making provision to pay claims as a percentage of earned premiums) was 69.1% in 2001 and 67.6% in 2000, compared to 53.5% in 1999. In 2001, this included an additional expense of $738,000 to recognize adverse development in prior year loss reserves, compared to an additional $252,000 expense in 2000, and a $401,000 credit from favorable development in 1999.

The higher loss ratio was partially offset by a lower underwriting expense ratio (i.e., operating expenses as a percentage of earned premiums) of 36.3% in 2001, compared to 38.6% in 2000, and 46.3% in 1999. The reduction in the underwriting expense ratio was due to:

- economies of scale. Sequoia's earned premiums grew by 29.2% in 2001, following a 93.4% increase in 2000 after the pooling agreement with Citation was terminated. In 2001 and 2000, fixed underwriting expense items (i.e., expenses which do not change with volume) were spread over a larger base of revenue, and therefore reduced as a percentage of revenue; and

- earned premiums from the Personal Express book of business. Sequoia does not pay commission on Personal Express business, so commission expense fell as a percentage of revenue in 2001 and 2000.

CITATION INSURANCE COMPANY

Citation went into "run off" from January 1, 2001. In future years, this will significantly affect the company's level of revenues and expenses. It is anticipated that the majority of Citation's future revenues will come from investment income, which is expected to decline over time as fixed-income investments mature or are sold to provide the funds to pay down the company's claims reserves. Unless there is adverse development in prior year loss reserves, typically the expenses of an insurance company in "run off" will be lower than the expenses of an insurance company which is actively writing business.

In 2001, Citation's revenues included investment income of $2.3 million, earned premiums of $225,000, and negative goodwill amortization of $568,000 (explained in the following paragraph). The $225,000 in earned premiums represents the final premiums earned from the policies on Citation's books when the company went into "run off." After expenses of $571,000, Citation earned income of $2.9 million before taxes for 2001. The "run off" of Citation's loss reserves appears to be proceeding in line with expectation. In 2001, an expense of just $56,000 was recorded for development in prior year loss reserves.

When Citation Insurance Group acquired Physicians in the reverse merger in 1996, a $5.7 million negative goodwill asset arose because the fair value of the assets acquired (i.e., Physicians) exceeded the cost of the investment (i.e., the fair value of the shares in Citation issued to Physicians shareholders). The negative goodwill was being recognized as income over a period of 10 years in this segment. From January 1, 2002, PICO is adopting Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets," which requires that goodwill and intangible assets with indefinite lives be tested for impairment annually rather than amortized over time. As a result of adopting this standard, the remaining negative goodwill of approximately $2.8 million will be recognized as an extraordinary gain in 2002. See Note 1 of Notes to Consolidated Financial Statements, "Nature of Operations and Significant Accounting Policies."

In 2000, Citation's revenues included investment income of $2.7 million, earned premiums of negative $158,000, and negative goodwill amortization of $568,000. Although Citation earned $564,000 in property and casualty premiums in 2000, this was more than offset by a $722,000 reduction in earned premium revenues related to reinsurance. After expenses of $1.9 million, including a partially offsetting $282,000 benefit from favorable development in prior year loss reserves, Citation earned a $1.2 million pre-tax profit for 2000.

From 2000 to 2001, Citation's pre-tax profit increased $1.7 million. While revenues increased $309,000 year over year, underwriting and other expenses declined by $1.4 million after the company went into "run off."

During 1999, Citation was "pooling" most of its revenues and expenses with Sequoia so revenues and expenses were significantly greater than in 2000 and 2001. In 1999, Citation's revenues included earned premiums of $17.5 million, investment income of $2.9 million, and negative goodwill amortization of $568,000. Following expenses of $26.7 million, which included a $10.1 million charge to strengthen loss reserves, Citation reported a pre-tax loss of $5.9 million.

Since Citation is in "run off," its Combined Ratio is no longer meaningful.

PROPERTY AND CASUALTY INSURANCE - LOSS AND LOSS EXPENSE RESERVES

	December 31, 2001	December 31, 200
SEQUOIA INSURANCE COMPANY:		
Direct Reserves	$ 36.9 million	$ 37.2 million
Ceded Reserves	(15.7)	(18.1)
Net Reserves	$ 21.2 million	$ 19.1 million

CITATION INSURANCE COMPANY:		
Direct Reserves	$ 21.0 million	$ 25.8 million
Ceded Reserves	(1.8)	(2.4)
Net Reserves	$ 19.2 million	$ 23.4 million

MEDICAL PROFESSIONAL LIABILITY INSURANCE

	Year Ended December 31,		
	2001	2000	1999
MPL REVENUES:			
Net Investment Income	$ 1,096,000	$ 1,543,000	$ 1,180,000
Net Realized Investment Gain	750,000		
Earned Premiums	755,000	1,853,000	1,941,000
Segment Total Revenues	$ 2,601,000	$ 3,396,000	$ 3,121,000
Underwriting Recoveries (Expenses)	10,531,000	(2,628,000)	(7,926,000)
SEGMENT TOTAL RECOVERIES (EXPENSES)	10,531,000	(2,628,000)	(7,926,000)
Income (Loss) Before Taxes	$13,132,000	$ 768,000	$(4,805,000)

Actuarial analysis of Physicians' loss reserves as of September 30, 2001 concluded that Physicians' reserves against future claims were significantly greater than the actuary's projections of future claims payments. This was due to favorable trends in both the "frequency" (number) and "severity" (size) of claims. Accordingly, Physicians took down $11.2 million of excess reserves in the fourth quarter of 2001.

Medical professional liability insurance segment revenues were $2.6 million in 2001, compared to $3.4 million in 2000, and $3.1 million in 1999.

Investment income was $1.1 million in 2001, $1.5 million in 2000, and $1.2 million in 1999. The principal reason for the variation in investment income from year to year is fluctuation in the amount of fixed-income securities held in the portfolio and the prevailing level of interest rates.

The $750,000 net realized investment gain in 2001 principally represented a $731,000 realized gain on the redemption of all units held in the Rydex URSA mutual fund. The Rydex URSA Fund is designed to deliver a return which is the inverse of the return on the S&P 500 Index. The investment was originally acquired in 1995 when Physicians had greater exposure to listed stocks, and was accounted for under SFAS No. 115. In 1996, we recorded a pre-tax provision of $4.7 million for other-than-temporary impairment of this investment as the rise in the S&P 500 Index had caused a corresponding decline in the value of the Rydex URSA Fund. In 2000 and the first four months of 2001, the S&P 500 Index declined sharply, which led to a corresponding increase in the price of the Rydex URSA Fund. When we redeemed the investment in 2001, this resulted in a gain because the sales proceeds exceeded the basis of the investment, which had been written down in 1996.

Although Physicians is in "run off" and no longer writing premiums, earned premium does arise, for example, from "swing rated" reinsurance, where the reinsurance premiums we pay are recalculated based on loss experience (i.e., number and size of claims). Under GAAP, reinsurance is recorded in the earned premium line. Earned premiums of $755,000 were recorded in 2001, which primarily reflects a reduction in the amount of reinsurance we need to pay in line with the reduction in our claims reserves during 2001. Similarly, earned premiums of $1.9 million were recorded in both 2000 and 1999.

Underwriting expenses consist of loss and loss adjustment expense and other operating expenses.

In 2001, the segment reported a $10.5 million underwriting recovery, as an $11.2 million reduction in reserves more than offset regular loss and loss adjustment expense and operating expenses for the year. Combined with $2.6 million in segment revenues, this resulted in segment income of $13.1 million.

In 2000, after underwriting expenses of $2.6 million, which included a $1.1 million net increase in reserves, segment income of $768,000 was recorded. In addition, reserves increased by $7.5 million due to the elimination of reserve discount included in the cumulative effect of change in accounting principle. The elimination of discounting did not affect the segment in 2000, but resulted in a $5 million after-tax charge to income, which is shown in the "Cumulative Effect of Change in Accounting Principle" line in our Consolidated Statement of Operations. See Note 21 of Notes to Consolidated Financial Statements, "Cumulative Effect of Change in Accounting Principle." Until December 31, 1999, we discounted our medical professional liability claims reserves to reflect the fact that some claims will not be paid until future years, but funds from the corresponding premiums can be invested in the meantime. In each quarter until December 31, 1999, a portion of this discount was removed and recognized as an expense called "reserve discount accretion." From January 1, 2000, we ceased discounting our reserves to be consistent with the accounting treatment in our statutory financial statements, where discounting was not permitted after December 31, 1999.

In 1999, underwriting expenses were $7.9 million. This included a pre-tax charge to increase Physicians' loss reserves by $5 million, or $3.8 million after discounting to reflect the time value of money. The addition to claims reserves was based upon actuarial analysis which indicated some deterioration of Physicians' loss experience in most coverage years, resulting in a greater than expected liability to pay claims. At that time, Physicians was receiving a higher than expected number of claims, which was compounded by the fact that many of the claims were for smaller than expected amounts. This meant that a greater proportion of each claim fell below our reinsurance deductible (i.e., the initial part of each claim which is not covered by reinsurance), so Physicians had to pay a greater proportion of each claim, and could not recover as much as previously anticipated from reinsurance. The negative effect of the increased number of claims exceeded the positive effect of the smaller average amount claimed. Medical professional liability operations reported a $4.8 million loss in 1999.

At December 31, 2001, medical professional liability reserves totaled $34.9 million, net of reinsurance, compared to $51.6 million net of reinsurance at December 31, 2000. At December 31, 1999, medical professional liability reserves were $53.7 million, net of reinsurance and discount.

MEDICAL PROFESSIONAL LIABILITY INSURANCE--LOSS AND LOSS EXPENSE RESERVES

	Year Ended Dec	
	2001	2000
Direct Reserves	$40.6 million	$58.6 mill
Ceded Reserves	(5.7)	(7.0)
Discount of Net Reserves		
Net Medical Professional Liability Insurance Reserves	$34.9 million	$51.6 mill

Significant fluctuations in reserve levels can occur based upon a number of variables used in actuarial projections of ultimate incurred losses and loss adjustment expenses. See "Risk Factors."

LONG TERM HOLDINGS

	Year Ended December 31,		
	2001	2000	1999
LONG TERM HOLDINGS REVENUES (CHARGES):			
Realized Investment Gains (Losses):			
On Sale or Impairment of Investments	$ (3,531,000)	$ (7,784,000)	$ (302,000)
SFAS No. 133 Change In Warrants	(2,453,000)		
Investment Income	1,856,000	1,610,000	723,000
Other	466,000	936,000	2,073,000
Segment Total Revenues (Charges)	$ (3,662,000)	$ (5,238,000)	$ 2,494,000
SEGMENT TOTAL EXPENSES	(10,097,000)	(9,949,000)	(11,329,000)
LOSS BEFORE INVESTEE INCOME (LOSS)	$(13,759,000)	$(15,187,000)	$ (8,835,000)
Equity Share of Investees' Net Income (Loss)	(1,529,000)	(1,251,000)	(4,015,000)
LOSS BEFORE TAXES	$(15,288,000)	$(16,438,000)	$(12,850,000)

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The Long Term Holdings segment recorded negative revenues $3.7 million in 2001, negative revenues of $5.2 million in 2000, and positive revenues of $2.5 million in 1999. Revenues in this segment vary considerably from year to year, primarily due to fluctuations in net realized gains or losses on the sale of investments. Investments are not sold on a regular basis, but when the price of an individual security has significantly exceeded our target, or if there have been changes which we believe limit further appreciation potential on a risk-adjusted basis. Consequently, the amount of net realized gains or losses recognized during any accounting period has no predictive value.

A $6 million net realized investment loss was recorded in 2001. This included a $2.5 million loss to reflect a decrease in the value of warrants we own in other companies, principally HyperFeed Technologies, Inc., during 2001. Following the introduction of Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments and Hedging Activities," we are now required to recognize changes in the estimated fair value of warrants (before taxes) during an accounting period through the Consolidated Statement of Operations for that period. In addition, although this did not affect the segment, a change in accounting principle had the cumulative effect of reducing income by $981,000 to reflect the after-tax decline in the estimated fair value of warrants during the period from the acquisition of the various warrants through to December 31, 2000. See Note 4 of Notes to Consolidated Financial Statements, "Investments." In addition, we recorded a $500,000 write-off of the remaining carrying value of the loan to MKG Enterprises, and charges for other-than-temporary impairment of $2.1 million in SIHL (see the SIHL section of the "Company Summary, Recent Developments and Future Outlook" portion of Item 7), and $888,000 in Solpower. Solpower Corporation is a development stage company, which was one of the final Alternative Investments discussed in Item 1. Given the duration of the decline in value in this stock, in the absence of factors indicating otherwise, led us to determine that the decline is other-than-temporary. Accordingly, we reduced the basis of the investment to its market value at December 31, 2001. Charges other-than-temporary impairment do not affect shareholders' equity, or book value per share.

In 2000, a net realized loss of $7.8 million was incurred. This primarily represented a $4.6 million loss on the sale of Conex, a $2.5 million write-down of the loan to MKG Enterprises, and $161,000 in provisions for other-than-temporary impairment in the value of an international equity security. In addition, we recognized a $526,000 loss when a former employee exercised an option which required PICO to sell existing shares in Vidler for less than current book value. When PICO acquired Vidler in the merger with Global Equity Corporation, call options had already been granted to certain employees over existing shares in Vidler. All of these call options have now been exercised.

On September 8, 2000, PICO sold its investment in Conex, representing approximately 83% of Conex's issued common stock, for a nominal sum. Conex's principal asset was a 60% interest in Guizhou Jonyang Machinery Industry Limited, a joint venture which manufactures wheeled and tracked hydraulic excavation equipment in the Guizhou province of the People's Republic of China. Despite significant restructuring efforts, improved product quality, and domestic market share of over 90% for wheeled excavators, the joint venture was unable to achieve profitability.

In 1999, net realized losses of $302,000 were recorded. This primarily represented net realized gains of approximately $3.2 million from the sale of securities, primarily from the Company's European portfolio, and $670,000 from the sale of property, which were partially offset by the $3.2 million write-down of an oil and gas investment. In addition, we recorded charges for other-than-temporary impairment of $609,000 in Raetia Energy and $319,000 in an unrelated international equity security, primarily due to the extent and duration of the decline in market price. Raetia Energy is a Swiss public company, which is a producer of hydro-electricity. The 1999 charge reduced our basis in Raetia Equity to approximately $2.1 million, being its market value at December 31, 1999. Charges for other-than-temporary impairment do not affect shareholders' equity, or book value per share.

In this segment, investment income includes interest on cash and short term fixed-income investments, and dividends from long term holdings. Investment income totaled $1.9 million in 2001, compared to $1.6 million in 2000, and $723,000 in 1999. In 2001, investment income was $246,000 higher than in 2000, principally due to the receipt of $391,000 in dividends from AOG in 2001 after

AOG had not paid a dividend in 2000. The $887,000 increase in investment income from 1999 to 2000 was primarily due to interest revenue earned on the proceeds from the rights offering in the first quarter of 2000, and a $405,000 increase in the dividend from Jungfraubahn year over year.

Other revenues were $466,000 in 2001, $936,000 in 2000, and $2.1 million in 1999.

The principal expenses recognized in this segment are PICO's corporate overhead and operating expenses from SISCOM and, in 2000 and 1999, Conex. In 2001, segment expenses were $10.1 million, compared to $9.9 million in 2000, and $11.3 million in 1999.

In 2001, segment expenses included a $2.3 million provision against the principal and accrued interest on two loans receivable from Dominion Capital Pty. Limited. As disclosed in the Long Term Holdings section of Item 7 in our 2000 Form 10-K, PICO made short term advances to Dominion Capital Pty. Limited, a private Australian company. The advances consisted of two loans, which were due to be repaid in 2001. The assets collateralizing the loans include real estate in Australia. We have instituted legal proceedings in Australia to realize on the collateral and to obtain additional legal remedies, if required. Given the delays and uncertainties inherent in the legal process and in realizing on the collateral, we have fully provided against the principal and accrued interest on both loans. The other principal components of segment expenses were parent company overhead of $4.8 million, and SISCOM expenses of $1.7 million.

In 2000, segment expenses include a $2.3 million operating loss from Conex for the period prior to its sale, and a $1.6 million operating loss from SISCOM. For 1999, segment expenses include a $1.8 million operating loss from Conex, and a $672,000 operating loss from SISCOM.

PICO's equity share of investees' income (loss) represents our proportionate share of the net income (loss) and other events affecting equity in the investments which we carry under the equity method, less any dividends received from those investments. In 2001, an equity share of investees' loss of $1.5 million was recorded, compared to equity shares of investees' losses of $1.3 million in 2000, and $4 million in 1999. Here is a summary of the principal investments which we accounted for under the equity method in each of the past three years:

2001	2000	
HyperFeed	HyperFeed	Hyp
		Conex - unti
	Conex's sino-foreign joint venture - until September 8, 2000	Conex's sino-fo

The Long Term Holdings segment produced a loss before taxes of $15.3 million in 2001, compared to a $16.4 million loss in 2000 and a $12.9 million loss in 1999.

The 2001 segment loss includes investment income and other revenues of $2.3 million, which were more than offset by the $2.5 million SFAS No. 133 loss, the $3.5 million realized investment loss, the $1.5 million equity share of investees' losses, and segment expenses of $10.1 million.

In 2000, the segment loss included equity income of $1.3 million and investment income and other revenues of $2.5 million. These were more than offset by segment expenses of $9.9 million, the $7.8 million in realized losses described above, and the equity share of investees' losses of $13 million.

In 1999, the segment loss included $302,000 in net realized losses and $2.8 million in investment income and other revenues, which were more than offset by segment expenses of $11.3 million and a $4 million equity share of investees' loss.

LIQUIDITY AND CAPITAL RESOURCES -- YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

PICO Holdings, Inc. is a diversified holding company. Our assets primarily consist of investments in our operating subsidiaries, investments in other public companies, marketable securities, and cash and cash equivalents. On a consolidated basis, the Company had $17.4 million in cash and cash equivalents at December 31, 2001, compared to $13.6 million at December 31, 2000.

Our cash flow position fluctuates depending on the requirements of our operating subsidiaries for capital, and activity in our investment portfolios. Our primary sources of funds include cash balances, cash flow from operations, the sale of investments, and -- potentially -- the proceeds of borrowings or offerings of equity and debt. We endeavor to ensure that funds are always available to take advantage of new investment opportunities.

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In broad terms, the cash flow profile of our principal operating subsidiaries is:

- During the company's investment and development phase, Vidler Water Company, Inc. utilized cash to purchase properties with significant water rights, to construct improvements at the Vidler Arizona Recharge Facility, to maintain and develop existing assets, to pursue applications for water rights, and to meet financing and operating expenses. During this period, other group companies provided financing to meet Vidler's on-going expenses and to fund capital expenditure and the purchase of additional water-righted properties.

  Vidler's water-related assets began to generate significant cash flow in the first quarter of 2001. As commercial use of these assets increases, we expect that Vidler will start to generate free cash flow as receipts from leasing water or storage and the proceeds from selling land and water rights begin to overtake maintenance capital expenditure, financing costs, and operating expenses. As water lease and storage contracts are signed, we anticipate that Vidler may be able to monetize some of the contractual revenue streams, which could potentially provide another source of funds;

- Nevada Land & Resource Company, LLC is actively selling land which has reached its highest and best use, and is not part of PICO's long-term utilization plan for the property. Nevada Land's principal sources of cash flow are the proceeds of cash sales, and collections of principal and interest on sales contracts where Nevada Land has provided vendor financing. Since these receipts and other revenues exceed Nevada Land's operating costs, Nevada Land is generating strong positive cash flow which provides funds to finance other group activities;

- Sequoia Insurance Company is currently generating positive cash flow from increased written premium volume. Shortly after a policy is written, the premium is collected and the funds can be invested for a period of time before they are required to pay claims. Free cash flow generated by Sequoia is being deployed in the company's investment portfolio;

- Citation Insurance Company has ceased writing business and is "running off" its existing claims reserves. Investment income more than covers Citation's operating expenses. Most of the funds required to pay claims are coming from the maturity of fixed-income investments in the company's investment portfolio and recoveries from reinsurance companies; and

- As the "run off" progresses, Physicians Insurance Company of Ohio is obtaining funds to pay operating expenses and claims from the maturity of fixed-income securities, the realization of investments, and recoveries from reinsurance companies.

The Departments of Insurance in Ohio and California prescribe minimum levels of capital and surplus for insurance companies, and set guidelines for insurance company investments. PICO's insurance subsidiaries structure the maturity of fixed-income securities to match the projected pattern of claims payments; however, it is possible that fixed-income and equity securities may occasionally need to be sold at unfavorable times when the bond market and/or the stock market are depressed.

As shown in the Consolidated Statements of Cash Flow, there was a $3.7 million net increase in cash and cash equivalents in 2001, compared to a $23.1 million net decrease in 2000.

During 2001, Operating Activities used cash of $3.9 million. Operating Activities used cash of $17.3 million in 2000, and $23.5 million in 1999. The most significant cash inflow in 2001 was $9.4 million in total receipts from the sale of water rights and land in the Harquahala Valley. The principal uses of cash were claims payments by our insurance subsidiaries and operating expenses in all three years.

In 2001, Investing Activities generated cash of $9 million. The most significant cash inflow was $10.2 million from the sale of part of our interest in Semitropic. Significant cash outflows included the investment of $3.5 million in Sihl, a Swiss public company, and $941,000 in AOG. Most of the remaining Investing Activities cash flow represents activity in the investment portfolios of our insurance companies:

- Sequoia Insurance Company, which is the only insurance company writing new business, has been realigning its bond portfolio through the purchase of high quality corporate bonds with 5 to 10 years to maturity, utilizing the proceeds from the sale of bonds with lower yields to maturity; and

- the "run off" insurance companies, Physicians and Citation, structuring their fixed-income portfolios to match the projected pattern of claims payouts, utilizing the proceeds of maturing fixed-income securities, the sale of investments, and investment income.

In addition, Vidler and Nevada Land invested $7.5 million in high quality corporate bonds with less than 1 year to maturity to maximize the return on the proceeds of land and water rights sales.

Investing Activities used $55.4 million of cash in 2000. Most of the Investing Activities cash flow represents activity in the investment portfolios of our insurance companies, where the proceeds of cash and cash equivalents and maturing fixed-income securities were reinvested in longer-dated corporate bonds and, to a lesser extent, in small-capitalization value stocks. In addition, Vidler made a $2.3 million payment related to the Semitropic Water Banking and Exchange Program.

In 1999, Investing Activities used $20.2 million of cash. This primarily represented the purchase of additional shares in Jungfraubahn and AOG, and the $2.3 million Semitropic payment.

Financing Activities used $1.8 million of cash in 2001. Vidler paid off approximately $2.9 million in non-recourse borrowings collateralized by the farm properties in the Harquahala Valley Irrigation District which it sold to Allegheny. Global Equity SA took on an additional $1.9 million of Swiss Franc-denominated borrowings to help finance the acquisition of investments in Swiss public companies, principally Sihl.

In 2000, there was a $49.5 million cash inflow from Financing Activities, principally due to the rights offering which raised $49.8 million in new equity capital during the first quarter. Financing Activities resulted in a $8.4 million net inflow in 1999, as Swiss franc borrowings to finance part of PICO's portfolio of European value stocks raised $6.1 million, the exercise of PICO warrants provided $2.9 million, and the purchase of treasury stock used $292,000.

At December 31, 2001, PICO had no significant commitments for future capital expenditures, other than in the ordinary course of business.

PICO is committed to maintaining Sequoia's capital and statutory surplus at a minimum of $7.5 million. At December 31, 2001, Sequoia had approximately $29.3 million in capital and statutory surplus. PICO also aims to maintain Sequoia's A.M. Best rating at or above its present "A-" (Excellent) level. At some time in the future, this may require the injection of additional capital.

SUPPLEMENTARY DISCLOSURES

At December 31, 2001:

- PICO had no "off balance sheet" financing arrangements;

- PICO has not provided any debt guarantees; and

- PICO has no commitments to provide additional collateral for financing arrangements. PICO's Swiss subsidiary, Global Equity SA, has Swiss Franc borrowings which partially finance the Company's European stock holdings. If the market value of those stocks declines below certain levels, we could be required to provide additional collateral or to repay a portion of the Swiss Franc borrowings.

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

RISK FACTORS

In addition to the risks and uncertainties discussed in the preceding sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document, the following risk factors should be considered carefully in evaluating PICO and its business. The statements contained in this Form 10-K/A that are not purely historical are forward-looking statements within the meaning of Section 27A of the Exchange Act, including statements regarding our expectations, beliefs, intentions, plans or strategies regarding the future. All forward-looking statements included in this document are based on information available to us on the date thereof, and we assume no obligation to update any such forward-looking statements.

BECAUSE OUR OPERATIONS ARE DIVERSE, ANALYSTS AND INVESTORS MAY NOT BE ABLE TO EVALUATE OUR COMPANY ADEQUATELY, WHICH MAY NEGATIVELY INFLUENCE OUR SHARE PRICE

PICO is a diversified holding company with operations in land and related water rights and mineral rights; water rights and water storage; property and casualty insurance; medical professional liability insurance; and other long-term holdings. Each of these areas is unique, complex in nature, and difficult to understand. In particular, water rights is a developing industry within the western United States with very little historical data, very few experts and a limited following of analysts. Because we are so complex, analysts and investors may not be able to adequately evaluate our operations, and PICO in total. This could cause them to make inaccurate evaluations of our stock, or to overlook PICO, in general. These factors could have a negative impact on the trading volume and price of our stock.

IF WE DO NOT SUCCESSFULLY LOCATE, SELECT AND MANAGE INVESTMENTS AND ACQUISITIONS OR IF OUR INVESTMENTS OR ACQUISITIONS OTHERWISE FAIL OR DECLINE IN VALUE, OUR FINANCIAL CONDITION COULD SUFFER

We invest in businesses that we believe are undervalued or that will benefit from additional capital, restructuring of operations or improved competitiveness through operational efficiencies.

Failures and/or declines in the market values of businesses we invest in or acquire, as well as our failure to successfully locate, select and manage investment and acquisition opportunities, could have a material adverse effect on our business, financial condition, the results of operations and cash flows. Such business failures, declines in market values, and/or failure to successfully locate, select and manage investments and acquisitions could result in inferior investment returns compared to those which may have been attained had we successfully located, selected and managed new investments and acquisition opportunities, or had our investments or acquisitions not failed or declined in value. We could also lose part or all of our investments in these businesses and experience reductions in our net income, cash flows, assets and shareholders' equity.

We will continue to make selective investments, and endeavor to enhance and realize additional value to these acquired companies through our influence and control. This could involve the restructuring of the financing or management of the entities in which we invest and initiating and facilitating mergers and acquisitions. Any acquisition could result in the use of a significant portion of our available cash, significant dilution to you, and significant acquisition-related charges. Acquisitions may also result in the assumption of liabilities, including liabilities that are unknown or not fully known at the time of the acquisition, which could have a material adverse effect on us.

We do not know of any reliable statistical data that would enable us to predict the probability of success or failure of our investments, or to predict the availability of suitable investments at the time we have available cash. You will be relying on the experience and judgment of management to locate, select and develop new acquisition and investment opportunities. Sufficient opportunities may not be found and this business strategy may not be successful. We have made a number of investments in the past that have been highly successful, and we have also made investments that have lost money. Further details of the realized and unrealized gains and losses can be found in the accompanying consolidated financial statements (see notes 1, 3 and 4) and Item 7 in this 10-K/A.

Our ability to achieve an acceptable rate of return on any particular investment is subject to a number of factors which are beyond our control, including increased competition and loss of market share, quality of management, cyclical or uneven financial results, technological obsolescence, foreign currency risks and regulatory delays.

Our investments may not achieve acceptable rates of return and we may not realize the value of the funds invested; accordingly, these investments may have to be written down or sold at their then-prevailing market values.

We may not be able to sell our investments in both private and public companies when it appears to be advantageous to do so and we may have to sell these investments at a discount. Investments in private companies are not as marketable as investments in public companies. Investments in public companies are subject to prices determined in the public markets and, therefore, values can vary dramatically. In particular, the ability of the public markets to absorb a large block of shares offered for sale can affect our ability to dispose of an investment in a public company.

We may acquire shares of stock in U.S. public companies that are not registered with the SEC, and we may not be able to register the stock during our period of ownership. Accordingly, this may affect our ability to dispose of an investment in a public company or achieve the full market price quoted by the stock exchange that the particular stock is listed on.

To successfully manage newly acquired companies, we must, among other things, continue to attract and retain key management and other personnel. The diversion of the attention of management from the day-to-day operations, or difficulties encountered in the integration process, could have a material adverse effect on our business, financial condition, and the results of operations and cash flows.

WE MAY MAKE INVESTMENTS AND ACQUISITIONS THAT MAY YIELD LOW OR NEGATIVE RETURNS FOR AN EXTENDED PERIOD OF TIME, WHICH COULD TEMPORARILY OR PERMANENTLY DEPRESS OUR RETURN ON INVESTMENTS

We generally make investments and acquisitions that tend to be long term in nature. We invest in businesses that we believe to be undervalued or may benefit from additional capital, restructuring of operations or management or improved competitiveness through operational efficiencies with our existing operations. We may not be able to develop acceptable revenue streams and investment returns. We may lose part or all of our investment in these assets. The negative impacts on cash flows, income, assets and shareholders' equity may be temporary or permanent. We make investments for the purpose of enhancing and realizing additional value by means of appropriate levels of shareholder influence and control. This may involve restructuring of the financing or management of the entities in which we invest and initiating or facilitating mergers and acquisitions. These processes can consume considerable amounts of time and resources. Consequently, costs incurred as a result of these investments and acquisitions may exceed their revenues and/or increases in their values for an extended period of time until we are able to develop the potential of these investments and acquisitions and increase the revenues, profits and/or values of these investments. Ultimately, however, we may not be able to develop the potential of these assets that we anticipated.

IF MEDICAL MALPRACTICE INSURANCE CLAIMS TURN OUT TO BE GREATER THAN THE RESERVES WE ESTABLISH TO PAY THEM, WE MAY NEED TO LIQUIDATE CERTAIN INVESTMENTS IN ORDER TO SATISFY OUR RESERVE REQUIREMENTS

Under the terms of our medical malpractice liability policies, there is an extended reporting period for claims. Under Ohio law, the statute of limitations is one year after the cause of action accrues. Also, under Ohio law, a person must make a claim within four years; however, the courts have determined that the period may be longer in situations where the insured could not have reasonably discovered the injury in that four-year period. Claims of minors must be brought within one year of the date of majority. As a result, some claims may be reported a number of years following the expiration of the medical malpractice liability policy period.

Physicians Insurance Company of Ohio has established reserves to cover losses on claims incurred under the medical malpractice liability policies including not only those claims reported to date, but also those that may have been incurred but not yet reported. The reserves for losses are estimates based on various assumptions and, in accordance with Ohio law, were discounted to reflect the time value of money for years prior to 2000. These estimates are based on actual and industry experience and assumptions and projections as to claims frequency, severity and inflationary trends and settlement payments. In accordance with Ohio law, Physicians Insurance Company of Ohio annually obtains a certification from an independent actuary that its reserves for losses are adequate. Physicians Insurance Company of Ohio also obtains a concurring actuarial opinion. Due to the inherent uncertainties in the reserving process, there is a risk that Physicians Insurance Company of Ohio's reserves for losses could prove to be inadequate. This could result in a decrease in income and shareholders' equity. If we underestimate our reserves, they could reach levels which are lower than required by law.

Reserves are provisions that we make to pay insurance claims. We strive to establish a balance between maintaining adequate reserves to pay claims while at the same time using our cash resources to invest in new companies.

IF WE UNDERESTIMATE THE AMOUNT OF INSURANCE CLAIMS, OUR FINANCIAL CONDITION COULD BE MATERIALLY MISSTATED AND OUR FINANCIAL CONDITION COULD SUFFER

Our insurance subsidiaries may not have established reserves adequate to meet the ultimate cost of losses arising from claims. It has been, and will continue to be, necessary for our insurance subsidiaries to review and make appropriate adjustments to reserves for claims and expenses for settling claims. Inadequate reserves could have a material adverse effect on our business, financial condition, and the results of operations and cash flows. Inadequate reserves could cause our financial condition to fluctuate from period to period and cause our financial condition to appear to be better than it actually is for periods in which insurance claims reserves are understated. In subsequent periods when we discover the underestimation and pay the additional claims, our cash needs will be greater than expected and our financial results of operations for that period will be worse than they would have been had our reserves been accurately estimated originally.

The inherent uncertainties in estimating loss reserves are greater for some insurance products than for others, and are dependent on:

- the length of time in reporting claims;

- the diversity of historical losses among claims;

- the amount of historical information available during the estimation process;

- the degree of impact that changing regulations and legal precedents may have on open claims; and

- the consistency of reinsurance programs over time.

Because medical malpractice liability and commercial casualty claims may not be completely paid off for several years, estimating reserves for these types of claims can be more uncertain than estimating reserves for other types of insurance. As a result, precise reserve estimates cannot be made for several years following the year for which reserves were initially established.

During the past several years, the levels of the reserves for our insurance subsidiaries have been very volatile. We have had to significantly increase and decrease these reserves in the past several years.

Significant increases in the reserves may be necessary in the future, and the level of reserves for our insurance subsidiaries may be volatile in the future. These increases or volatility may have an adverse effect on our business, financial condition, and the results of operations and cash flows.

THE PROPERTY & CASUALTY INSURANCE BUSINESS IS CYCLICAL, WHICH COULD HINDER OUR ABILITY TO PROFIT FROM THIS INDUSTRY IN THE FUTURE

The property and casualty insurance industry has been highly cyclical. Pricing is a function of many factors, including the capacity of the property and casualty industry as a whole to underwrite business, create policyholders' surplus and generate positive returns on their investment portfolios. The level of surplus in the industry varies with returns on invested capital and regulatory barriers to withdrawal of surplus. Increases in surplus have generally been accompanied by increased price competition among property and casualty insurers. During the late 1990's, the industry was in a cyclical downturn, due primarily to competitive pressures on pricing, which resulted in lower profitability for our property and casualty insurance operations. In 2000 and 2001, competitive pressures began to ease and pricing began to improve, which is referred to as a hardening market.

The cyclical trends in the industry and the industry's profitability can also be affected by volatile and unpredictable developments, including natural disasters, fluctuations in interest rates, and other changes in the investment environment which affect market prices of investments and the income generated from those investments. Inflationary pressures affect the size of losses and court decisions affect insurers' liabilities. These trends may adversely affect our business, financial condition, the results of operations and cash flows by reducing revenues and profit margins, by increasing ratios of claims and expenses to premiums, and by decreasing cash receipts. Capital invested in our insurance companies may produce inferior investment returns during periods of downturns in the insurance cycle due to reduced profitability.

STATE REGULATORS COULD REQUIRE CHANGES TO OUR CAPITALIZATION AND/OR TO THE OPERATIONS OF OUR INSURANCE SUBSIDIARIES AND/OR PLACE THEM INTO REHABILITATION OR LIQUIDATION

Beginning in 1994, Physicians, Professionals, Citation, and Sequoia became subject to the provisions of the Risk-Based Capital for Insurers Model Act which has been adopted by the National Association of Insurance Commissioners for the purpose of helping regulators identify insurers that may be in financial difficulty. The Model Act contains a formula which takes into account asset risk, credit risk, underwriting risk and all other relevant risks. Under this formula, each insurer is required to report to regulators using formulas which measure the quality of its capital and the relationship of its modified capital base to the level of risk assumed in

specific aspects of its operations. The formula does not address all of the risks associated with the operations of an insurer. The formula is intended to provide a minimum threshold measure of capital adequacy by individual insurance company and does not purport to compute a target level of capital. Companies which fall below the threshold will be placed into one of four categories: Company Action Level, where the insurer must submit a plan of corrective action; Regulatory Action Level, where the insurer must submit such a plan of corrective action, the regulator is required to perform such examination or analysis the Superintendent of Insurance considers necessary and the regulator must issue a corrective order; Authorized Control Level, which includes the above actions and may include rehabilitation or liquidation; and Mandatory Control Level, where the regulator must rehabilitate or liquidate the insurer. All companies' risk-based capital results as of December 31, 2001 exceed the Company Action Level.

WE MAY BE INADEQUATELY PROTECTED AGAINST MAN-MADE AND NATURAL CATASTROPHES, WHICH COULD REDUCE THE AMOUNT OF CAPITAL SURPLUS AVAILABLE FOR INVESTMENT OPPORTUNITIES

As with other property and casualty insurers, operating results and financial condition can be adversely affected by volatile and unpredictable natural and man-made disasters, such as hurricanes, windstorms, earthquakes, fires, and explosions. Our insurance subsidiaries generally seek to reduce their exposure to catastrophic events through individual risk selection and the purchase of reinsurance. Our insurance subsidiaries' estimates of their exposures depend on their views of the possibility of a catastrophic event in a given area and on the probable maximum loss created by that event. While our insurance subsidiaries attempt to limit their exposure to acceptable levels, it is possible that an actual catastrophic event or multiple catastrophic events could significantly exceed the maximum loss anticipated, resulting in a material adverse effect on our business, financial condition, and the results of operations and cash flows. Such events could cause unexpected insurance claims and expenses for settling claims well in excess of premiums, increasing cash needs, reducing surplus and reducing assets available for investments. Capital invested in our insurance companies may produce inferior investment returns as a result of these additional funding requirements.

We insure ourselves against catastrophic losses by obtaining insurance through other insurance companies known as reinsurers. The future financial results of our insurance subsidiaries could be adversely affected by disputes with their reinsurers with respect to coverage and by the solvency of the reinsurers.

OUR INSURANCE SUBSIDIARIES COULD BE DOWNGRADED, WHICH WOULD NEGATIVELY IMPACT OUR BUSINESS

Our insurance subsidiaries' ratings may not be maintained or increased, and a downgrade would likely adversely affect our business, financial condition, and the results of operations and cash flows. A.M. Best Company's ("A.M. Best") ratings reflect the assessment of A.M. Best of an insurer's financial condition, as well as the expertise and experience of its management. Therefore, A.M. Best ratings are important to policyholders. A.M. Best ratings are subject to review and change over time. Failure to maintain or improve our A.M. Best ratings could have a material adverse effect on the ability of our insurance subsidiaries to underwrite new insurance policies, as well as potentially reduce their ability to maintain or increase market share. Management believes that many potential customers will not insure with an insurer that carries an A.M. Best rating of less than B+, and that customers who do so will demand lower rates.

Our insurance subsidiaries are currently rated as follows:

- Sequoia Insurance Company — A- (Excellent)
- Citation Insurance Company — B+ (Very Good)
- Physicians Insurance Company of Ohio — NR-3 (rating procedure inapplicable)

POLICY HOLDERS MAY NOT RENEW THEIR POLICIES, WHICH WOULD UNEXPECTEDLY REDUCE OUR REVENUE STREAM

Insurance policy renewals have historically accounted for a significant portion of our net revenue. We may not be able to sustain historic renewal rates for our products in the future. A decrease in renewal rates would reduce our revenues. It would also decrease our cash receipts and the amount of funds available for investments and acquisitions. If we were not able to reduce overhead expenses correspondingly, this would adversely affect our business, financial condition, and the results of operations and cash flows.

IF WE ARE REQUIRED TO REGISTER AS AN INVESTMENT COMPANY, THEN WE WILL BE SUBJECT TO A SIGNIFICANT REGULATORY BURDEN

At all times we intend to conduct our business so as to avoid being regulated as an investment company under the Investment Company Act of 1940. However, if we were required to register as an investment company, our ability to use debt would be substantially reduced, and we would be subject to significant additional disclosure obligations and restrictions on our operational

activities. Because of the additional requirements imposed on an investment company with regard to the distribution of earnings, operational activities and the use of debt, in addition to increased expenditures due to additional reporting responsibilities, our cash available for investments would be reduced. The additional expenses would reduce income. These factors would adversely affect our business, financial condition, and the results of operations and cash flows.

VARIANCES IN PHYSICAL AVAILABILITY OF WATER, ALONG WITH ENVIRONMENTAL AND LEGAL RESTRICTIONS AND LEGAL IMPEDIMENTS COULD IMPACT PROFITABILITY FROM OUR WATER

RIGHTS

The water rights held by us and the transferability of these rights to other uses and places of use are governed by the laws concerning water rights in the states of Arizona, Colorado and Nevada. The volumes of water actually derived from the water rights applications or permitted rights may vary considerably based upon physical availability and may be further limited by applicable legal restrictions. As a result, the amounts of acre-feet anticipated from the water rights applications or permitted rights do not in every case represent a reliable, firm annual yield of water, but in some cases describe the face amount of the water right claims or management's best estimate of such entitlement. Legal impediments exist to the sale or transfer of some of these water rights, which in turn may affect their commercial value. If we were unable to transfer or sell our water rights, we will not be able to make a profit, we will not have enough cash receipts to cover cash needs, and we may lose some or all of our value in our water rights investments.

Water we lease or sell may be subject to regulation as to quality by the United States Environmental Protection Agency acting pursuant to the federal Safe Drinking Water Act. While environmental regulations do not directly affect us, the regulations regarding the quality of water distributed affects our intended customers and may, therefore, depending on the quality of our water, impact the price and terms upon which we may in the future sell our water or water rights.

OUR FUTURE WATER REVENUES ARE UNCERTAIN AND DEPEND ON A NUMBER OF FACTORS, WHICH MAY MAKE OUR REVENUE STREAMS AND PROFITABILITY VOLATILE

We engage in various water rights acquisition, management, development, and sale and lease activities. Accordingly, our long-term future profitability will be primarily dependent on our ability to develop and sell or lease water and water rights, and will be affected by various factors, including timing of acquisitions, transportation arrangements, and changing technology. To the extent we possess junior or conditional water rights, such rights may be subordinated to superior water right holders in periods of low flow or drought.

In addition to the risk of delays associated with receiving all necessary regulatory approvals and permits, we may also encounter unforeseen technical difficulties which could result in construction delays and cost increases with respect to our water development projects.

Our profitability is significantly affected by changes in the market price of water. In the future, water prices may fluctuate widely as demand is affected by climatic, demographic and technological factors.

OUR WATER ACTIVITIES MAY BECOME CONCENTRATED IN A LIMITED NUMBER OF ASSETS, MAKING OUR GROWTH AND PROFITABILITY VULNERABLE TO FLUCTUATIONS IN LOCAL ECONOMIES AND GOVERNMENTAL REGULATIONS

In the future, we anticipate that a significant amount of Vidler's revenues and asset value will come from a limited number of assets, including our water rights in the Harquahala Valley and the Vidler Arizona Recharge Facility. Although we continue to acquire and develop additional water assets, in the foreseeable future we anticipate that our revenues will still be derived from a limited number of assets.

OUR WATER SALES MAY MEET WITH POLITICAL OPPOSITION IN CERTAIN LOCATIONS, THEREBY LIMITING OUR GROWTH IN THESE AREAS

The transfer of water rights from one use to another may affect the economic base of a community and will, in some instances, be met with local opposition. Moreover, certain of the end users of our water rights, namely municipalities, regulate the use of water in order to control or deter growth.

WE ARE DIRECTLY IMPACTED BY INTERNATIONAL AFFAIRS, WHICH DIRECTLY EXPOSES US TO THE ADVERSE EFFECTS OF ANY FOREIGN ECONOMIC OR GOVERNMENTAL INSTABILITY

As a result of global investment diversification, our business, financial condition, the results of operations and cash flows may be adversely affected by:

- exposure to fluctuations in exchange rates;
- the imposition of governmental controls;
- the need to comply with a wide variety of foreign and U.S. export laws;
- political and economic instability;
- trade restrictions;
- changes in tariffs and taxes;
- volatile interest rates;
- changes in certain commodity prices;
- exchange controls which may limit our ability to withdraw money;
- the greater difficulty of administering business overseas; and
- general economic conditions outside the United States.

Changes in any or all of these factors could result in reduced market values of investments, loss of assets, additional expenses, reduced investment income, reductions in shareholders' equity due to foreign currency fluctuations and a reduction in our global diversification.

OUR COMMON STOCK PRICE MAY BE LOW WHEN YOU WANT TO SELL YOUR SHARES

The trading price of our common stock has historically been, and is expected to be, subject to fluctuations. The market price of the common stock may be significantly impacted by:

- quarterly variations in financial performance;
- shortfalls in revenue or earnings from levels forecast by securities analysts;
- changes in estimates by such analysts;
- product introductions;
- our competitors' announcements of extraordinary events such as acquisitions;
- litigation; and

- general economic conditions.

Our results of operations have been subject to significant fluctuations, particularly on a quarterly basis, and our future results of operations could fluctuate significantly from quarter to quarter and from year to year. Causes of such fluctuations may include the inclusion or exclusion of operating earnings from newly acquired or sold operations. At December 31, 2001, the closing price of our common stock on the NASDAQ National Market was $12.50 per share, compared to $12.3125 at December 31, 1999. On a quarterly basis between these two dates, closing prices have ranged from a high of $14.62 at June 30, 2001 to a low of $11.00 at September 30, 2001. During 2001, closing prices have ranged from a low of $10.70 per share on October 9 to a high of $15.91 on July 20.

Statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the markets in which we do business or relating to us specifically could result in an immediate and adverse effect on the market price of our common stock.

WE MAY NOT BE ABLE TO RETAIN KEY MANAGEMENT PERSONNEL WE NEED TO SUCCEED, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO MAKE SOUND INVESTMENT DECISIONS

We have several key executive officers. If they depart, it could have a significant adverse effect. Messrs. Langley and Hart have entered into employment agreements with us dated as of December 31, 1997, for a period of four years. Messrs. Langley and Hart are key to the implementation of our strategic focus, and our ability to successfully develop our current strategy is dependent upon our ability to retain the services of Messrs. Langley and Hart.

New employment agreements were entered into with Mr. Langley and Mr. Hart on January 1, 2002 for a further four years. (See Part II, Item 8, Note 16, "Related-Party Transactions.")

THE FOREGOING FACTORS, INDIVIDUALLY OR IN AGGREGATE, COULD MATERIALLY ADVERSELY AFFECT OUR OPERATING RESULTS AND COULD MAKE COMPARISON OF HISTORIC OPERATING RESULTS AND BALANCES DIFFICULT OR NOT MEANINGFUL.

REGULATORY INSURANCE DISCLOSURES

Liabilities for Unpaid Loss and Loss Adjustment Expenses

Liabilities for unpaid loss and loss adjustment expenses are estimated based upon actual and industry experience, and assumptions and projections as to claims frequency, severity and inflationary trends and settlement payments. Such estimates may vary from the eventual outcome. The inherent uncertainty in estimating reserves is particularly acute for lines of business for which both reported and paid losses develop over an extended period of time.

Several years or more may elapse between the occurrence of an insured medical professional liability insurance or casualty loss, the reporting of the loss and the final payment of the loss. Loss reserves are estimates of what an insurer expects to pay claimants, legal and investigative costs and claims administrative costs. PICO's insurance subsidiaries are required to maintain reserves for payment of estimated losses and loss adjustment expenses for both reported claims and claims which have occurred but have not yet been reported. Ultimate actual liabilities may be materially more or less than current reserve estimates.

Reserves for reported claims are established on a case-by-case basis. Loss and loss adjustment expense reserves for incurred but not reported claims are estimated based on many variables including historical and statistical information, inflation, legal developments, the regulatory environment, benefit levels, economic conditions, judicial administration of claims, general trends in claim severity and frequency, medical costs and other factors which could affect the adequacy of loss reserves. Management reviews and adjusts incurred but not reported claims reserves regularly.

The liabilities for unpaid losses and loss adjustment expenses of Physicians, Sequoia, and Citation were $98.4 million at December 31, 2001, $121.5 million at December 31, 2000, and $139.1 million at December 31, 1999, net of discount on medical professional liability insurance reserves in 1999, and before reinsurance reserves, which reduce net unpaid losses and loss adjustment expenses. Of those amounts, the liabilities for unpaid loss and loss adjustment expenses of prior years decreased by $10.4 million in 2001, and increased by $8.6 million in 2000, and $16.3 million in 1999. The 2000 increase included $7.5 million of accumulated discount on reserves that was expensed as a result of our decision to discontinue discounting reserves effective January 1, 2000. See Note 21 of Notes to Consolidated Financial Statements, "Cumulative Effect of Change in Accounting Principle." These changes to prior years' reserves were due to the following:

CHANGE IN UNPAID LOSS AND LAE RESERVES FOR PRIOR YEARS

	2001	2000
Increase (decrease) in provision for prior year claims	$ (9,833,352)	$ 1,30
Retroactive reinsurance	(529,993)	(26
Accretion of reserve discount		
Cumulative effect of change in accounting principle		7,52
Net increase (decrease) in liabilities for unpaid loss and LAE of prior years	$ (10,363,345)	$ 8,55

See schedule in Note 12 of Notes to PICO's Consolidated Financial Statements, "Reserves for Unpaid Loss and Loss Adjustment Expenses" for additional information regarding reserve changes.

Although insurance reserves are certified annually by independent actuaries for each insurance company as required by state law, significant fluctuations in reserve levels can occur based upon a number of variables used in actuarial projections of ultimate incurred losses and loss adjustment expenses.

Physicians' liability for unpaid medical professional liability insurance losses and loss adjustment expenses was discounted through December 31, 1999, to reflect investment income as permitted by the Ohio Department of Insurance. The method of discounting was based upon historical payment patterns and assumed an interest rate at or below Physicians' investment yield, and was the same rate used for statutory reporting purposes. A discount rate of 4% was used for medical professional liability insurance reserves. Discounting was discontinued effective January 1, 2000. See Notes 12 and 21 of Notes to Consolidated Financial Statements, "Reserves for Unpaid Loss and Loss Adjustment Expenses" and "Cumulative Effect of Change in Accounting Principle."

All of PICO's insurance companies seek to reduce the loss that may arise from individually significant claims or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with other insurance carriers.

Various reinsurance treaties remain in place to limit PICO's exposure levels.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

The following table presents the development of balance sheet liabilities for 1991 through 2001 for all property and casualty lines of business including medical professional liability insurance. The "Net liability as originally estimated" line shows the estimated liability for unpaid losses and loss adjustment expenses recorded at the balance sheet date on a discounted basis, prior to 2000, for each of the indicated years. Reserves for other lines of business that Physicians ceased writing in 1989, which are immaterial, are excluded. The "Gross liability as originally estimated" represents the estimated amounts of losses and loss adjustment expenses for claims arising in all prior years that are unpaid at the balance sheet date on an undiscounted basis, including losses that had been incurred but not reported.

	Year Ended December 31,			
	1991	1992	1993	1994
			(In thousands)	
Net liability as originally estimated:	$129,768	$159,804	$179,390	$153,
Discount	30,647	31,269	32,533	20,
Gross liability as originally estimated:	160,415	191,073	211,923	173,
Cumulative payments as of:				
One year later	42,986	41,550	34,207	35,
Two years later	81,489	73,012	69,037	61,
Three years later	103,505	103,166	90,904	93,
Four years later	120,073	116,278	118,331	110,
Five Years later	127,725	139,028	128,773	119,
Six years later	142,973	143,562	136,820	129,
Seven years later	147,142	148,426	145,683	132,
Eight years later	151,751	156,620	147,386	
Nine years later	159,205	157,975		
Ten years later	160,426			
Liability re-estimated as of:				
One year later	188,811	197,275	183,560	170,
Two years later	184,113	179,763	184,138	163,
Three years later	174,790	182,011	175,308	162,
Four years later	177,811	176,304	178,544	165,
Five Years later	172,431	181,721	178,584	167,
Six years later	175,830	181,868	178,371	167,
Seven years later	177,603	181,029	178,717	160,
Eight years later	178,419	183,229	171,926	
Nine years later	180,624	179,052		
Ten years later	177,577			

Cumulative Redundancy (Deficiency)	($17,162)	$12,021	$39,997	$13,

	Year Ended De		
	1997	1998	1999
			(
Net liability as originally estimated:	$128,205	$102,877	$9
Discount	9,159	8,515	
Gross liability before discount as originally estimated:	137,364	111,392	10
Cumulative payments as of:			
One year later	44,750	31,056	2
Two years later	69,571	51,184	4
Three years later	85,896	62,494	
Four years later	95,591		
Five Years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
Liability re-estimated as of:			
One year later	144,367	127,269	10
Two years later	160,325	127,898	9
Three years later	160,239	117,246	
Four years later	149,723		
Five Years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
Cumulative Redundancy (Deficiency)	($12,359)	($5,854)	$
RECONCILIATION TO FINANCIAL STATEMENTS			
Gross liability - end of year			$14
Reinsurance recoverable			(4
Net liability before discount - end of year			10
Net discount			(
Net liability - end of year (discounted for 1998 and 1999)			9
Reinsurance recoverable (discounted for 1998 and 1999)			4
			13
Discontinued personal lines insurance			
Balance sheet liability (discounted for 1998 and 1999)			$13
Gross re-estimated liability - latest			$14
Re-estimated recoverable - latest			(4
Net re-estimated liability before discount - latest			9
Net re-estimated discount - latest			

Net re-estimated liability - latest	$9
Net cumulative redundancy before discount	$

Each decrease or increase amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the redundancy related to losses settled in 1994, but incurred in 1991, will be included in the decrease or increase amount for 1991, 1992 and 1993. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. For example, Physicians commuted reinsurance contracts in several different years that significantly increased the estimate of net reserves for prior years by reducing the recoverable loss and loss adjustment expense reserves for those years. Accordingly, it may not be appropriate to extrapolate future increases or decreases based on this table.

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The data in the above table is based on Schedule P from each of the insurance companies' 1991 to 2001 Annual Statements, as filed with state insurance departments; however, the development table above differs from the development displayed in Schedule P, Part-2, of the insurance Annual Statements as Schedule P, Part-2, excludes unallocated loss adjustment expenses.

LOSS RESERVE EXPERIENCE

The inherent uncertainties in estimating loss reserves are greater for some insurance products than for others, and are dependent on the length of the reporting lag or "tail" associated with a given product (i.e., the lapse of time between the occurrence of a claim and the report of the claim to the insurer), on the diversity of historical development patterns among various aggregations of claims, the amount of historical information available during the estimation process, the degree of impact that changing regulations and legal precedents may have on open claims, and the consistency of reinsurance programs over time, among other things. Because medical professional liability insurance and commercial casualty claims may not be fully paid for several years or more, estimating reserves for such claims can be more uncertain than estimating reserves in other lines of insurance. As a result, precise reserve estimates cannot be made for several years following a current accident year for which reserves are initially established.

There can be no assurance that the insurance companies have established reserves adequate to meet the ultimate cost of losses arising from such claims. It has been necessary, and will over time continue to be necessary, for the insurance companies to review and make appropriate adjustments to reserves for estimated ultimate losses and loss adjustment expenses. To the extent reserves prove to be inadequate, the insurance companies would have to adjust their reserves and incur a charge to income, which could have a material adverse effect on PICO's financial results.

Reconciliation of Unpaid Loss and Loss Adjustment Expenses

An analysis of changes in the liability for unpaid losses and loss adjustment expenses for 2001, 2000, and 1999 is set forth in Note 12 of Notes to PICO's Consolidated Financial Statements, "Reserves for Unpaid Loss and Loss

Adjustment Expenses."

REINSURANCE

Medical Professional Liability Insurance

On July 14, 1995, Physicians and Professionals entered into an Agreement for the Purchase and Sale of Certain Assets with Mutual Assurance, Inc. This transaction closed on August 28, 1995. Pursuant to the agreement, Physicians and Professionals sold their professional liability insurance business and related liability insurance business for physicians and other health care providers.

Simultaneously with execution of the agreement, Physicians and Mutual entered into a reinsurance treaty pursuant to which Mutual agreed to assume all risks attaching after July 15, 1995 under medical professional liability insurance policies issued or renewed by Physicians on physicians, surgeons, nurses, and other health care providers, dental practitioner professional liability insurance policies including corporate and professional premises liability coverage issued by Physicians, and related commercial general liability insurance policies issued by Physicians, net of applicable reinsurance.

Prior to July 1, 1993, Physicians ceded a portion of the risk it wrote under numerous reinsurance treaties at various retentions and risk limits. However, during the last two accident years that Physicians wrote premium (July 1, 1993 to July 15, 1995), Physicians ceded reinsurance contracts through TIG Reinsurance Company (rated A [Strong] by Standard & Poors), Transatlantic Reinsurance Company (rated AA [Very Strong] by S&P) and Cologne Reinsurance Company of America (rated BBBpi [Good] by S&P). Physicians ceded insurance to these carriers on an automatic basis when retention limits were exceeded. Physicians retained all risks up to $200,000 per occurrence. All risks above $200,000, up to policy limits of $5 million, were transferred to reinsurers, subject to the specific terms and conditions of the various reinsurance treaties. Physicians remains primarily liable to policyholders for ceded insurance should any reinsurer be unable to meet its contractual obligations.

Property and Casualty Insurance

Effective January 1, 1998, Sequoia and Citation entered into an inter-company reinsurance pooling agreement for business in force as of January 1, 1998 and business written thereafter. Per the agreement, Citation ceded 100% of its net premium and losses to Sequoia and Sequoia then ceded 50% of its net premiums and losses to Citation. Sequoia and Citation shared equally in the underwriting expenses. This arrangement was terminated effective January 1, 2000.

During this period, Citation and Sequoia had the same reinsurance program. For property business, reinsurance provided coverage of $10.4 million excess of $150,000 per occurrence. For casualty business, excluding umbrella coverage, reinsurance provided coverage of $4.9 million excess of $150,000 per occurrence. Umbrella coverages were reinsured $9.9 million excess of $100,000 per occurrence. The catastrophe treaties for 1998 and thereafter provided coverage of 95% of $14 million excess of $1 million per occurrence. Facultative reinsurance was placed with various reinsurers.

Effective January 1, 2002, Sequoia increased its retention for property and casualty losses from $150,000 to $200,000 per occurrence. Therefore, reinsurance provides property coverage of $10.3 million excess of $200,000 per occurrence, and casualty coverage of $4.8 million excess of $200,000 per occurrence. In addition, Sequoia changed the umbrella reinsurance from $9.9 million excess of $100,000 per occurrence to 98% quota share reinsurance for the first $5 million. Therefore, Sequoia will retain 2% of each umbrella loss while the reinsurance provides for 98% of each umbrella loss. The reinsurance for umbrella business $5 million excess of $5 million per occurrence remains at 100%. The catastrophe treaties for 2002 provide coverage of 70% for $1.5 million excess of $1 million per occurrence, and 95% for $12.5 million per occurrence excess of $2.5 million. Citation does not require reinsurance from 2002 onwards, as its last policy expired in December 2001.

Where the reinsurers are "not admitted" for regulatory purposes, Sequoia and Citation presently maintain sufficient collateral with approved financial institutions to secure cessions of paid losses and outstanding reserves.

All policy and claims liabilities of Sequoia prior to August 1, 1995 have been 100% reinsured with Sydney Reinsurance Corporation and unconditionally guaranteed by QBE Insurance Group Limited.

See Note 11 of Notes to Consolidated Financial Statements, "Reinsurance," with regard to reinsurance recoverable concentration for all property and casualty lines of business as of December 31, 2001. PICO remains contingently liable with respect to reinsurance contracts in the event that reinsurers are unable to meet their obligations under the reinsurance agreements in force.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

PICO's balance sheets include a significant amount of assets and liabilities whose fair value are subject to market risk. Market risk is the risk of loss arising from adverse changes in market interest rates or prices. PICO currently has interest rate risk as it relates to its fixed maturity securities and mortgage participation interests, equity price risk as it relates to its marketable equity securities, and foreign currency risk as it relates to investments denominated in foreign currencies. PICO's bank debt is short-term in nature as PICO generally secures rates for periods of approximately one to three years and therefore approximates fair value. At December 31, 2001, PICO had $100.9 million of fixed maturity securities and mortgage participation interests, $57 million of marketable equity securities that were subject to market risk, of which $36.8 million were denominated in foreign currencies, primarily Swiss francs and Australian dollars. PICO's investment strategy is to manage the duration of the portfolio relative to the duration of the liabilities while managing interest rate risk.

PICO uses two models to analyze the sensitivity of its assets and liabilities subject to the above risks. For its fixed maturity securities, and mortgage participation interests, PICO uses duration modeling to calculate changes in fair value. For its marketable securities, PICO uses a hypothetical 20% decrease in the fair value to analyze the sensitivity of its market risk assets and liabilities. For investments denominated in foreign currencies, PICO uses a hypothetical 20% decrease in the local currency of that investment. Actual results may differ from the hypothetical results assumed in this disclosure due to possible actions taken by management to mitigate adverse changes in fair value and because the fair value of a securities may be affected by credit concerns of the issuer, prepayment rates, liquidity, and other general market conditions. The sensitivity analysis duration model produced a loss in fair value of $3.5 million for a 100 basis point decline in interest rates on its fixed securities and mortgage participation interests. The hypothetical 20% decrease in fair value of PICO's marketable equity securities produced a loss in fair value of $10.9 million that would impact the unrealized appreciation in shareholders' equity. The hypothetical 20% decrease in the local currency of PICO's foreign denominated investments produced a loss of $5.8 million that would impact the unrealized appreciation and foreign currency translation in shareholders' equity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PICO's financial statements as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001 and the independent auditors' report is included in this report as listed in the index.

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SELECTED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data (in thousands, except share and per share amounts) for 2001 and 2000 are shown below. In management's opinion, the interim financial data contains all adjustments necessary for a fair presentation of results for such interim periods and are of a normal recurring nature. In the fourth quarter of 2000, the Company received notification from the Ohio Department of Insurance that it would no longer permit the Company to discount its MPL reserves for statutory accounting practices. Accordingly, the Company discontinued discounting its MPL reserves in its statutory filing with the ODI and financial statements prepared in accordance with US GAAP for the year ended December 31, 2000. The effect for the year ended December 31, 2000 was to increase the unpaid losses and loss adjustment expenses reserve by $7.5 million and an cumulative effect of accounting principle of $5 million, or $0.43 per share, net of an income tax benefit of approximately $2.5 million.

AS PREVIOUSLY REPORTED

	THREE MONTHS ENDED			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Premium income	$10,039	$10,536	$10,665	$12,051
Net investment income and net realized gain (loss)	795	2,203	(473)	2,131
Total revenues	20,721	15,658	15,749	17,452
Net income (loss)	(2,263)	(2,462)	1,364	8,134
Basic:				
Net income (loss) per share	$ (0.18)	$ (0.20)	$ 0.11	$ 0.66
Weighted average common and equivalent shares outstanding	12,390,096	12,390,096	12,390,096	12,368,616
Diluted:				
Net income (loss) per share	$ (0.18)	$ (0.20)	$ 0.11	$ 0.66
Weighted average common and equivalent shares outstanding	12,390,096	12,390,096	12,408,408	12,368,616

AS RESTATED, SEE NOTE 22

	THREE MONTHS ENDED			
	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Premium income	$ 10,039	$ 10,536	$ 10,665	$ 12,051
Net investment income and net realized gain (loss)	2,370	3,877	(1,014)	1,115
Total revenues	22,296	17,332	15,208	16,436
Net income (loss)	(1,439)	(1,534)	866	7,221
Basic:				
Net income (loss) per share	$ (0.12)	$ (0.12)	$ 0.07	$ 0.58
Weighted average common and equivalent shares outstanding	12,390,096	12,390,096	12,390,096	12,368,616
Diluted:				
Net income (loss) per share	$ (0.12)	$ (0.12)	$ 0.07	$ 0.58
Weighted average common and equivalent shares outstanding	12,390,096	12,390,096	12,408,408	12,368,616

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AS PREVIOUSLY REPORTED

	THREE MONTHS ENDED			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Premium income	$7,514	$7,678	$8,272	$10,972
Net investment income and net realized gain (loss)	1,443	1,558	(4,589)	2,301
Total revenues	10,095	11,027	4,940	19,291
Net income (loss)	(8,521)	121	(2,805)	1,679
Basic:				
Net income (loss) per share	$ (0.93)	$ 0.01	$ (0.23)	$ 0.14
Weighted average common and equivalent shares outstanding	9,200,926	12,390,070	12,390,096	12,390,096

Diluted:				
Net income (loss) per share	$ (0.93)	$ 0.01	$ (0.23)	$ 0.14
Weighted average common and equivalent shares outstanding	9,200,926	12,390,070	12,390,096	12,390,096

AS RESTATED, SEE NOTE 22

	THREE MONTHS ENDED			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Premium income	$ 7,514	$ 7,678	$ 8,272	$ 10,972
Net investment income and net realized gain (loss)	1,999	1,510	(4,589)	2,255
Total revenues	10,651	10,979	4,940	19,245
Net income (loss)	(8,444)	(401)	(3,823)	1,368
Basic:				
Net income (loss) per share	$ (0.92)	$ (0.03)	$ (0.31)	$ 0.11
Weighted average common and equivalent shares outstanding	9,200,926	12,390,070	12,390,096	12,390,096
Diluted:				
Net income (loss) per share	$ (0.92)	$ (0.03)	$ (0.31)	$ 0.11
Weighted average common and equivalent shares outstanding	9,200,926	12,390,070	12,390,096	12,390,096

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PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
AND FOR EACH OF THE YEARS
ENDED DECEMBER 31, 2001, 2000 and 1999

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PICO HOLDINGS, INC.

We have audited the accompanying consolidated balance sheets of PICO Holdings, Inc. and its subsidiaries (collectively "the Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PICO Holdings, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 to the financial statements, in 2000 the Company changed its method of accounting for medical professional liability claims reserves.

As discussed in Note 22, the accompanying consolidated financial statements have been restated.

DELOITTE & TOUCHE LLP

San Diego, California

March 8, 2002 (March 27, 2003 as to Note 22)

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

ASSETS

	2001	2000
	(AS RESTATED, SEE NOTE 22)	(AS RESTATE SEE NOTE 2
Investments (Note 3):		
Available for sale:		
Fixed maturities	$ 100,895,244	$ 101,895,
Equity securities	54,364,542	55,051,
Investment in unconsolidated affiliates (Note 4)	2,583,590	4,139,
Total investments	157,843,376	161,086,
Cash and cash equivalents	17,361,624	13,644,
Premiums and other receivables, net (Note 6)	18,076,561	19,032,
Reinsurance receivables (Note 11)	23,783,106	27,594,
Accrued investment income	1,595,400	1,717,
Land and related mineral rights and water rights (Note 5)	125,997,642	137,235,
Property and equipment, net (Note 8)	2,727,931	2,944,
Deferred policy acquisition costs (Note 9)	6,913,589	6,299,
Goodwill and intangibles, net (Note 1)	3,487,414	4,000,
Net deferred income taxes (Note 7)	8,583,265	13,100,
Other assets	8,048,856	5,427,
Total assets	$ 374,418,764	$ 392,082,

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

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONTINUED

DECEMBER 31, 2001 AND 2000

LIABILITIES AND SHAREHOLDERS' EQUITY

	2001
Policy liabilities and accruals:	(AS RESTA SEE NOTE
Unpaid losses and loss adjustment expenses (Note 12)	$ 98,44
Unearned premiums	28,14
Reinsurance balance payable	5,45
Deferred gain on retroactive reinsurance	43
Other liabilities	13,57
Bank and other borrowings (Note 20)	14,59
Taxes payable	
Excess of fair value of net assets acquired over purchase price (Note 1)	2,79
Total liabilities	163,45
Minority interest	3,06
Commitments and Contingencies	
Common stock, $.001 par value; authorized 100,000,000; 16,784,223 issued and outstanding at December 31, 2001 and 2000	1
Additional paid-in capital	235,84
Accumulated other comprehensive loss (Note 1)	(3,22
Retained earnings	53,39
	286,02
Less treasury stock, at cost (common shares: 4,415,607 in 2001 and 4,394,127 in 2000)	(78,12
Total shareholders' equity	207,89
Total liabilities and shareholders' equity	$ 374,41

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

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	2001
Revenues:	(AS RESTATED, SEE NOTE 22)
Premium income	$ 43,289,676
Net investment income (Note 3)	9,766,893
Net realized loss on investments (Note 3)	(3,418,496)
Sale of land and water rights	17,106,174
Other income	4,528,090
Total revenues	71,272,337
Expenses:	
Loss and loss adjustment expenses (Note 12)	18,302,320
Amortization of policy acquisition costs (Note 9)	13,044,382
Cost of land and water rights	7,568,229
Insurance underwriting and other expenses	21,685,855
Total expenses	60,600,786
Equity in loss of unconsolidated affiliates	(1,529,060)
Income (loss) before income taxes and minority interest	9,142,491
Provision (benefit) for federal, foreign and state income taxes (Note 7)	3,406,464
Income (loss) before minority interest	5,736,027
Minority interest in loss of subsidiaries	358,449
Income (loss) before extraordinary gain and accounting change	6,094,476
Extraordinary gain, net of income tax expense of $227,821	
Cumulative effect of change in accounting principle, net (Note 21)	(980,571)
Net income (loss)	$ 5,113,905
Net income (loss) per common share - basic and diluted:	
Income (loss) per share before extraordinary gain and cumulative effect	$ 0.49
Extraordinary gain	
Cumulative effect of change in accounting principle	(0.08)
Net income (loss) per common share	$ 0.41
Weighted average shares outstanding	12,384,682

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Common Stock	Additional Paid-In Capital	Retaine Earning
Balance, January 1, 1999, as previously reported	$13,329	$ 183,154,588	$ 76,24
Prior period adjustments (See Note 22)			(6,92
Balance, January 1, 1999 (*)	13,329	183,154,588	69,31
Comprehensive Loss for 1999			
Net loss (*)			(9,74
Net unrealized appreciation on investments net of deferred tax of $2.3 million and reclassification adjustment of $1.3 million (*)			
Foreign currency translation (*)			
Total Comprehensive Loss			
Exercise of 120,000 warrants at $23.80 per share	120	2,850,239	
Purchase of 13,000 PICO treasury shares			
Balance, December 31, 1999 (*)	$13,449	$ 186,004,827	$ 59,57

(*) As Restated, See Note 22

	Accumulated Other Comprehensive Income	
	Net Unrealized Appreciation on Investments	Foreign Currency Translation
Balance, January 1, 1999, as previously reported	$ (3,087,565)	$ (4,763,872)
Prior period adjustments (See Note 22)	6,640,753	17,968
Balance, January 1, 1999 (*)	(3,553,188)	(4,745,904)
Comprehensive Loss for 1999		
Net loss (*)		
Net unrealized appreciation on investments net of deferred tax of $2.3 million and reclassification adjustment of $1.3 million (*)	4,413,947	
Foreign currency translation (*)		(1,481,998)
Total Comprehensive Loss		
Exercise of 120,000 warrants at $23.80 per share		
Purchase of 13,000 PICO treasury shares		

Balance, December 31, 1999 (*)	$ 7,967,135	$ (6,227,902)	

(*) As Restated, See Note 22

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 1999 (*)	$13,449	$ 186,004,827	$ 59,578,221
Comprehensive Loss for 2000			
Net loss (*)			(11,300,556)
Net unrealized depreciation on investments net of deferred tax of $2.2 million (*)			
Foreign currency translation (*)			
Total Comprehensive Loss			
Rights offering, net of $193,000 of expenses	3,335	49,839,828	
Balance, December 31, 2000 (*)	$ 16,784	$ 235,844,655	$ 48,277,665

(*) As Restated, See Note 22

Accumulated Other Comprehensive Loss		
Net Unrealized Appreciation (Depreciation) on Investments	Foreign Currency Translation	Treasur Stock

Balance, December 31, 1999 (*)	$ 7,967,135	$ (6,227,902)	$ (77,8
Comprehensive Loss for 2000			
Net loss (*)			
Net unrealized depreciation on investments net of deferred tax of $2.2 million (*)	(4,355,660)		
Foreign currency translation (*)		(1,587,908)	
Total Comprehensive Loss			
Rights offering, net of $193,000 of expenses			
Balance, December 31, 2000 (*)	$ 3,611,475	$ (7,815,810)	$ (77,8

(*) As Restated, See Note 22

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance, December 31, 2000 (*)	$ 16,784	$ 235,844,655	$ 48,277,665
Comprehensive Loss for 2001			
Net income (*)			5,113,905
Net appreciation on investments net of deferred tax of $996,000 and reclassification adjustment of $2.6 million (*)			
Foreign currency translation (*)			
Total Comprehensive Loss			
Acquisition of 21,846 shares of treasury stock for deferred compensation plans			
Balance, December 31, 2001 (*)	$ 16,784	$ 235,844,655	$ 53,391,570

(*) As Restated, See Note 22

	Accumulated Other Comprehensive Loss		
	Net Unrealized Appreciation on Investments	Foreign Currency Translation	Treasury Stock
Balance, December 31, 2000 (*)	$ 3,611,475	$ (7,815,810)	$ (77,829,
Comprehensive Loss for 2001			
Net income (*)			
Net appreciation on investments net of deferred tax of $996,000 and reclassification adjustment of $2.6 million (*)	1,933,582		
Foreign currency translation (*)		(955,114)	
Total Comprehensive Loss			
Acquisition of 21,846 shares of treasury stock for deferred compensation plans			(299,
Balance, December 31, 2001 (*)	$ 5,545,057	$ (8,770,924)	$ (78,128,

(*) As Restated, See Note 22

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

	2001
CASH FLOWS FROM OPERATING ACTIVITIES:	(AS RESTATED, SEE NOTE 22)

Net income (loss)	$ 5,113,905
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Provision for deferred taxes	4,036,227
Cumulative effect of accounting change	980,571
Depreciation and amortization	2,034,657
Loss on sale of investments	3,418,468
Gain on sale of interest in Semitropic	(5,700,720)
Loss on condemnation of property	201,822
Allowance for uncollectible accounts	2,633,204
Extraordinary gain on early extinguishment of debt	
Equity in loss of unconsolidated affiliates	1,529,060
Minority interest	(358,449)
Changes in assets and liabilities, net of effects of acquisitions:	
Premiums and other receivables	(1,677,162)
Land, water and mineral rights	4,922,434
Income taxes	(324,837)
Reinsurance receivable	3,810,933
Reinsurance payable	(172,883)
Deferred policy acquisition costs	(613,770)
Deferred gain on retroactive insurance	(529,993)
Unpaid losses and loss adjustment expenses	(23,092,669)
Unearned premiums	2,638,107
Other adjustments, net	(2,784,077)
Net cash used in operating activities	(3,935,172)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale of available for sale investments:	
Fixed maturities	68,452,287
Equity securities	7,818,540
Proceeds from maturity of investments	20,470,000
Purchases of available for sale investments:	
Fixed maturities	(83,598,484)
Equity securities	(14,562,923)
Semitropic lease payment	(378,429)
Proceeds from the sale of interest in Semitropic	10,202,733
Proceeds from the condemnation of property	1,098,178
Proceeds from the sales of real estate	
Purchases of property and equipment	(760,095)
Investments in and advances to affiliates	
Other investing activities, net	273,000
Net cash provided by (used in) investing activities	9,014,807
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of bank and other borrowings	(2,903,407)
Proceeds from borrowings	1,949,321
Cash paid to minority shareholders of partnership	(500,000)
Proceeds from rights offering, net	
Proceeds from the sale of warrants	
Repurchase of treasury stock (for deferred compensation in 2001)	(299,000)
Net cash provided by (used in) financing activities	(1,753,086)
Effect of exchange rate changes on cash	390,763
Net increase (decrease) in cash and cash equivalents	3,717,312
Cash and cash equivalents, beginning of year	13,644,312

Cash and cash equivalents, end of year	$ 17,361,624
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	$ 880,000
Income taxes recovered	$ (1,190,000)

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations:

PICO Holdings, Inc. and subsidiaries (collectively, "PICO" or "the Company") is a diversified holding company.

Currently PICO's major activities are:

- owning and developing water rights & 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;
- "running off" the loss reserves of Citation Insurance Company and Physicians Insurance Company of Ohio; and
- making long term value-based investments in other public companies.

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 ("Physicians") on November 20, 1996. Following the reverse merger, the Company changed its name to PICO Holdings, Inc.

On December 16, 1998, PICO acquired the remaining 48.8% of the outstanding stock of Global Equity Corporation ("Global Equity") through a Plan of Arrangement (the "PICO/Global Equity Combination") whereby Global Equity shareholders received .4628 of a newly issued PICO common share for each Global Equity share surrendered. Immediately following the close of the transaction, PICO effected a 1-for-5 reverse stock split (the "Reverse Stock Split").

The Company's primary subsidiaries as of December 31, 2001 are as follows:

Vidler Water Company, Inc. ("Vidler"). Vidler is a 96.2% owned Delaware corporation. Vidler's business involves identifying end users, namely water utilities, municipalities or developers, in the Southwest who require water, and then locating a source and supplying the demand, either by utilizing Vidler's own assets or securing other sources of supply. These assets comprise water rights in the states of Colorado, Arizona, and Nevada, and water storage facilities in Arizona and California.

Nevada Land & Resource Company, LLC ("Nevada Land"). In April 1997, PICO acquired Nevada Land, which then owned approximately 1.4 million acres of deeded land in northern Nevada, together with the related water, mineral and geothermal rights.

Sequoia Insurance Company ("Sequoia"). Sequoia is a California insurance company licensed to write insurance coverage for property and casualty risks ("P&C") within the states of California and Nevada. Sequoia writes business through independent agents and brokers. In recent years, Sequoia has primarily written farm and small to medium-sized commercial insurance in California and Nevada. During 2000, Sequoia significantly expanded its personal insurance business with the acquisition of the book of business of Personal Express Insurance Services, Inc.

Citation Insurance Company ("Citation"). Citation is a California-domiciled insurance company licensed to write commercial property and casualty insurance in Arizona, California, Colorado, Nevada, Hawaii, New Mexico and Utah. Citation ceased writing premiums in December 2000, and is now "running off" the loss reserves from its existing business.

Physicians Insurance Company of Ohio ("Physicians"). Prior to selling its book of medical professional liability ("MPL") insurance business in 1995, Physicians engaged in providing MPL insurance coverage to physicians and surgeons, primarily in Ohio. On August 28, 1995, Physicians entered into an agreement with Mutual Assurance, Inc. ("Mutual") pursuant to which Physicians sold its recurring MPL insurance business to Mutual. Physicians is in "run off." This means that it is handling claims arising from historical business, and selling investments when funds are needed to pay claims.

SISCOM, Inc. ("SISCOM"). SISCOM is a Colorado corporation that is a software developer and systems integrator for video-based content management systems for the professional broadcast, sports, and entertainment industries.

Unconsolidated Affiliates:

Investments in which the Company owns between 20% to 50% of the voting interest and/or has the ability to exercise significant influence are accounted for under the equity method of accounting. Accordingly, the Company's share of income or losses are included in consolidated results. Currently, the only significant investment the Company classifies as an equity affiliate is HyperFeed Technologies, Inc. ("HyperFeed"). Hyperfeed provides financial market data and data delivery solutions to the financial services industry. PICO owns approximately 42% of the outstanding voting stock of HyperFeed.

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All significant intercompany balances and transactions have been eliminated.

Use of Estimates in Preparation of Financial Statements:

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of the Company's consolidated financial statements relate to the assessment of the carrying value of investments, unpaid losses and loss adjustment expenses, deferred policy acquisition costs, land and water rights, deferred income taxes and contingent liabilities. While management believes that the carrying value of such assets and liabilities are appropriate as of December 31, 2001 and 2000, it is reasonably possible that actual results could differ from the estimates upon which the carrying values were based.

Investments:

The Company's investment portfolio at December 31, 2001 and 2000 is comprised of investments with fixed maturities, including U.S. government bonds, government -- sponsored enterprise bonds, and investment-grade corporate bonds; equity securities, including investments in common and preferred stocks, and warrants; convertible debt instruments and mortgage participation interests.

The Company applies the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This statement, among other things, requires investment securities to be divided into three categories: held to maturity, available for sale, and trading. The Company classifies all investments as available for sale. Unrealized gains or losses on investments recorded at fair value are recorded net of tax and included in accumulated other comprehensive income or loss. Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock," is used to account for investments where the Company has significant influence over the investee.

The Company regularly reviews the carrying value of its investments for impairment. A decline in the value of any investment below cost that is deemed other than temporary is written down to net realizable value. Adjustments for write-downs are reflected in net realized gain or loss on investments in the consolidated statements of operations. During the three years ended December 31, 2001, the Company recorded impairment losses on equity securities of $3 million, $161,000 and $1.1 million, respectively. In addition, the Company wrote off its investment in a loan by expensing $500,000 in 2001, and $2.5 million in 2000 (See Note 15). During 1999, the Company recorded an impairment loss of $3.2 million related to a portion of an oil and gas investment.

Net investment income includes amortization of premium and accretion of discount on the level yield method relating to bonds acquired at other than par value. Realized investment gains and losses are included in income and are determined on the identified certificate basis and are recorded on a trade date basis.

The Company invests domestically and abroad. Approximately $36.8 million and $41.2 million of the Company's investments at December 31, 2001 and 2000, respectively, were invested internationally, including equity values of affiliates. The Company's most significant foreign currency exposure is in Swiss francs and Australian dollars.

Cash and Cash Equivalents:

Cash and cash equivalents include highly liquid debt instruments purchased with original maturities of three months or less.

Land, Water Rights, Water Storage and Land Improvements:

Land, water rights, water storage, and land improvements are carried at cost. Water rights consist of various water interests acquired independently or in conjunction with the acquisition of real properties. Water rights are stated at cost and, when applicable, consist of an allocation of the original purchase price between water rights and other assets acquired based on their relative fair values. In addition, costs directly related to the acquisition and development of water rights are capitalized. This cost includes, when applicable, the allocation of the original purchase price, costs directly related to acquisition, and interest and other costs directly related to developing land for its intended use. Amortization of land improvements is computed on the straight-line method over the estimated useful lives of the improvements ranging from 5 to 15 years. Provision is made for any diminution in value that is considered to be other than temporary.

Property and Equipment:

Property and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated lives of the assets. Buildings and leasehold improvements are depreciated over 15-20 years; office furniture and fixtures are generally over 7 years, and computer equipment is over 3 years. Maintenance and repairs are charged to expense as incurred, while significant improvements are capitalized. Gains or losses on the sale of property and equipment are included in other income.

Deferred Acquisition Costs:

Costs of the insurance companies that vary with and are primarily related to the acquisition of new and renewal insurance contracts, net of reinsurance ceding commissions, are deferred and amortized over the terms of the policies for property and liability insurance. Future investment income has been taken into consideration in determining the recoverability of such costs.

Goodwill and Intangibles:

Goodwill represents the difference between the purchase price and the fair value of the net assets (including tax attributes) of companies acquired in purchase transactions. The Company recorded negative goodwill (i.e., excess of fair value of assets acquired over purchase price) as a result of the reverse merger between Citation and Physicians in November 1996. Negative goodwill is amortized using the straight-line method over 10 years. At December 31, 2001 and 2000, the Company had accumulated negative goodwill amortization of \$2.9 million and \$2.3 million, respectively. The Company also recorded goodwill and intangibles related to its acquisitions of SISCOM, Personal Express and Sequoia and amortizes the balances over various lives not exceeding 10 years. At December 31, 2001 and 2000, the Company had \$1.5 million and \$1.3 million in accumulated amortization, respectively.

Impairment of Long-Lived Assets:

The Company applies the provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and periodically evaluates whether events or circumstances have occurred that may affect the estimated useful life or the recoverability of long-lived assets. Impairment of long-lived assets is triggered when the estimated future undiscounted cash flows, excluding interest charges, for the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets do not exceed the carrying amount. The Company prepares and analyzes cash flows at various levels of grouped assets. The Company reviews cash flows for significant individual assets held within a subsidiary, and for a subsidiary taken as a whole. If the events or circumstances indicate that the remaining balance may be permanently impaired, such potential impairment will be measured based upon the difference between the carrying amount and the fair value of such assets determined using the estimated future discounted cash flows, excluding interest charges, generated from the use and ultimate disposition of the respective long-lived asset.

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Reinsurance:

The Company records all reinsurance assets and liabilities on the gross basis, including amounts due from reinsurers and amounts paid to reinsurers relating to the unexpired portion of reinsured contracts (prepaid reinsurance premiums).

Unpaid Losses and Loss Adjustment Expenses:

Reserves for MPL and property and casualty insurance unpaid losses and loss adjustment expenses include amounts determined on the basis of actuarial estimates of ultimate claim settlements, which include estimates of individual reported claims and estimates of incurred but not reported claims. The methods of making such estimates and for establishing the resulting liabilities are continually reviewed and updated based on current circumstances, and any adjustments are reflected in current operations. (See Note 21).

Recognition of Premium Revenue:

MPL and other property and casualty insurance premiums written are earned principally on a monthly pro rata basis over the terms of the policies. The premiums applicable to the unexpired terms of the policies are included in unearned premiums.

Income Taxes:

The Company's provision for income tax expense includes federal, state, local and foreign income taxes currently payable and those deferred because of temporary differences between the income tax and financial reporting bases of the assets and liabilities. The liability method of accounting for income taxes also requires the Company to reflect the effect of a tax rate change on accumulated deferred income taxes in income in the period in which the change is enacted.

In assessing the realization of deferred income taxes, management considers whether it is more likely than not that any deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the period in which temporary differences become deductible. If future income does not occur as expected, a deferred income tax valuation allowance may be established or modified.

Earnings per Share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the period. Diluted earnings per share are computed similar to basic earnings per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the outstanding options and warrants were exercised, and that the proceeds were used to acquire shares of common stock at the average market price during the period.

For the year ended December 31, 2001, there was no difference between basic and diluted earnings per share because the average stock price of PICO stock during the year was less than the strike prices of the options outstanding and to include those options would be anti-dilutive to the calculation. Similarly, in 2000 and 1999, the calculation of diluted earnings per share excludes the options and warrants outstanding in those years because the Company reported a loss from operations and consequently the impact of those options and warrants would be anti-dilutive. Stock options of 1.8 million in 2001, 1.1 million in 2000, and 1 million in 1999 were excluded from the calculation of the diluted weighted average shares outstanding.

Stock Based Compensation

The Company accounts for stock based compensation under the intrinsic value method of APB 25, "Accounting For Stock Issued to Employees." No compensation expense was recorded during the years ended December 31, 2001, 2000 and 1999.

Comprehensive Loss:

Comprehensive income or loss includes foreign currency translation, and unrealized holding gains and losses on available for sale securities. The components of accumulated other comprehensive loss are as follows:

	December 31, 2001	December 31, 2000
Net unrealized gain on securities	$ 5,545,057	$ 3,611,475
Foreign currency translation	(8,770,924)	(7,815,810)
Accumulated other comprehensive loss	$ (3,225,867)	$ (4,204,335)

Accumulated other comprehensive loss is net of deferred income tax asset of $1.4 million and $3.2 million at December 31, 2001 and 2000, respectively.

Translation of Foreign Currency:

Financial statements of foreign operations are translated into U.S. dollars using average rates of exchange in effect during the year for revenues, expenses, gains and losses, and the exchange rate in effect at the balance sheet date for assets and liabilities. Unrealized exchange gains and losses arising on translation are reflected within accumulated other comprehensive loss.

Reclassifications:

Certain amounts in the financial statements for prior periods have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements:

In June 2001, the Financial Accounting Standards Board ("FASB") approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 prospectively prohibits the pooling of interest method of accounting for business combinations initiated after June 30, 2001. The provisions of this Statement are required to be applied starting with fiscal years beginning after December 15, 2001. However, as an exception, any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS No. 142 also establishes a new method of testing goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. At December 31, 2001, PICO's balance sheet included goodwill and intangible assets of $5.8 million, $2.3 million of which is included within the investment balances of the unconsolidated affiliates, and negative goodwill ("excess of fair value of net assets acquired over purchase price") of $2.8 million.

Management has estimated that the adoption of SFAS No. 142 will have the following effects. The initial consequence will be reflected in the Company's consolidated financial statements for the quarter ending March 31, 2002:

1) The write-off of negative goodwill of $2.8 million;

2) The write-off of goodwill of $1 million.

The net effect of the above of $1.8 million addition to net income or reduction in net loss will be reported as a cumulative effect of a change in accounting principle. The remaining balance of $2.5 million will be classified as an intangible asset with a finite life. Accordingly, it will be amortized over its remaining life of 8 years and tested for impairment at least annually.

In August 2001, the FASB adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" and defines an impairment as "the condition that exists when the carrying amount of a long-lived asset (asset group)

is not recoverable and exceeds its fair value." Based on the SFAS No. 121 framework, this statement develops a single accounting model for the disposal of long-lived assets, whether previously held or newly acquired. The statement will be effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with initial application as of the beginning of the fiscal year. Management does not believe this statement will have a material impact on the consolidated financial statements.

2. DISPOSITIONS:

On September 8, 2000, the Company sold its investment in Conex for nominal consideration, and recorded a pretax loss on the sale of $4.6 million ($1.8 million after tax).

Prior to the sale, on November 3, 1999, the Company increased its ownership of Conex from 66% to 83% through the redemption of its remaining preferred shares and conversion of intercompany loans into common stock. On August 2, 1999, the Company increased its ownership of Conex from 32% to 66% through the redemption of preferred shares, the proceeds from which were used to exercise warrants for common shares. The consolidated results of operations for the year ended December 31, 1999 reflect the consolidation of Conex for the period August 3 to December 31. Prior to consolidation, the investment was accounted for using the equity method. Consequently, the results of operations for the year ended December 31, 1999 include 32% of the losses in the unconsolidated affiliate for the period January 1 to August 2, 1999. The reported results in 2000 include Conex as a consolidated subsidiary until September 8, 2000. Conex's primary asset was a 60% joint venture that manufactures wheeled and tracked excavators in The People's Republic of China.

Conex accounted for its 60% interest in the joint venture using the equity method of accounting due the fact that it did not have majority financial control over the policies and procedures of the joint venture. The functional currency for the joint venture is the Chinese Renminbi.

Under the terms of the joint venture agreement between Conex and the joint venture in The People's Republic of China, Conex had a commitment to fund a third round of financing in the amount of $5 million. This liability was included in the consolidated financial statements at December 31, 1999, but following the sale of Conex, this liability, as well as all the other assets and liabilities of Conex, are no longer included in the Company's consolidated financial statements.

The following is the results of operations of Conex for the year ended December 31, 1999 and for the period in 2000 prior to its disposition:

	2000	1999
Expenses	$1,393,721	$ 1,114,938
Equity in losses of unconsolidated affiliates	889,627	1,873,874
Loss from operations	2,283,348	2,988,812
Minority interest	(168,988)	(1,491,417)
Net loss	$2,114,360	$ 1,497,395

On January 31, 2000, the Company sold its interest in Summit Global Management for $100,000, and recorded a pretax loss on sale of $75,400.

3. INVESTMENTS:

At December 31, the cost and carrying value of investments were as follows:

2001:	Cost	Gross Unrealized Gains	Gross Unrealiz Losses
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. government - sponsored enterprises	$ 12,179,670	$ 326,884	$ (9
Corporate securities	83,172,507	1,247,644	(61
Mortgage participation interests	4,673,000		
	100,025,177	1,574,528	(70
Equity securities	48,183,148	7,178,436	(99
Investment in unconsolidated affiliates	2,583,590		
Total	$150,791,915	$ 8,752,964	$ (1,70

2000:	Cost	Gross Unrealized Gains	Gross Unreali Losse

Fixed maturities:			
U.S. Treasury securities and obligations of U.S. government - sponsored enterprises	$ 20,774,818	$ 186,444	$ (
Corporate securities	67,621,386	1,026,850	(
Mortgage participation interests	12,350,000		
	100,746,204	1,213,294	(
Equity securities	52,201,758	5,043,089	(2,1
Investment in unconsolidated affiliates	4,139,830		
Total	$ 157,087,792	$ 6,256,383	$ (2,2

The amortized cost and carrying value of investments in fixed maturities at December 31, 2001, by contractual maturity, are shown below. Expected maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Carrying Value
Due in one year or less	$19,272,532	$19,308,867
Due after one year through five years	41,193,744	41,903,362
Due after five years	34,885,901	35,010,015
Mortgage participation interests	4,673,000	4,673,000
	$100,025,177	$100,895,244

Investment income is summarized as follows for each of the years ended December 31:

	2001	2000	1999
Investment income from:			
Available for sale:			
Fixed maturities	$ 6,171,014	$ 5,196,831	$ 1,593,052
Equity securities	1,795,248	965,836	470,628
Other	1,871,738	2,884,099	4,809,821
Total investment income	9,838,000	9,046,766	6,873,501
Investment expenses	(71,107)	(185,845)	(268,679)
Net investment income	$ 9,766,893	$ 8,860,921	$ 6,604,822

Pre-tax net realized gain (loss) on investments is as follows for each of the years ended December 31:

	2001	2000	1999
Gross realized gains:			
Fixed maturities	$ 1,788,474	$ 110,708	
Equity securities and other investments	803,760	15,127	$ 3,395
Real estate			670
Total gains	2,592,234	125,835	4,065
Gross realized losses:			
Fixed maturities	(84,446)		
Equity securities and other investments	(5,926,284)	(7,812,798)	(4,677
Total losses	(6,010,730)	(7,812,798)	(4,677
Net realized loss	$ (3,418,496)	$(7,686,963)	$ (611

During 2001, 2000 and 1999, the Company recorded $3 million, $161,000 and $1.1 million, respectively, in other-than-temporary impairments of equity securities primarily due to the extent and duration of the decline in market value of the equity securities. Also, during 2001 the Company sold an investment that had previously been impaired. The total pre-tax loss was $4.7 million and the accounting effect in 2001 was a pre-tax gain of $731,000.

During 2001, 2000 and 1999, the Company recorded $500,000, $2.5 million and $3.2 million, respectively, in permanent write downs of non-equity security investments to recognize what is expected to be other than temporary declines in the value of securities.

At December 31, 2001, the Company owned 9,867,391 shares, representing a 20.7% interest in Australian Oil and Gas ("AOG"). During 2001, the Company purchased 1,026,732 shares of AOG for $941,000 and received 414,615 shares as a dividend valued at $333,000. During 2000, the Company purchased 981,584 shares of AOG for $858,000. During 1999, the Company purchased 6,166,657 shares of Australian Oil and Gas for $6.6 million and received 420,494 shares as a dividend valued at $452,000. Generally, with a voting ownership percentage of 20% or more, the investment may be recorded under the equity method unless the investor lacks the ability to exercise significant influence. PICO lacks the ability to exercise significant influence based on a number of factors.

During the fourth quarter of 2000, the Company increased its voting ownership in Accu Holding AG, a Swiss corporation, to 28.3%. As is the case with AOG, PICO lacks the ability to exercise significant influence based on a number of factors and therefore does not apply the equity method of accounting and is accounting for this investment at cost and has recorded an unrealized loss under SFAS 115.

During 2000, the Company purchased 3,472 shares of Jungfraubahn Holding AG ("Jungfraubahn") for $493,000. During 1999, the Company purchased 76,600 shares of Jungfraubahn for $11.8 million. The acquisition was financed with $7 million in cash and the remaining balance in debt. At December 31, 2001 and 2000, the Company owns 112,672 shares, or 19.3% of the Jungfraubahn. The Company accounts for the investment under SFAS 115 and reported a net unrealized gain of $2.6 million at December 31, 2001.

4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES:

HyperFeed Technologies, Inc.:

At December 31, 2001, the Company's investment in HyperFeed consisted of 10,077,856 shares of common stock, representing 42.4% of the common shares outstanding; and 4,055,195 common stock warrants which on a diluted basis would represent an additional 14.5% voting interest if exercised. The common stock is recorded using the equity method of accounting and has a carrying value of $2.1 million at December 31, 2001. The difference between the carrying value of the investment and the underlying equity in the net assets or liabilities of HyperFeed of $2.2 million considered goodwill and is being amortized over 10 years on a straight-line basis. At December 31, 2001, the common stock warrants are valued at an estimated fair value of $527,000, prior to a $1.2 million deferred tax asset, using the Black-Scholes option-pricing model. The warrants are reported as a derivative instrument under the provisions of SFAS 133 and consequently the loss for the 2001 year is reflected in the caption "Realized Loss on Investments" in the Statement of Operations. The cumulative change in fair value from the date of acquisition to January 1, 2001 was a decline of $1.3 million and is recorded net of a deferred tax benefit on the Statement of Operations.

The Black-Scholes pricing model incorporates assumptions in calculating an estimated fair value. The following assumptions were used in the computations: no dividend yield for all years; a risk-free interest rate of 2% - 5.6%; a one year expected life; and a historical 5 year cumulative volatility of 109% to 119%.

At December 31, 2000, the Company's investment in HyperFeed consisted of 2,602,000 shares of common stock, representing 16.5% of the common shares outstanding; 4,786,547 shares of preferred stock, representing a 23% diluted voting interest; and an additional 4,055,195 common stock warrants which on a diluted basis would represent an additional 20.5% voting interest. The common and preferred stock are recorded using the equity method of accounting for investments in common stock, and have a combined carrying value of $3.3 million at December 31, 2000. The difference between the carrying value of the investment and the underlying equity in the net assets or liabilities of HyperFeed is considered goodwill and is being amortized over 10 years on a straight-line basis. At December 31, 2000, the common stock warrants are carried in accordance with SFAS No. 115 at an estimated fair value of $2.9 million, prior to a $435,000 deferred tax asset, using the Black-Scholes option-pricing model. The pre-tax unrealized loss on the warrants is $1.3 million.

During the three years ended December 31, 2001, HyperFeed recorded various capital transactions that affected PICO's voting ownership percentage. In 2001, HyperFeed issued 491,000 shares of common stock related to an acquisition which resulted in a dilution gain of $352,000 to PICO. In 2000, HyperFeed issued 164,000 shares of common stock related to conversion of stock options, which resulted in a dilution gain to PICO of approximately $208,000. Deferred taxes are provided on each dilution transaction. In 1999, HyperFeed issued common stock related to the conversion of options and warrants and stock in a private placement. These transactions diluted PICO's ownership percentage approximately 1% to 35% at June of 2001 and through the conversion of preferred shares PICO increased ownership to 42.4% by the end of December 31, 2001.

In September 2001, the Company converted its HyperFeed Series A voting convertible preferred shares, and its Series B voting convertible preferred shares into 7,462,856 newly issued common shares. After the conversion, PICO owned 42.4% of the outstanding voting interest.

The following is the market value of the common shares and preferred shares (preferred shares existed in 2000 only) based on the December 31, 2001 and 2000 closing price of HyperFeed common stock:

	2001	2000
Common stock	$ 6,147,492	$ 4,065,625
Preferred stock		7,478,980
	$ 6,147,492	$ 11,544,605

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5. LAND AND RELATED MINERAL RIGHTS AND WATER RIGHTS:

Through its subsidiary Nevada Land, the Company owns land and the related mineral rights and water rights. Through its subsidiary Vidler, the Company owns water rights and water storage assets consisting of various real properties in California, Arizona, Colorado and Nevada. The costs assigned to the various components at December 31, were as follows:

	2001	2000
NLRC:		
Land and related mineral rights and water rights	$ 45,249,039	$ 42,799,043
Vidler:		
Water and water rights	24,530,412	25,743,707
Land	46,803,276	55,960,544
California water storage	1,206,737	5,740,483
Land improvements, net	8,208,178	6,991,464
	80,748,603	94,436,198
	$ 125,997,642	$ 137,235,241

At December 31, 2001 and 2000, the book value of Vidler's interest in the Semitropic Water Storage facility was $1.2 million and $5.7 million, respectively. During the first ten years of the agreement through

November 2008, Vidler is required to make a minimum annual payment. These payments are being capitalized and the asset is being amortized over its useful life of thirty-five years. In May 2001, Vidler sold 29.73% of its right, title and interest under the lease to Newhall Land and Farming Company. In 2001 Vidler sold 84% of its right, title and interest under the lease for a gain of $5.7 million. As a result, at December 31, 2001, Vidler owns the right to store 30,000 acre-feet of water and is required to make a minimum annual payment of $519,000. At December 31, 2000, Vidler owned the right to store 185,000 acre-feet and was required to make a minimum annual payment of $2.3 million. The amortization expense in 2001 and 2000 was $438,000 and $667,000, respectively. In addition, Vidler is required to pay annual operating and maintenance costs. In 2001, 2000 and 1999, operating costs of $146,000, $889,000 and $863,000, respectively, were expensed.

In July of 2000, Vidler purchased a 51% interest in Fish Springs Ranch, LLC for $4.5 million and a commitment to invest an additional $500,000 in July 2001, and also purchased a 50% interest in V&B, LLC for $1.2 million. These companies own the 8,628-acre Fish Springs Ranch, and the associated water rights. The purchase price was allocated based on estimated fair values at the date of acquisition. Vidler acts as manager and effectively controls both companies. Consequently, the companies are included in the accompanying consolidated financial statements as of the date of the investment in the companies. As a result of consolidation, water rights increased approximately $6.6 million, land increased approximately $306,000, various other assets increased $2.1 million and liabilities increased $184,000 and minority interest of $3.8 million. Also during the year, Vidler purchased Spring Valley Ranches (formerly, Robison Ranch), for approximately $4.5 million. Approximately $3.7 million of the purchase price was recorded as land.

6. PREMIUMS AND OTHER RECEIVABLES:

Premiums and other receivables consisted of the following at December 31:

	2001	2000
Agents' balances and unbilled premiums	$ 11,081,153	$ 10,008,197
Finance receivables	5,961,567	3,329,670
Trade receivables	49,288	263,400
Other accounts receivable	3,535,157	5,645,636
	20,627,165	19,246,903
Allowance for doubtful accounts	(2,550,604)	(214,300)
	$ 18,076,561	$ 19,032,603

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Other accounts receivable include $2.3 million due from Dominion Capital Pty. Ltd ("Dominion"), which is affiliated with the Company through a mutual ownership in Solpower Corporation. During 2001, an allowance for the total outstanding balance owed by Dominion of $2.3 million was recorded due to the uncertainty surrounding the recovery of the balance. Also included in other accounts receivable is a $187,000 note receivable from the President and CEO of Summit Global Management for the purchase of Summit in January 2000.

7. FEDERAL INCOME TAX:

The Company and its U.S. subsidiaries file a consolidated federal income tax return. Non-U.S. subsidiaries file tax returns in various foreign countries. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 12,155,883	$ 20,598,362
Capital loss carryforwards	2,947,945	
Loss reserves	7,100,265	9,023,860
Unearned premium reserves	1,913,744	1,734,353
Unrealized depreciation on securities	292,122	364,041
Deferred gain on retroactive reinsurance	149,219	329,417
Write down of securities	5,961,979	6,742,018
Equity in unconsolidated affiliates	1,392,552	681,104
Deferred loss on SFAS 133	505,144	
Other, net	1,187,741	550,044
Total deferred tax assets	33,606,594	40,023,199
Deferred tax liabilities:		
Discounting of reserves	2,823,237	2,823,237
Deferred policy acquisition costs	2,350,620	2,141,939
Unrealized appreciation on securities	1,669,697	714,769
Revaluation of surface, water and mineral rights	12,991,330	14,880,795
NLRC land sales	1,065,315	1,065,315
Accretion of bond discount	109,664	61,795
Capitalized lease	279,313	1,133,434
Total deferred tax liabilities	21,289,176	22,821,284
Net deferred tax assets before valuation allowance	12,317,418	17,201,915
Less valuation allowance	(3,734,153)	(4,101,587)
Net deferred tax asset	$ 8,583,265	$ 13,100,328

The deferred tax asset valuation allowance as of December 31, 2001 and 2000 relates primarily to the net operating loss carryforwards (NOL's) of Global Equity, a Canadian company. Global Equity is subject to rules that limit the ability to utilize their NOL's. Due to these limitations and the uncertainty of future taxable income, a valuation allowance has been recorded for the deferred tax asset that may not be realized. Prior to the enactment, in 1999, of U.S. tax legislation that removed certain limitations on the Company's ability to utilize its U.S. NOL's, the

Company carried a valuation allowance on a portion of its U.S. NOL's. As a result of this legislation, in 1999 most of the valuation allowance for U.S. NOL's was removed. Deferred tax assets and liabilities, the recorded valuation allowance, and federal income tax expense in future years can be significantly affected by changes in circumstances that would influence management's conclusions as to the ultimate realization of deferred tax assets.

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Pre-tax income (loss) from continuing operations for the years ended December 31 was under the following jurisdictions:

	2001	2000	1999
Domestic	$ 12,508,221	$ (11,129,866)	$ (14,716,953)
Foreign	(3,365,730)	(4,935,297)	(9,593,712)
Total	$ 9,142,491	$ (16,065,163)	$ (24,310,665)

Income tax expense (benefit) from continuing operations for each of the years ended December 31 consists of the following:

	2001	2000	1999
Current tax benefit:			
U.S. federal	$ (15,373)	$ (450,125)	$ (718
Foreign	(614,389)	(4,650,993)	514
Total current tax benefit	(629,762)	(5,101,118)	(204
Deferred tax expense (benefit):			
U.S. federal	$ 4,365,247	$ (3,775,786)	$ (9,394
Foreign	(329,021)	(134,318)	(3,823
Total deferred tax expense (benefit)	4,036,226	(3,910,104)	(13,217
Total income tax expense (benefit)	$ 3,406,464	$ (9,011,222)	$ (13,422

The difference between income taxes provided at the Company's federal statutory rate and effective tax rate is as follows:

	2001	2000
Federal income tax provision (benefit) at statutory rate	$ 3,108,447	$(5,462,155)
Book tax difference on sale of securities		(1,247,596)

Settlement of tax appeal	(495,976)	(4,398,731)
Change in valuation allowance	(367,434)	3,285,416
Amortization of goodwill	(63,165)	208,268
Non-deductible capital loss		(166,750)
Investment valuation		(971,105)
Accrued liabilities		
Extraordinary gain		
Permanent differences	1,224,592	(258,569)
Federal income tax provision (benefit)	$ 3,406,464	$(9,011,222)

Provision has not been made for U.S. or additional foreign tax on the $5.9 million of undistributed earnings of foreign subsidiaries. It is not practical to estimate the amount of additional tax that might be payable. At December 31, 2001, the Company had no income tax payable or receivable, and at December 31, 2000, the Company had an income tax payable of $324,000. As of December 31, 2001, the Company has net operating loss carryforwards of $35 million. The Company has $2.2 million, $620,000, and $6.7 million of consolidated NOL's that expire in 2014, 2016, and 2020, respectively. In addition certain subsidiaries have $25.5 million of NOL's subject to certain limitations that restrict their use and have valuation allowances established.

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8. PROPERTY AND EQUIPMENT:

The major classifications of the Company's fixed assets are as follows at December 31:

	2001	2000
Office furniture, fixtures and equipment	$ 6,833,972	$ 6,834,381
Building and leasehold improvements	1,135,071	1,192,123
	7,969,043	8,026,504
Accumulated depreciation	(5,241,112)	(5,081,991)
Property and equipment, net	$ 2,727,931	$ 2,944,513

Depreciation expense was $969,000, $1.1 million and $1 million in 2001, 2000, and 1999, respectively.

9. DEFERRED POLICY ACQUISITION COSTS:

Changes in deferred policy acquisition costs were as follows:

	2001	2000	1999
Balance, January 1	$ 6,299,819	$ 4,821,228	$ 5,548,634

Additions:			
Commissions	7,884,474	7,232,606	5,559,587
Other	5,903,573	4,613,034	3,966,560
Ceding commissions	(129,895)	(116,701)	230,792
Deferral of expense	13,658,152	11,728,939	9,756,939
Amortization to expense	(13,044,382)	(10,250,348)	(10,484,345)
Balance, December 31	$ 6,913,589	$ 6,299,819	$ 4,821,228

10. SHAREHOLDERS' EQUITY:

At the Annual Meeting of Shareholders on October 19, 2000, shareholders voted to amend the Articles of Incorporation to eliminate the Company's preferred shares. This amendment became effective January 16, 2001.

On February 9, 2000, the Company registered on Form S-3 with the U. S. Securities and Exchange Commission to offer 6,546,497 shares of PICO stock at a price of $15 per share through a rights offering. Shareholders were offered 1 right to buy 1 new share at $15 for every 2 common shares held at March 1, 2000.

In March 2000, an investment partnership registered as PICO Equity Investors, L.P. acquired 3,333,333 shares of PICO stock for approximately $50 million. PICO Equity Investors, an entity managed by PICO Equity Investors Management, LLC, which is owned by three of PICO's current directors (including PICO's chairman of the board and PICO's president and chief executive officer), will exercise all voting and investment decisions with respect to these shares for up to 10 years. There is no monetary compensation for the management of either partnership. PICO used the $49.8 million net proceeds to develop existing water and water storage assets, acquire additional water assets, acquire investments, and for general working capital needs.

Stock Option Plans

PICO Holdings 1995 Non-Qualified Stock Option Plan. PICO was authorized to issue 521,030 shares of common stock pursuant to awards granting non-qualified stock options to full-time employees (including officers) and directors. The options granted to employees vest at a rate of 33% upon grant and 33% per year on each of the first two anniversaries of the date of grant. A total of 512,005 options have been issued from this plan. The Company granted stock options in 1996 and 1995 under this plan in the form of incentive stock options and non-qualified stock options. All issued options from this plan are fully vested.

PICO Holdings 1998 Stock Option Agreement. PICO was authorized to issue 100,000 shares of common stock pursuant to awards granted in various forms, including incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended), non-qualified stock options, and other similar stock-based awards. On October 22, 1998, PICO granted 100,000 non-qualified common stock options to an officer of the Company at an exercise price of $15.625 per share.

The options granted vest monthly over three years, expiring October 22, 2008. During 1999, 61,111 of these options expired when the officer left the Company. The remaining options expired during 2001. None of these stock options were exercised.

PICO Holdings 1998 Global Equity/PICO Stock Option Plan. As discussed above, PICO assumed 484,967 options to existing Global Equity option holders pursuant to the acquisition of the remaining shares of Global Equity by exchanging PICO options for Global Equity options. The options granted from this plan placed the participants in an economically equivalent position regarding the number of shares, exercise price, and with vesting according to their original terms.

PICO Holdings 1999 Stock Option Agreement. PICO is authorized to issue 10,665 shares of common stock pursuant to awards granted as non-qualified stock options and other similar stock-based awards. On January 1, 1999, PICO granted 10,665 non-qualified common stock options to an officer of the Company at an exercise price of $13.25 per share. The options were immediately vested and expire in 10 years.

PICO Holdings 2000 Non-Statutory Stock Option Plan. PICO is authorized to issue 1,200,000 shares of common stock to employees and non-employee directors of and consultants to the Company, pursuant to awards granted as non-qualified stock options. On April 7, 2000, PICO granted, subject to approval by the Company's shareholders obtained on October 19, 2000, 1,091,223 non-qualified common stock options to employees and non-employee directors of the Company (1,082,223 to employees and 9,000 to directors) at an exercise price of $15.00 per share. Of the options granted to employees, one-third vested upon grant, one-third vest April 7, 2001 and one-third vest April 7, 2002. The options granted to non-employee directors were fully vested on the grant date.

On July 9, 2001, PICO granted 100,000 non-statutory stock options to an employee at an exercise price of $15.00 per share. 66,000 of these stock options vested on July 9, 2001 and the remaining 34,000 stock options will vest on July 9, 2002. These stock options expire on July 9, 2021.

On August 2, 2001, PICO granted 8,777 non-statutory stock options to an employee at an exercise price of $15.00 per share. 2,925 of those stock options vested on August 2, 2001, 2,926 stock options will vest on August 2, 2002, and 2,926 stock options will vest on August 2, 2003. They expire on August 2, 2021.

PICO Holdings 2001 Stock Option Agreements. PICO is authorized to issue 46,223 shares of common stock pursuant to awards granted in individual non-qualified stock option agreements. In August 2001, PICO granted a total of 46,223 non-qualified stock options to three employees of the Company. The exercise price for all these non-statutory stock options is $15.00 per share. One-third of these stock options vested in August 2001, one-third will vest in August 2002, and the remaining one-third will vest in August 2003. All of these non-statutory stock options expire in August 2021.

A summary of the status of the Company's stock options is presented below for the years ended December 31:

	2001		2000		
	Shares Underlying Options	Weighted Average Exercise Prices	Shares Underlying Options	Weighted Average Exercise Prices	Shares Underlyi Options
Outstanding at beginning of year	1,834,599	$14.93	1,046,575	$ 15.83	1,097,
Granted	155,000	15.00	1,091,223	15.00	10,
Canceled - expired	(208,879)	17.72	(303,199)	18.31	(61,
Outstanding at end of year	1,780,720	14.60	1,834,599	14.93	1,046,
Exercisable at end of year	1,349,312	14.48	1,113,117	14.88	1,046,
Weighted-average fair value of options granted during the year		$ 8.52		$ 7.15	

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/01	Weighted Average Exercise Price
$13.45 to $23.80	522,672	3.71	$13.45	522,672	$13.45
$15.63 to $23.95	1,258,048	18.19	$15.08	826,640	$15.13
$13.25 to $23.95	1,780,720	13.94	$14.60	1,349,312	$14.48

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in each year: no dividend yield; risk-free interest rates are different for each grant and range from 4.9% to 6.97%; expected lives of options are estimated at 10 years for 2001, 10 years for 2000 and 7 years for 1999; and volatility of 42% for the 2001 grants, 51% for the 2000 grants, and 54% for the 1999 grants.

Had compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net loss and net loss per share would approximate the following pro forma amounts for the years ended December 31:

	2001	2000
Reported net income (loss)	$ 5,113,905	$ (11,300,556)

SFAS No. 123 charge	(711,521)	(2,616,496)
Pro forma net income (loss)	$ 4,402,384	$ (13,917,052)
Pro forma net income (loss) per share: basic and diluted	$ 0.36	$ (1.20)

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

11. REINSURANCE:

In the normal course of business, the Company's insurance subsidiaries have entered into various reinsurance contracts with unrelated reinsurers. The Company's insurance subsidiaries participate in such agreements for the purpose of limiting their loss exposure and diversifying their risk. Reinsurance contracts do not relieve the Company's insurance subsidiaries from their obligations to policyholders.

All reinsurance assets and liabilities are shown on a gross basis in the accompanying consolidated financial statements. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Such amounts are included in "reinsurance receivables" in the consolidated balance sheets at December 31 are as follows:

	2001	2000
Estimated reinsurance recoverable on:		
Unpaid losses and loss adjustment expense	$23,190,015	$27,444,846
Reinsurance recoverable on paid losses and loss expenses	593,091	149,193
Reinsurance receivables	$23,783,106	$27,594,039

Unsecured reinsurance risk is concentrated in the companies shown in the table below. The Company remains continently liable with respect to reinsurance contracts in the event that reinsurers are unable to meet their obligations under the reinsurance agreements in force.

CONCENTRATION OF REINSURANCE AS OF DECEMBER 31, 2001

	Unearned Premiums	Reported Claims	Unreported Claims	R
Sydney Reinsurance Corporation		$ 4,662,052	$ 2,390,600	$
Continental Casualty Company		1,647,722	2,165,000	
American Reinsurance Corp.	$ 170,308	37,400		

Hartford Steam & Boiler	100,105	34,000		
TIG Reinsurance Group		312,612	(10,612)	
Transatlantic Reinsurance Company			958,151	
Cologne Reinsurance Company of America			103,601	
Gerling Global Reinsurance		53,574	195,000	
Mutual Assurance, Inc.		3,236,656	218,446	
GE Reinsurance Corp.		203,928	1,500,000	
General Reinsurance	38,291	1,209,135	10,000	
National Reinsurance Corporation		299,877		
PXRE Reinsurance Company		749,474	1,130,000	
Hartford Fire Insurance Company		117,746	80,000	
Partner Reinsurance		302,775	330,000	
Lumberman's Mutual Casualty Company		219,553		
North Star Reinsurance Corp.		137,818		
Swiss American Reinsurance Corporation		137,818		
	$ 308,704	$13,362,140	$ 9,070,186	$

Immediately prior to the sale of Sequoia to Physicians by Sydney Reinsurance Corporation ("SRC") in 1995, Sequoia and SRC entered into a reinsurance treaty whereby all policy and claims liabilities of Sequoia prior to the date of purchase by Physicians are the responsibility of SRC. Payment of SRC's reinsurance obligations under this treaty has been unconditionally and irrevocably guaranteed by QBE Insurance Group Limited should SRC be unable to meet its obligations under the reinsurance agreement.

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The Company entered into a reinsurance treaty in 1995 with Mutual Assurance Inc. ("Mutual") in connection with the sale of Physicians' MPL business to Mutual. This treaty is a 100% quota share treaty covering all claims arising from policies issued or renewed with an effective date after July 15, 1995. At the same time, Physicians terminated two treaties entered into in 1994 and renewed in 1995. The first of these was a claims-made agreement under which Physicians' retention was $200,000, for both occurrence and claims-made insurance policies. Claims are covered up to $1 million. The second treaty reinsured claims above $1 million up to policy limits of $5 million on a true occurrence and claims-made basis, depending on the underlying insurance policy.

In 1994, the Company entered into a retroactive reinsurance arrangement with respect to its MPL business. As a result, Physicians initially recorded a deferred gain on retroactive reinsurance of $3.4 million in 1994. Deferred gains are being amortized into income over the expected payout of the underlying claims using the interest method. The unamortized gain at December 31, 2001 and 2000 was $439,000 and $969,000, respectively.

The following is a summary of the net effect of reinsurance activity on the consolidated financial statements for each of the years ended December 31:

	2001	2000	1999
Direct premiums written	$ 54,110,160	$ 47,620,431	$ 36,558,1
Reinsurance premiums assumed	282,541	(3,020)	120,1
Reinsurance premiums ceded	(8,464,918)	(3,573,715)	(3,019,0
Net premiums written	$ 45,927,783	$ 44,043,696	$ 33,659,2
Direct premiums earned	51,355,206	39,987,563	39,162,0
Reinsurance premiums assumed	267,215	2,967	144,4
Reinsurance premiums ceded	(8,332,745)	(5,554,776)	(2,927,4
Net premiums earned	$ 43,289,676	$ 34,435,754	$ 36,379,1
Losses and loss adjustment expenses incurred:			
Direct	29,442,055	25,883,270	47,939,7
Assumed	164,500	(681,716)	(825,3
Ceded	(11,304,235)	(1,175,336)	(12,897,0
	18,302,320	24,026,218	34,217,2
Effect of discounting on losses and loss adjustment expenses (Note 12)			994,5
Net losses and loss adjustment expenses	$ 18,302,320	$ 24,026,218	$ 35,211,8

12. RESERVES FOR UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES:

Reserves for unpaid losses and loss adjustment expenses on MPL and property and casualty business represent management's estimate of ultimate losses and loss adjustment expenses and fall within an actuarially determined range of reasonably expected ultimate unpaid losses and loss adjustment expenses.

Reserves for unpaid losses and loss adjustment expenses are estimated based on both company-specific and industry experience, and assumptions and projections as to claims frequency, severity, and inflationary trends and settlement payments. Such estimates may vary significantly from the eventual outcome. In management's judgment, information currently available has been appropriately considered in estimating the loss reserves and reinsurance recoverable of the insurance subsidiaries.

Physicians prepares its statutory financial statements in accordance with accounting practices prescribed or permitted by the Ohio Department of Insurance ("Ohio Department"). Citation and Sequoia prepare their statutory financial statements in accordance with accounting practices prescribed or permitted by the California Department of Insurance. Prescribed statutory accounting practices include guidelines contained in various publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The Ohio Department's prescribed accounting practices do not allow for discounting of claim liabilities. However, for years prior to 2000, the Ohio Department permitted Physicians to discount its losses and loss adjustment expenses related to its MPL claims to reflect anticipated investment income. Permission was granted due primarily to the longer claims settlement period related to MPL business as compared to most other types of property and casualty insurance lines of business. In 2000 the Ohio Department of Insurance withdrew permission to discount MPL claims reserves in Physicians' statutory financial statements. In addition, Physicians no longer discounts MPL reserves in its GAAP financials.

Prior to 2000, Physicians used a discount rate of 4% for financial reporting purposes. The method of determining the discount was based on historical payment patterns and assumed an interest rate at or below Physicians' own investment yield. The carrying value of MPL reserves gross as to reinsurance and undiscounted was approximately $40.6 million at December 31, 2001 and $58.6 million at December 31, 2000.

Activity in the reserve for unpaid claims and claim adjustment expenses was as follows for each of the years ended December 31:

	2001	2000	1999
Balance at January 1	$ 121,541,722	$ 139,132,875	$ 155,0
Less reinsurance recoverable	(27,444,846)	(40,333,000)	(52,0
Net balance at January 1	94,096,876	98,799,875	103,0
Incurred loss and loss adjustment expenses for current accident year claims	28,665,664	22,993,457	18,9
Incurred loss and loss adjustment expenses for prior accident year claims	(9,833,352)	1,300,414	15,8
Retroactive reinsurance	(529,993)	(267,653)	(5
Accretion of discount			9
Total incurred	18,302,319	24,026,218	35,2
Effect of retroactive reinsurance	529,993	267,653	5
Cumulative effect of accounting change		7,520,744	
Payments for claims occurring during:			
Current accident year	(15,269,960)	(10,880,842)	(8,9
Prior accident years	(22,400,190)	(25,636,772)	(31,0
Total paid	(37,670,150)	(36,517,614)	(39,9
Net balance at December 31	75,259,038	94,096,876	98,7
Plus reinsurance recoverable	23,190,015	27,444,846	40,3
Balance at December 31	$ 98,449,053	$ 121,541,722	$ 139,1

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 of 2001.

13. EMPLOYEE BENEFIT PLAN:

PICO maintains a 401(k) Defined Contribution Plan covering substantially all employees of the Company. Matching contributions are based on a percentage of employee compensation. In addition, the Company may make a discretionary contribution at the end of the Plan's fiscal year within limits established by the Employee Retirement Income Securities Act. Total contribution expense incurred by the Company was $855,000 in 2001, $864,000 in 2000, and $862,000 in 1999.

14. REGULATORY MATTERS:

The regulations of the Departments of Insurance in the states where the Company's insurance subsidiaries are domiciled generally restrict the ability of insurance companies to pay dividends or make other distributions. Based upon statutory financial statements filed with the insurance departments as of December 31, 2001, $5.4 million was available for distribution by the Company's wholly-owned insurance subsidiaries to the parent company without the prior approval of the Department of Insurance in the states in which the Company's insurance subsidiaries are domiciled.

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15. COMMITMENTS AND CONTINGENCIES:

The Company leases some of its offices under non-cancelable operating leases that expire at various dates through October 2008. Total rent expense was $1 million, $1 million, and $1.3 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Future minimum rental payments required under the leases for the years ending December 31, are as follows:

2002	1,450,605
2003	815,851
2004	639,928
2005	586,942
2006	544,928
Thereafter	3,837,728
Total	$7,875,982

In November 1998, Vidler Water Company, Inc., a PICO subsidiary, entered into an operating lease to acquire 185,000 acre-feet of underground water storage privileges and associated rights to recharge and recover water located near the California Aqueduct, northwest of Bakersfield. The agreement required Vidler to pay a minimum of $2.3 million per year for 10 years beginning October 1998. On October 7, 1998, PICO signed a Limited Guarantee agreement with Semitropic Water Storage District ("Semitropic") that required PICO to guarantee a maximum obligation of $3.2 million, adjusted annually by the engineering price index. In May 2001, Vidler permanently assigned 29.73% of its right, title and interest under the operating lease to Newhall Land and Farming Company. As a result of the permanent assignment by Vidler, PICO entered into an amended Limited Guarantee agreement effective May 21, 2001. Under the amended Limited Guarantee, the maximum obligation of PICO was revised to $2.2 million adjusted annually by the engineering price index. In September 2001, Vidler permanently assigned a further 54.05% of its right, title and interest under the operating lease to Alameda County Water District. Accordingly, PICO entered into a second amendment to the Limited Guarantee effective September 28, 2001. Under the second amendment to the Limited Guarantee, the maximum obligation of PICO was revised to $519,000 adjusted annually by the engineering price index. The guarantee expires October 7, 2008.

On January 10, 1997, Global Equity Corporation ("Global Equity"), a wholly owned PICO subsidiary at December 31, 2001, 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 to 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 during 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.

In connection with the sale of their interests in Nevada Land by the former members, a limited partnership agreed to act as consultant to Nevada Land in connection with the maximization of the development, sales, leasing, royalties or other disposition of land, water, mineral and oil and gas rights with respect to the Nevada property. In exchange for these services, the partnership was to receive from Nevada Land a consulting fee calculated as 50% of any net proceeds that Nevada Land actually receives from the sale, leasing or other disposition of all or any portion of the Nevada property or refinancing of the Nevada property provided that Nevada Land has received such net proceeds in a threshold amount equal to the aggregate of: (i) the capital investment by Global Equity and the Company in the Nevada property, (ii) a 20% cumulative return on such capital investment, and (iii) a sum sufficient to pay the United States federal income tax liability, if any, of Nev