PICO HOLDINGS INC /NEW
Form 10-K405
March 29, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM ___________ TO ___________

COMMISSION FILE NUMBER 0-18786

PICO HOLDINGS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405

of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III or this Form 10-K or any amendment to this Form 10-K. [X]

Approximate aggregate market value of the registrant's common stock held by non-affiliates of the registrant (based on the closing sales price of such stock as reported in the NASDAQ National Market) on March 26, 2001 was $81,477,716. 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 26, 2001, the Registrant had 12,390,096 shares of common stock, $.001 par value, outstanding, excluding 4,394,127 shares of common stock which are held by the registrant and its subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE

(1) None.

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PICO HOLDINGS, INC.

ANNUAL REPORT ON FORM 10-K

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PART I

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

ITEM 1. BUSINESS

INTRODUCTION

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

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

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

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

- owning and developing land and the related mineral rights and water rights through Nevada Land & Resource Company, LLC;
- owning and developing water rights and water storage operations through Vidler Water Company, Inc.;
- property and casualty insurance;
- "running off" the loss reserves of our medical professional liability insurance companies; 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 with which we are associated. You should check the site periodically during the year for current press releases and updated information.

HISTORY

PICO was incorporated in 1981 and began operations in 1982. The company was

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

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.

LAND, MINERALS AND RELATED WATER RIGHTS

In April 1997, PICO paid $48.6 million to acquire Nevada Land & Resource Company, LLC, which at the time owned approximately 1,352,723 acres of deeded land in northern Nevada, and the water, mineral, and geothermal rights related to the property.

Nevada Land is the largest private landowner in Nevada. According to the recent census, Nevada has been the fastest growing state in the United States over the past 10 years, with population growth of 66%. Developable land is relatively scarce in Nevada, as approximately 85% of the land in the state is owned by governmental agencies. In fact, much of Nevada Land's property is checker-boarded in square mile sections with publicly owned land.

Before we acquired Nevada Land, the property had been under the ownership of a succession of railway companies, to whom it was not a core asset. Accordingly, we believe that the potential of the property had never been fully 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:

- 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;
- the sale of land and water assets. There is demand for land and water for a variety of purposes including residential development, residential estate living, farming, ranching, and from industrial users--in particular, electricity-generating companies that wish to locate plants in Nevada to generate electricity for Nevada, California, and other states where demand is growing strongly;
- the development of land in and around fast-growing towns in northern Nevada; and
- the development of water rights and management of mineral rights.

During the period from April 23, 1997 to December 31, 2000, Nevada Land received consideration of $14.4 million from the sale and exchange of land and the sale of water rights. This is comprised of $12.4 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.

A cost basis has been assigned to each category of land and other asset, which, in aggregate, equals Nevada Land's original purchase price. We have sold 97,776 acres and divested a net 8,271 acres in land exchanges. The average price received in land sales has been $126.96 per acre, compared to our average basis of $69.23 per acre sold, and the average cost of $34.94 per acre for all of the land acquired. Looked at another way, the proceeds from selling and exchanging 9.1% of the land acquired represent 29.1% of the cost basis of the land assets at Nevada Land.

At December 31, 2000, less than 25% of the land in the three highest value categories had been sold. The emphasis has been on selling agricultural land (37.5% by acreage, 32.4% by proceeds) and land which could be used for rural/suburban/urban living (17.2% by acreage, 22.2% by proceeds).

At December 31, 2000, Nevada Land owned 1,246,676 acres of 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.

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 first entered the water rights and water storage business in 1995, through the acquisition of Vidler Water Company, Inc. Since then, we have acquired, and continue to acquire, additional properties, water rights, and water storage assets. PICO currently owns approximately 96.2% of Vidler.

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We believe that Vidler is one of the leading private companies in the water rights and water storage business in the southwestern United States. The escalating supply/demand imbalance for water in the Southwest is the primary reason that our management identified water as an attractive industry to invest in. 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 there is enough water in the region to meet foreseeable demand, the allocation of this water is inefficient. Examples of inefficiencies which create opportunity for private providers such as Vidler include:

- 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; however, regulation and procedures are steadily being developed to facilitate the interstate transfer of water; and
- infrastructure to store water will be required to facilitate 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. For a glossary of terms and more information, please refer to Vidler's web-site at www.vidlerwater.com .

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. Water law and terminology vary from state to state. 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:

- acquiring water rights, redirecting the water 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 storing water;
- purchase and storage of water for resale in dry years; and
- working with municipalities and state legislators to facilitate the passing of legislation which will result in the efficient allocation of water.

Vidler's business involves identifying end-users, namely municipalities, developers or industrial users, in the Southwest who require water, and then locating a source of water and supplying the demand, utilizing the Company's own assets where possible. These assets comprise:

- water rights in the states of Nevada, Arizona, and Colorado. Typically, Vidler acquires water rights in locations where there is current demand or where near-term demand has been clearly identified. Vidler seeks to acquire water rights at prices consistent with their current use, with the expectation of an increase in value if the 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
- water storage facilities in Arizona and California.

After a significant acquisition and development period, Vidler's water assets are now in the early stages of generating cash flow. Vidler's current priority is to either monetize or develop recurring cash flow from these assets. On March 19, 2001, Vidler announced its first major water transaction--the sale of 2,165.5 acres of land, and the related 6,496.5 acre-feet of water rights, in the Harquahala Valley ground water basin in Arizona to a unit of Allegheny Energy, Inc. for approximately $9.1 million. This transaction resulted in a pre-tax gain of approximately $2.4 million, which will be recognized in the first quarter of 2001.

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 its water storage facilities in Arizona and California.

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

This table details the water rights and water storage assets owned by Vidler at December 31, 2000. Please note that this is intended as a summary, and that all numbers are rounded to the nearest whole digit. Item 7 of this Form 10-K, beginning on page 14, contains more detail about these assets, recent developments affecting them, and the current outlook.

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	14,700 acres of irrigated fee title land, plus 320 acres under option, and 673 acres in escrow	leas
	3,617 acres of dry (not irrigated) fee title land 1,902 acres of leased state land	
	44,100 acre-feet (one acre of water one foot deep) of transferable ground water, plus an option over 9,786 acre-feet, and 2,019 acre-feet in escrow. State legislation allows use of the Central Arizona Project Aqueduct to convey up to 20,000 acre-feet from this area to cities and communities in the Phoenix metropolitan area as an assured municipal water supply	In M land acre mill Comp
NEVADA:		
FISH SPRINGS RANCH, LLC (51% INTEREST) & V&B, LLC (50% INTEREST)	8,628 acres of deeded ranchland	the ranc
Washoe County, 40 miles north of Reno	8,000 acre-feet of permitted water rights, which are transferable to the Reno/Sparks area	
SPRING VALLEY RANCHES (formerly "Robison Ranch")	9,985 acres of deeded land	Vidl hay,
White Pine County, 40 miles west of Ely	500,000 acres of Forest Service and Bureau of Land Management allotment land	
	5,832 acre-feet of permitted agricultural water rights	
	applications* for 14,500 acre-feet of water rights	
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.	
	agreement to supply a developer with up to 17,000 acre-feet	
	agreement to supply an electricity-generating company with up to 9,000 acre-feet of water at $3,300 per acre-foot	
SANDY	application* for 2,000 acre-feet of water rights	
	agreement to supply water to support	

	additional growth at Primm, Nevada once the water rights have been permitted *The numbers indicated for water rights applications are the maximum amount for which we have filed. In some cases, we anticipate that the actual permits received will be for smaller quantities.	
BIG SPRINGS RANCH		See Cont

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NAME OF ASSET & APPROXIMATE LOCATION	BRIEF DESCRIPTION	PRES
COLORADO:		
CLINE RANCH	600 acre-feet of senior water rights	agre Wate
VIDLER TUNNEL WATER RIGHTS (the Vidler Tunnel itself was divested in 2000)		agre seni juni and Gold agre righ
	163 acre-feet of senior water rights	65.7
WET MOUNTAIN	600 acre-feet of priority water rights	
WATER STORAGE		
Arizona:		
Vidler Arizona Recharge Facility	An underground water storage facility with estimated capacity exceeding 1 million acre-feet and permitted annual recharge capability of 100,000 acre-feet	
California:		
Semitropic water storage facility	The right to store 185,000 acre-feet of water underground for 35 years. This includes the right to recover up to 41,000 acre-feet in any one year and minimum guaranteed recovery of 16,650 acre-feet every year	

	purchase and storage of water for resale in dry years	8,84 resa a fe

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PROPERTY AND CASUALTY INSURANCE

PICO's Property and Casualty Insurance operations are conducted by our California-based subsidiaries Sequoia Insurance Company and Citation Insurance Company. Physicians Insurance Company of Ohio acquired Sequoia in 1995, and merged with Citation in 1996.

Sequoia's core business is property and casualty insurance in California and Nevada, focusing on the niche markets of farm insurance and small to medium-sized commercial insurance. While Sequoia had written modest amounts of personal insurance in California in previous years, the company's book of business in personal lines of insurance increased significantly following the acquisition of Personal Express Insurance Services, Inc. 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 some business which Citation had written previously. In recent years, 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. The level of investment assets and loss reserve liabilities will decrease as claims are paid with the funds from maturing fixed-income securities.

Sequoia's management takes a very 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. Despite the disruption which inevitably results from these changes, Sequoia has earned a profit from its insurance activities, before investment income, in 3 of the past 4 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 company portfolios are invested in fixed-income securities, and up to 20% in equities. The fixed-income portfolios focus on high-quality corporate bonds, and the maturity of securities is laddered to

match the projected pattern of claims payouts. The equities portion of the Sequoia and Citation portfolios contains some of PICO's long term investments, as well as a number of small-capitalization value situations.

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. Physicians and Professionals have stopped writing new business and are in "run off."

As expected during the run-off process, practically all of this segment's revenues come from investment income. The Physicians and Professionals portfolios contain some of our long-term investments. The desire to maximize the return on these holdings was a factor in our decision that the most advantageous alternative was to have Physicians' own claims personnel manage the run-off and for us to retain management of the associated investment portfolios.

LONG TERM HOLDINGS

As well as investing assets held by the insurance subsidiaries as part of their business, PICO sometimes makes investments with its general corporate funds. Where we own less than 50% of the company or the company is too small to constitute a segment of its own, the investment is included in the Long Term Holdings segment.

PICO invests in companies which our management identifies as undervalued based on fundamental analysis. Typically, the stocks will be selling for less than tangible book value or appraised intrinsic value--that is, what we think 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 slightly 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.

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, 2000 was approximately $36.8 million, which represents 17.5% of PICO's shareholders' equity.

DECEMBER 31, 2000		CARRYING VALUE	SHARES HELD
Carrying value before taxes:			
HyperFeed Technologies, Inc.	Common & preferred	$3,339,000	7,388,547
	Warrants	2,854,000	4,055,195
	Total	6,193,000	11,443,742
Jungfraubahn Holding AG		23,684,000	112,672
Australian Oil & Gas Corporation Limited		8,152,000	8,426,044
Total carrying value before taxes		$38,029,000	
Deferred taxes		(1,257,000)	
Carrying value, net of taxes		$36,772,000	

Notes: 1. Our Jungfraubahn common shares and HyperFeed common and preferred 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 Item 7 on page 20, and in Note 5 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 5 of Notes to Consolidated Financial Statements, "Investment in Unconsolidated Affiliates"; however, the volatility of the common shares, and their price at December 31, 2000 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. We would have to invest $6.6 million to exercise our HyperFeed warrants.

We also have a small portfolio of alternative investments, where 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 $4.3 million, which represents approximately 2.0% of shareholders' equity. The most significant investments in this group are Solpower Corporation and SISCOM, Inc.

FUTURE STRATEGY

Over the past 3 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 our management 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 we have yet to fully demonstrate the value of our private companies, namely Nevada Land and Vidler, and foreign public company investments, we are confident that the overall value of these holdings increased in 2000.

At current price levels, we believe that selected small-capitalization value stocks in North America are very attractive on a risk-adjusted basis.

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, 2000 PICO had 140 employees. A total of 7 employees were engaged in land, minerals and related water rights operations; 2 in water rights and storage; 109 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	56	Chairman of the Board, Director
John R. Hart	41	President, Chief Executive Officer and Director
Richard H. Sharpe	45	Chief Operating Officer
Gary W. Burchfield	54	Chief Financial Officer and Treasurer
James F. Mosier	53	General Counsel and Secretary
Sheila C. Ferguson	39	Vice President, Finance
Maxim C. W. Webb	39	Vice President, Investments

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Except for Sheila C. Ferguson and 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. Sheila C. Ferguson and Maxim C. W. Webb were officers of Global Equity Corporation and became officers 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 and a Director and Chairman of the Board of Global Equity Corporation since September 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 Jungfraubauhn Holdings AG since 2000. Mr. Langley has also served as a director of MC Shipping, Inc. since 1997.

Mr. Hart has been President and Chief Executive Officer of PICO since November 1996 and of Physicians since July 1995 and President and Chief Executive Officer and a Director of Global Equity Corporation since September 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 been Chief Operating Officer of PICO since November 1996 and an officer of a former affiliate, American Physicians Life Insurance Company, for more than 10 years.

Mr. Burchfield has been Chief Financial Officer and Treasurer of PICO since November 1996 and an officer of Physicians since March 1990.

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.

Ms. Ferguson has served in various capacities with the Global Equity Corporation group of companies since 1993, including Director, Treasurer and Financial Controller of Forbes Ceylon Limited from 1993 through 1996. Ms. Ferguson has also served as Financial Controller for Global Equity Corporation since September 1995 and an officer of Global Equity Corporation since June 1997. Ms. Ferguson became Financial Controller of PICO November 20, 1998.

Mr. Webb has 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 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 commenced an action in British Columbia against MKG Enterprises Corp., Vignoble Wines Agency Inc. 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. Global Equity subsequently brought a motion to have a receiver-manager appointed for MKG and Vignoble, which motion has been adjourned. In addition, 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. As of December 31, 200 , Global Equity is in the process of negotiating a final settlement. The proposed settlement provides for the repayment of approximately $500,000. Consequently, during the third quarter of 2000, the Company wrote the investment

down to $500,000, recording a loss before income tax of $2.5 million.

Under the terms of a joint venture agreement between Conex and a foreign 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. During the first quarter of 2000, Conex funded $500,000 of this commitment. On September 8, 2000, PICO sold its interest in Conex. Consequently, this liability as well as all other assets and liabilities of Conex are no longer recorded in PICO's consolidated financial statements.

BSND, Inc. ("BSND"), a wholly-owned subsidiary of Vidler Water Company, has resolved a partnership dispute relating to Big Springs Associates, a partnership which owns real property and water rights in Nevada (the "Partnership"). BSND owns 50% of the Partnership. Under the terms of an agreement resolving the dispute, BSND agreed to sell its interest in the Partnership to the other partner for $12.65 million in cash, a gain to Vidler of approximately $2.0 million. If the transaction has not closed by August 1, 2001, BSND will own the Partnership in its entirety.

SEE NOTE 17 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 19, 2000.

(b) At the October 19, 2000 Annual Meeting of Shareholders, S. Walter Foulkrod, III, Esq. and Richard D. Ruppert, MD were elected to terms ending in 2003. The other Directors whose terms continued after the meeting are Robert R. Broadbent, Carlos C. Campbell, John R. Hart, Ronald Langley, John D. Weil and David A. Williams.

(c) The following matters were voted upon and approved by the Company's shareholders at the Company's October 19, 2000 Annual Meeting of Shareholders:

1) To elect S. Walter Foulkrod, III, Esq. and Richard D. Ruppert, MD as Directors. Both Mr. Foulkrod and Dr. Ruppert were elected as Directors for terms ending in 2003. The vote for Mr. Foulkrod was 8,720,702 votes in favor, no votes against, no abstentions and no votes withheld. The vote for Dr. Ruppert was 8,720,702 votes in favor, no votes against, no abstentions and no votes withheld.
2) To ratify the Board's selection of Deloitte & Touche LLP to serve as the Company's independent auditors for the fiscal years ended December 31, 1999 and ending December 31, 2000. There were 9,645,837 votes in favor, 37,261 votes against, no abstentions and no votes withheld.
3) To amend Article III of the Company's Articles of Incorporation to eliminate the authorization of Preferred stock. The vote was 8,353,250 in favor 57,115 votes against, no abstentions and no votes withheld.
4) To approve the Company's 2000 Nonstatutory Stock Option Plan. The vote was 5,587,303 in favor 2,854,748 votes against, no abstentions and no votes withheld.

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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.

	1999		2000	
	High	Low	High	Low
1st Quarter	$ 20.50	$ 13.00	$ 14.13	$ 9.88
2nd Quarter	$ 25.31	$ 16.19	$ 14.06	$ 10.00
3rd Quarter	$ 24.88	$ 18.19	$ 14.06	$ 11.59
4th Quarter	$ 20.25	$ 12.31	$ 13.38	$ 10.44

On December 29, 2000, the closing sale price of PICO's common stock was $12.4375 and there were 1,427 holders of record.

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

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended De		
	2000	1999	1998
OPERATING RESULTS		(In thousands, ex	
Revenues:			
Premium income earned	$ 34,436	$ 36,379	$ 36
Net investment income	8,238	6,387	9
Other income	2,679	11,722	1
Total revenues	$ 45,353	$ 54,488	$ 47
Income (loss) from continuing operations before extraordinary gain	$ (4,562)	$ (7,262)	$ (8
Income from discontinued operations, net			1
Extraordinary gain, net of tax		442	
Cumulative effect of change in accounting principle	(4,964)		
Net income (loss)	$ (9,526)	$ (6,820)	$ (7
INCOME (LOSS) PER COMMON SHARE: BASIC			
Income (loss) from continuing operations	$ (0.39)	$ (0.81)	$ (
Income from discontinued operations			
Extraordinary gain, net of tax		0.05	

Cumulative effect of change in accounting principle	(0.43)		
Net income (loss)	$ (.82)	$ (0.76)	$ (
Weighted Average Shares Outstanding	11,604,120	8,998,442	5,981
INCOME (LOSS) PER COMMON SHARE: DILUTED			
Income (loss) from continuing operations	$ (0.39)	$ (0.81)	$ (
Income from discontinued operations			
Extraordinary gain, net of tax		0.05	
Cumulative effect of change in accounting principle	(0.43)		
Net income (loss)	$ (.82)	$ (0.76)	$ (
Weighted Average Shares Outstanding	11,604,120	8,998,442	5,981

	Year Ended December 31			
	2000	1999	1998	1997
	(In thousands, except per share data)			
FINANCIAL CONDITION				
Assets	$395,145	$380,049	$396,154	$430,877
Unpaid losses and loss adjustment expenses, net of discount	$121,542	$139,133	$155,021	$196,096
Total liabilities and minority interest	$189,952	$206,657	$222,135	$318,142
Shareholders' equity	$205,193	$173,392	$174,018	$112,735
Book value per share	$ 16.56	$ 19.15	$ 19.45	$ 18.72

Note: PICO consolidated Global Equity Corporation from August 19, 1997. Prior to this treatment, Global Equity Corporation was accounted for using the equity method.

Note: Prior year share values have been adjusted to reflect the 1-for-5 Reverse Stock Split effective December 16, 1998, the November 20, 1996 reverse merger of Physicians Insurance Company of Ohio and Citation Insurance Group, the treatment of American Physicians Life Insurance Company as discontinued operations and to reflect the investment results of HyperFeed and Jungfraubauhn 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.

SEE NOTE 2 OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, "SIGNIFICANT ACQUISITIONS" FOR ADDITIONAL DISCUSSION.

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

COMPANY SUMMARY, RECENT DEVELOPMENTS AND FUTURE OUTLOOK

LAND, MINERALS AND RELATED WATER RIGHTS

The $5.3 million gross value of land and water rights sold and exchanged in 2000 came close to our target of meeting or exceeding 1999's level of $5.8 million.

In 2000 Nevada Land & Resource Company, LLC generated $3.7 million in revenue from selling 28,245 acres of land. The average sales price of $131.88 per acre compares to our average basis of $52.07 per acre in the parcels which were sold, and our average cost of $34.94 per acre for all of Nevada Land's property assets. Of 2000's land sales, 77.8% were settled for cash and Nevada Land provided partial financing for the balance. The vendor finance is collateralized by the land, carries a 10% interest rate, and is subject to a minimum 20% down payment.

In addition, during 2000:

- 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. Nevada Land recorded a gain of $270,000 on the proportion of the total exchange value for which cash was received (i.e., approximately 32%). No gain was recognized on the portion of the exchange for which land was received (i.e., approximately 68%). Any gain related to the land received will be recorded when that land is sold; and
- we sold 61 acre-feet of certificated water rights for $244,000, or $4,000 per acre-foot.

Nevada Land recognizes revenue, and the resulting gross profit or loss, from a land sale when the transaction closes. On closing, the sales price is recorded as revenue, and a gross margin is recorded 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 can fluctuate from period to period, depending on the date when specific transactions close.

We expect that land sales and land exchange activity in 2001 will be at a similar level to 2000. In particular, there is strong demand from electricity-generating companies that are looking to acquire land to construct power plants where water is available, and there is also the requisite proximity to rail transport and the electricity transmission grid. We also expect continued demand from ranchers who prefer to own land rather than lease it.

In March 2000, Nevada Land entered into a series of option agreements with a unit of Duke Energy North America, spanning 3 years, for the sale of 480 acres of land for $455,000 ($948 per acre) and 2,896 acre-feet of permitted water rights for $347,000 ($120 per acre-foot). The value of water rights depends on many factors, including location, seniority, and whether or not the water is transferable. Permitted rights are less senior, and typically less valuable, than certificated water rights. On February 15, 2001, it was announced that the Washoe County Planning Commission had approved this site for a plant to generate electric power for the Truckee Meadows and surrounding communities. A Regional Planning Commission hearing is scheduled for March 2001.

During 2000 and the first quarter of 2001, Nevada Land filed applications for additional water rights. Where these applications are successful, the value and marketability of the associated land is expected to increase. The applications consist of:

- 30,276 acre-feet of water rights for the beneficial use of irrigating the related 7,569 acres of arable land. Nevada Land began to receive permits for some of these applications in the first quarter of 2001; and
- 18,000 acre-feet of water rights in a northern valley for municipal and industrial use.

Progress continues on a number of possible sale and exchange transactions involving significantly larger parcels of land. It can take several years to complete land exchange transactions.

WATER RIGHTS AND WATER STORAGE ASSETS

As well as developing its existing assets in 2000, Vidler Water Company, Inc. acquired two properties with significant water rights in northern Nevada. These investments were made as part of Vidler's strategy of increasing its ownership of water rights in Nevada, the state which experienced the most rapid population growth over the past decade. It has been publicly stated that, in the long term, the northern counties are the only practical source of water to support the continued growth of southern Nevada.

The most important developments during the year were:

WATER RIGHTS

ARIZONA

At December 31, 2000, Vidler owned or had the right to acquire approximately 55,905 acre-feet of transferable ground water in the HARQUAHALA VALLEY, approximately 75 miles northwest of metropolitan Phoenix, Arizona. Vidler owns 44,100 acre-feet, the purchase of 2,019 acre-feet is in escrow, and we have the option to purchase 9,786 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 are moving into the Basin, Vidler supported legislation enacted in 2000 which places 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. Vidler is able to supply this water and is meeting with communities and developers in the Phoenix metropolitan area, some of whom need to secure further water supply to support expected growth. Vidler expects to enter the first such agreement in 2001.

There is also demand for the water within the Harquahala Basin.

In the first quarter of 2000, we disclosed that Vidler had granted an electricity-generating company an option to acquire land and the associated water rights in the Harquahala Valley. The quantity of land and water under option was later increased, and on March 19, 2001, we closed the sale of 2,165.5 acres of irrigable land and the associated 6,496.5 acre-feet of water rights to a unit of Allegheny Energy, Inc. for approximately $9.1 million. The purchase price equates to $4,200 per acre of land, or $1,400 per acre-foot of water. In addition, Vidler received a non-refundable option premium of $300,000 late in

2000. As a result of this transaction, Vidler will record a pre-tax gain of approximately $2.4 million in the first quarter of 2001.

Following the sale, Vidler still owns, or has the right to acquire, approximately 49,426 acre-feet of transferable Harquahala Valley ground water. Discussions are continuing to supply this water to both municipalities and industrial users.

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 commercialize.

1. THE LINCOLN COUNTY JOINT VENTURE

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

The joint venture has announced an initial agreement to supply developers near Mesquite with up to 17,000 acre-feet of water.

Tentative 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. The sale of the water is subject to the electricity-generating company obtaining permitting and financing for a new power plant. The anticipated closing date is July 2003.

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

Vidler is contemplating similar joint ventures with other Nevada counties.

2. FISH SPRINGS RANCH

During 2000, Vidler purchased a 51% interest in Fish Springs, LLC and a 50% interest in V&B, LLC. These companies own the 8,628-acre Fish Springs Ranch, and the associated water rights. Fish Springs Ranch is located in Honey Lake Valley in Washoe County, approximately 40 miles north of Reno, Nevada.

Currently, 8,000 acre-feet of permitted water rights associated with Fish Springs Ranch are transferable to the Reno/Sparks area. Vidler is in discussions with a number of potential users for the Fish Springs water rights. These include an industrial user, developers in Washoe County, and customers in Nevada's north valleys where there is strong demand for water and few alternative sources of supply.

Vidler may also be able to commercially develop a limited quantity of the additional permitted water rights associated with the property.

3. SPRING VALLEY RANCHES

Vidler purchased a property formerly known as Robison Ranch out of bankruptcy proceedings during 2000. Now known as Spring Valley Ranches, the

property is located approximately 40 miles west of Ely in White Pine County, Nevada. The real estate assets acquired consist of approximately 9,985 acres of deeded land and 500,000 acres of Forest Service and Bureau of Land Management allotment land. We believe that the land has significant environmental value to federal agencies, making it suitable for a land exchange transaction.

There are 5,832 acre-feet of permitted agricultural water rights related to the property. Vidler intends to commercially develop these water rights, although this will be a long-term project. In addition, we have filed applications for 14,500 acre-feet of additional water rights for the beneficial use of irrigating more of the ranch property.

4. SANDY, NEVADA

Vidler has filed an application for approximately 2,000 acre-feet of water rights near Sandy, Nevada. As soon as the water rights have been permitted, we expect to close an agreement to supply water to support additional growth at Primm, Nevada, a town in the fast-growing Interstate 15 corridor.

5. BIG SPRINGS RANCH

Please refer to Note 17, Commitments and Contingencies, on page 76 of this Form 10-K report.

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. We have granted the City options to acquire other water rights. The aggregate purchase price is approximately $1.6 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 are 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 by the end of 2001.

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.

WATER STORAGE

1. VIDLER ARIZONA RECHARGE FACILITY

Vidler has completed the second stage of construction at its facility to store water underground in the Harquahala Valley. 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 will be stored in a large aquifer underlying much of the valley and recovered, when needed, by ground water wells. Vidler intends to charge customers an annual fee based on the amount of water stored.

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. We believe that proximity to the CAP is a competitive advantage, because it minimizes the cost of water conveyance.

In October 1998, construction of a pilot-scale plant was completed and recharging began on schedule. The pilot plant was constructed to determine the most cost-effective method of recharging water, and to obtain the hydrogeologic data required to submit an application for a permit for full-scale recharge. During the third quarter of 2000, Vidler received the necessary permits to operate a full-scale recharge facility.

During 1999, Federal interstate water "banking" regulations were adopted which allow water from the Colorado River to be stored off-stream in Arizona's Lower Basin for use in the Lower Division States. The Arizona Department of Water Resources accepted these regulations in January 2000. Vidler is able to provide storage to effect interstate transfers of water. Potential users include developers and local governmental political subdivisions in Arizona, and out-of-state users such as the Las Vegas metropolitan area and California.

We believe that a number of events during the past year have increased the scarcity value of the project's storage capacity. At a public hearing on March 14, 2000, the Arizona Water Banking Authority 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 Arizona Water Banking Authority 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 Arizona Water Banking Authority is negotiating with Vidler, on behalf of the potential interstate end users, to "bank", or store, water in the Vidler Arizona Recharge Facility. Vidler expects to enter into its first agreements to lease storage capacity, and to begin recharging water and generating cash flow from the facility, later in 2001.

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's full-scale recharge facility will have the capacity to recharge 100,000 acre-feet per year, and that Vidler will be able to store in excess of 1 million acre-feet of water in the aquifer underlying Harquahala Valley. 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 important because it indicates how quickly water can be put into storage underground 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 critical 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 has an 18.5% right to participate in a 1,000,000 acre-foot water storage facility at Semitropic, near the California Aqueduct, northwest of Bakersfield. Currently Vidler is not storing any water at Semitropic for third parties; however, it is actively pursuing a number of potential customers. In particular, we anticipate demand from developers in Kern County and Los Angeles County, who must now--before they are permitted to begin development--be able to demonstrate that they have sufficient back-up supplies of water in the case of a drought year.

Over the first 10 years of the agreement with the Semitropic Water Storage District, Vidler is required to make a minimum annual payment of $2.3 million. Vidler began making the annual payments in November 1998. In return, Vidler has the right to store up to 185,000 acre-feet of water underground over a 35-year period. Vidler has 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. This guaranteed amount of annual minimum recovery is important because it means that a customer who has stored water at Semitropic is assured of being able to recover this quantity of water in a dry year. Vidler is also required to make an annual payment for operating expenses.

During 1999 and 2000, Vidler purchased approximately 12,537 acre-feet of water and "banked" it at Semitropic, with the intention of selling or leasing the water in a dry year. Vidler purchased the water from the Interruptible State Water Project, and was the first private entity to purchase water from the Project for resale. During the third quarter of 2000, Vidler sold 3,691 acre-feet of this water to a federal agency for $509,000. The resulting gross profit of $342,000 helped to offset fixed costs for depreciation and operations and maintenance at Semitropic.

OTHER PROJECTS

Vidler 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.

Recent examples include:

- a Water Resource Planning Memorandum of Understanding which was signed on November 1, 2000 with the MUDDY RIVER IRRIGATION DISTRICT in Nevada. Under the agreement, Vidler will work with the Irrigation District to maximize the efficiency of its irrigation system, and then evaluate opportunities to commercially utilize water which is surplus to agricultural needs;
- a Memorandum of Understanding which was signed on December 18, 2000 with the City of SURPRISE, ARIZONA, for Vidler to conduct a feasibility study of a joint venture water recharge project; and
- approaches to develop water rights in two states where Vidler does not currently own assets.

SUMMARY

In 2001, 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.

PROPERTY AND CASUALTY INSURANCE

Following several successive years of declining premium volume, in 2000 Sequoia Insurance Company generated 33.5% growth in direct written premiums to $47.1 million. The increase in written premiums resulted from both growth in the existing book of business, which was principally in commercial lines of insurance, and the acquisition of Personal Express, which greatly expanded Sequoia's business in personal lines of 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 year-over-year growth from January 2000.

Commercial insurance premium volume also benefited when A.M. Best Company, a leading insurance company rating service, favorably re-rated Sequoia from "B++" (Very Good) to "A-" (Excellent) in the second quarter. This allowed Sequoia to compete for business in an additional market segment -- customers which can only purchase coverage from "A" rated insurance companies.

In May 2000, Sequoia acquired Personal Express Insurance Services, Inc. for approximately $3 million. Personal Express had few tangible assets, so the bulk of the purchase price was recorded as goodwill, 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. The acquisition is expected to add approximately $7.5 million in additional premiums for Sequoia annually. Historically this block of business has generated an underwriting profit.

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

Direct written premium in personal lines began to increase markedly in the second quarter as new revenues from Personal Express 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.

Due to the fixed nature of some costs, Sequoia's management anticipates that operating expenses will increase at a slower rate than premium volume,

which should have the effect of reducing Sequoia's average operating expense per policy and underwriting expense ratio.

In 2001, Sequoia expects to generate upwards of $50 million in direct written premiums, with approximately 82% coming from commercial lines and approximately 18% from personal lines.

During 1998 and 1999, Sequoia and Citation "pooled," or shared, most of their premiums and expenses. This pooling arrangement was terminated from January 1, 2000, and all business is now written directly by Sequoia. In December 2000, Citation ceased writing business and is now "running off" the claims reserves from business written in previous years.

Citation did not need to increase claims reserves in the artisans/contractors line of business in 2000. In each of the preceding three years, Citation had taken charges to increase claims reserves in this line of business, including a pre-tax charge of $10.1 million in 1999.

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 the previous management of Citation. 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.

MEDICAL PROFESSIONAL LIABILITY INSURANCE

Physicians Insurance Company of Ohio and The Professionals Insurance Company are in "run off." This means that they are handling claims arising from policies written in previous years, but not writing new policies. The funds to pay claims come from the maturity and sale of investments, and, in some cases, collections from reinsurance companies, i.e., insurers to whom we pay reinsurance premiums to share in our claims risk. This segment is diminishing as the level of claims reserves liabilities and investment assets decrease as claims are paid and investments mature or are sold to provide the funds to make the payments. 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, and reduced both head count and office space in 2000.

During 2000, our medical professional liability insurance claims reserves, net of reinsurance, but before discount, decreased from $61.2 million to $51.6 million. We anticipate a slightly smaller decrease in 2001.

There were no unusual trends in claims in 2000. The net effect of prior year reserve development was a $1.1 million expense, which represented a significant improvement from the two preceding 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. We recently increased our investment in HyperFeed through purchases of common stock on the open market. During December 2000, we purchased 232,000 shares for $391,000. At December 31, 2000, we owned 2,602,000 shares of HyperFeed common stock. During January 2001, we purchased a further 13,000 shares for $22,000, increasing our holding to the current level of 2,615,000 common shares and 4,786,547 share equivalents from convertible preferred shares. Our current voting ownership in HyperFeed is approximately 36%.

Shares of HyperFeed closed 2000 at $1.5625. If we were to exercise all of the HyperFeed warrants which we own, the cash cost of our investment would be approximately $15.1 million, or $1.32 per HyperFeed share.

Since our initial investment in HyperFeed, the Company's revenues have grown from $13.4 million in 1995 to $46.4 million in 2000.

For full year 2000, HyperFeed's revenues increased 40.2% to $46.4 million, gross margin more than doubled to $16.8 million, EBITDA (earnings before interest, taxes, depreciation and amortization) was $7.7 million, and the company earned net income of $1.7 million.

In the fourth quarter of 2000, HyperFeed generated revenues of $10.7 million, gross margin of $4.5 million, $2.4 million in EBITDA, and net income of $998,000. Although revenues declined by $1.6 million, or 13.3%, from the preceding third quarter, net income actually increased $231,000, or 30.2%, sequentially. HyperFeed explained that this was due to "internal cost efficiencies implemented in 1999 and increased sales focus on higher margin datafeed products and services."

PICO uses the equity method to account for this investment. HyperFeed contributed equity income of $175,000 to Long Term Holdings segment in 2000.

2. JUNGFRAUBAHN HOLDING AG

During 2000, PICO's shareholding in Jungfraubahn increased slightly to 112,672 shares, which represents approximately 19.3% of the company. Due to our percentage ownership, and because our Chairman, Ronald Langley, joined the Board of Jungfraubahn during the year, we now account for our shareholding in Jungfraubahn under the equity method. Our results for all periods presented in these financial statements have been restated as if our investment had always been carried under the equity method of accounting, beginning with our original purchase in 1996.

PICO's equity share of Jungfraubahn's 2000 undistributed net income is included in our total equity income of $1.8 million. Jungfraubahn will announce its full year 2000 results later this year.

At December 31, 2000, our investment in Jungfraubahn had a cost basis of $17.4 million, a market value of $18.9 million, and a net carrying value of $21.7 million, after allowing for taxes.

On January 29, 2001, Jungfraubahn issued a press release containing an initial review of 2000 operations. The full text is available on Jungfraubahn's

web-site www.jungfraubahn.ch. Jungfraubahn described the year 2000 as "exceptional" with successful marketing initiatives leading to an 18% increase in revenue from transporting passengers to approximately 84 million Swiss francs (the equivalent of $US 51.2 million).

3. ACCU HOLDING AG

During 2000, PICO's shareholding in Accu Holding increased to 2,086 registered shares and 6,039 bearer shares, which represents a voting ownership interest of approximately 28.3% of the company. Since PICO was not able to obtain the necessary financial

information, and did not have significant influence over Accu Holding's activities in 2000, this investment is not accounted for under the equity method, but carried at market value, with the unrealized after-tax gain or loss being included in shareholders' equity.

At December 31, 2000, our investment in Accu Holding had a cost basis of $4.7 million, a market value of $4.9 million, and a net carrying value of $4.9 million, after allowing for taxes.

Accu Holding manufactures batteries at two plants in Switzerland.

4. AUSTRALIAN OIL AND GAS CORPORATION LIMITED

During the year we purchased 981,584 shares in AOG, lifting our shareholding to 8,426,044 shares, representing approximately 18% of the company at December 31, 2000. The investment is carried at market value, with the unrealized after-tax gain or loss being included in shareholders' equity.

At December 31, 2000, our investment in AOG had a cost basis of $7.6 million, a market value of $8.2 million, and a net carrying value of $8 million after allowing for taxes on the unrealized gain. This investment was funded in US dollars. To this point, depreciation in the Australian dollar relative to the US dollar has offset part of the unrealized gain in local Australian currency terms.

On February 20, 2001, AOG reported its results for the six months to December 31, 2000 ($A1.00 = $US0.5592). For the half-year, AOG's revenues increased 93% to $A59.7 million, and the company earned net income of $A3 million, or $A0.064 per share. The accompanying letter to shareholders ended with the statement that "The current contract book is satisfactory and barring unforeseen events the likelihood of maintaining and improving upon the present positive results is excellent."

Rig utilization averaged 54% for the half-year; however, late in the period, on November 24, 2000, AOG indicated in an announcement to the Australian Stock Exchange that "rig utilization has now reached 70%."

5. CONEX CONTINENTAL, INC.

On September 8, 2000, PICO sold its investment in Conex for a nominal sum, realizing a pre-tax loss of $4.6 million, which is included in realized investment losses in the third quarter and full year results. After allowing for related taxes, the realized loss on sale was $1.8 million.

Conex's principal asset is 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. As a result of the sale of the investment in Conex, PICO no longer records a $4.5 million liability which had previously been included in our financial statements to reflect a commitment to fund a third round of financing for the joint venture.

6. SISCOM, INC.

We have been building our investment in SISCOM since 1996, which culminated in SISCOM becoming a consolidated subsidiary in 1999. We now own 4,431,000 common shares and 1,250,000 convertible preferred shares in SISCOM, which represents 54.7% of SISCOM's voting stock.

SISCOM is in the process of a capital restructuring. Pending transactions to convert debt to equity, which are expected to close in the first half of 2001, PICO will own more than 85% of SISCOM common stock, and more than 60% of the Company on a fully-diluted basis.

SISCOM is a software developer and systems integrator for video-based content management systems for the professional broadcast, sports, and entertainment industries. SISCOM's proprietary technology includes integrated tools for real-time logging, data management, archive management, browsing, search and retrieval, and analytics/data mining tools.

SISCOM contributed a segment loss of $1.6 million to PICO in 2000, and a net loss of approximately $1.1 million after taxes and minority interest.

7. MENDELL TECHNOLOGIES, INC.

In the first quarter of 2000, Mendell Technologies, Inc., a private oil and gas company, acquired our subsidiary Prospect Oil & Gas, Inc. for $1 million in stock. Prospect Oil & Gas, Inc. was engaged in precision horizontal drilling in proven oil and gas fields in North Dakota.

We currently own 49.5% of the voting stock in Mendell, and use the equity method to account for the investment. In 2000, a pre-tax loss of $516,000 was recorded in the Long Term Holdings segment, being our equity share of Mendell's 2000 net loss. At December 31, 2000, the investment in Mendell has a carrying value of $657,000 after allowing for related taxes.

Mendell is currently attempting to raise additional capital from new investors to develop several oil and gas interests.

8. OTHER

Other assets in the Long-Term Holdings segment include:

- 2,500,000 common shares and 1 million warrants in Solpower Corporation, a publicly-traded Arizona-based distributor and manufacturer of refrigerant gas and fuel additives, which had a carrying value after taxes of $1.1 million at December 31, 2000;
- a 50% interest in Protocol Resource Management, Inc., the largest refrigerant repackager in Canada, which is owned in conjunction with Solpower. PICO paid approximately $338,000 for its shareholding, and loaned $500,000 to Solpower to acquire the other 50% and for working capital; and
- short term advances of $2.2 million to Dominion Capital Pty. Limited, Solpower's major shareholder, which are due to be repaid in 2001.

RESULTS OF OPERATIONS -- YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

SUMMARY

PICO reported a net loss of $9.5 million, or $0.82 per diluted share, in 2000, compared with a net loss of $6.8 million, or $0.76 per diluted share, in 1999, and a net loss of $7.9 million, or $1.32 per diluted share, in 1998. The weighted average number of shares outstanding in 2000 includes new shares issued in the rights offering at $15.00 per share in March 2000. The weighted average number of shares outstanding in 1998 includes new shares issued to acquire the minority shareholdings in Global Equity Corporation on December 16, 1998. Per-share calculations for 1998 have also been adjusted to reflect the 1-for-5 reverse stock split which followed the PICO/Global Equity Corporation combination.

At December 31, 2000, PICO had shareholders' equity of $205.2 million, or $16.56 per share, compared to $173.4 million, or $19.15 per share, at the end of 1999. The principal factors leading to the $31.8 million increase in shareholders' equity were:

- a $49.8 million increase from the new equity capital raised through the rights offering;
- a $4.6 million decrease from the 2000 net loss from continuing operations;
- a $5 million decrease resulting from the elimination of accumulated discount on medical professional liability claims reserves;
- a decrease of $7.6 million from net unrealized after-tax depreciation in investments. This is primarily due to a decrease in the carrying value of our HyperFeed warrants. As explained in Item 1, on page 9, we are required to carry the HyperFeed, at estimated fair value, which introduces volatility to our reported shareholders' equity; and
- a decrease of $963,000 from unrealized foreign currency translation loss.

Total assets at December 31, 2000 were $395.1 million, compared to $380 million at December 31, 1999. Total assets increased due to the $49.8 million in new equity capital raised in the rights offering during the first quarter. As the year progressed, Vidler utilized part of the money raised in the rights offering to acquire water-righted properties and develop its existing water rights and water storage assets. The increase in assets was partly offset by the payment of claims by our insurance subsidiaries, which reduced both insurance liabilities and the corresponding assets, and by the sale of land and water rights at Nevada Land.

PICO reported a net loss of $9.5 million in 2000. The net loss from operations of $4.6 million consisted of a $13.5 million pre-tax loss, which was partially offset by $8.2 million in income tax benefits and the addition of $717,000 to reflect the interest of minority shareholders in the losses of subsidiaries which are less than 100%-owned by PICO. In addition, the cumulative effect of a change in accounting principle reduced income by $5 million after-tax. Until December 31, 1999, PICO had discounted the carrying value of its medical professional liability claims reserves, to reflect the fact that some claims will not be paid until many years in the future, but funds from the corresponding premiums can be invested in the meantime. After December 31, 1999, PICO's medical professional liability insurance subsidiaries were no longer allowed to discount claims reserves in the statements they file with the Ohio Department of Insurance, which are prepared on the statutory basis of accounting. With this change in accounting principle, we have also eliminated the discounting in our financial statements which are prepared on a GAAP basis (i.e., generally accepted accounting principles).

In 1999, the $6.8 million net loss was comprised of a $20.5 million before-tax loss, which was partially offset by the addition of $12.5 million in income tax benefits, $706,000 in minority interest, and a $442,000 after-tax extraordinary gain. This compares to a $12 million loss from continuing operations in 1998, prior to the deduction of $1.5 million in income tax expense and the addition of $4.5 million of minority interest and $1.1 million in income from discontinued operations.

The $8.2 million in tax benefits recorded in 2000 is made up of several items. These include a $4.4 million cash refund resulting from the successful appeal of a prior year tax ruling in Canada, and a $3.3 million expense which was recognized to increase federal income tax valuation allowances recorded against tax assets in some of our subsidiaries. In 1999, $12.5 million of income tax benefits were recognized, including 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.

In June 1997, the Financial Accounting Standards Board established standards for disclosure of comprehensive income, which PICO adopted in 1998. Comprehensive income includes more than just the income reported in the statement of operations. For PICO, it also includes foreign currency translation and the change in unrealized investment gains and losses on securities which are available for sale.

PICO incurred an $18 million comprehensive loss in 2000. This was comprised of the $9.5 million net loss, net unrealized depreciation in investments of $7.6 million after-tax, and negative foreign currency translation of $963,000. A $3.2 million comprehensive loss was recorded in 1999, consisting of a $6.8 million net loss, a $28,000 decrease due to foreign currency translation, and a partially offsetting $3.7 million net unrealized gain in investments. In 1998, PICO incurred an $11 million comprehensive loss, consisting of a $7.9 million net loss, $415,000 in net unrealized depreciation in investments, and negative foreign currency translation of $2.7 million.

Detailed information on the performance of each segment is contained later in this report; however, the principal items in the 2000 $13.5 million loss from continuing operations before taxes and minority interest were:

Land, Minerals and Related Water Rights

- income of $1.9 million from Nevada Land on revenues of $5.3 million, which included $3.7 million in land sales and a $270,000 gain from a land exchange transaction;

Water Rights and Water Storage

- Vidler generated $3.1 million in revenues and incurred a pre-tax loss of $4.9 million. The operating loss decreased by $296,000 as higher revenues from leasing agricultural land and the sale of water at Semitropic exceeded increases in depreciation, financing, and operating expenses; however, the reduced operating loss was more than offset by a $1.2 million loss on the sale of land and tunnel assets related to water rights sold during the year;

Property and Casualty Insurance

- segment income of $2.5 million, consisting of a $1.3 million pre-tax profit from Sequoia and $1.2 million from Citation;

Medical Professional Liability Insurance

- a pre-tax profit of $768,000;

Long Term Holdings

- equity income of $1.8 million, being PICO's share of the net income and other events affecting shareholders' equity in Jungfraubahn, HyperFeed and other companies which we account for under the equity method;
- realized losses of approximately $7.6 million, including a $4.6 million pre-tax loss on the sale of PICO's investment in Conex and a $2.5 million write-down of our investment in MKG Enterprises;
- an operating loss of $2.3 million from Conex prior to its sale and a $1.5 million operating loss from SISCOM; and
- other net costs of approximately $5.5 million.

Revenues and income before taxes and minority interests from continuing operations, by business segment, were:

OPERATING REVENUES--CONTINUING OPERATIONS:

	YEAR ENDED DECEM	
	2000	1999
Land, Minerals and Related Water Rights	$5,276,000	$7,147,00
Water Rights and Water Storage	3,123,000	1,056,00
Property and Casualty Insurance	39,257,000	39,960,00
Medical Professional Liability Insurance	3,396,000	3,121,00
Long Term Holdings	(5,699,000)	3,204,00
Total Revenues - Continuing Operations	$45,353,000	$54,488,00

In 2000, total revenues were $45.4 million, compared to $54.5 million in 1999 and $47.2 million in 1998. The principal factors leading to the $7.3 million increase in revenues from 1998 to 1999 were higher land sales at Nevada Land and the recognition of a net realized investment gain in the Long Term Holdings segment in 1999, as opposed to a net realized loss in 1998. These revenue increases were partly offset by lower earned premiums in the Property and Casualty Insurance segment. From 1999 to 2000, revenues declined by $9.1 million, primarily due to the recognition of a $7.6 million net realized investment loss in the Long Term Holdings segment in 2000, as opposed to a $626,000 net realized gain in 1999.

Total expenses in 2000 were $60.6 million, compared to $73.9 million in 1999 and $58.4 million in 1998. 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 2000, loss and loss adjustment expense was $24 million, compared to $35.2 million in 1999 and $30.5 million in 1998. In 1999 and 1998, loss and loss adjustment expenses were inflated by the need to strengthen reserves in both the medical professional liability segment and in Citation's artisan/contractors liability book of business.

INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST--CONTINUING OPERATIONS:

	YEAR ENDED DECEMB	
	2000	1999
Land, Minerals and Related Water Rights	$ 1,918,000	$1,094,000
Water Rights and Water Storage	(4,854,000)	(3,947,000
Property and Casualty Insurance	2,541,000	(3,679,000
Medical Professional Liability Insurance	768,000	(4,805,000
Long Term Holdings	(13,853,000)	(9,151,000
Total Revenues - Continuing Operations	$(13,480,000)	$(20,488,000

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

	Year Ended December 31,	
	2000	1999
REVENUES:		
Sale of Land	$3,725,000	$5,432,000
Sale of Water Rights	244,000	379,000
Gain on Land Exchange	270,000	
Lease and Other Income	1,037,000	1,336,000
Segment Total Revenues	$5,276,000	$7,147,000
EXPENSES:		
Cost of Land and Water Rights Sold	(1,751,000)	(4,273,000)
Operating Expenses	(1,607,000)	(1,780,000)
Segment Total Expenses	$(3,358,000)	$(6,053,000)
INCOME BEFORE TAX	$1,918,000	$1,094,000

Nevada Land generated revenues of $5.3 million in 2000, compared to $7.1 million in 1999, and $2.5 million during 1998. Fluctuations in the level of land sales caused most of the variation in revenue from year to year.

In 2000 we recorded $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, and $1.7 million from the sale of 5,866 acres in 1998.

In 2000, Nevada Land completed its first major land exchange transaction, in which 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. 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.

Also during 2000 we sold 61 acre-feet of certificated water rights for $244,000, compared to revenues of $379,000 from the sale of 125 acre-feet of certificated water rights in 1999, and $40,000 from the sale of 8 acre-feet of certificated water rights in 1998.

Lease and other income amounted to $1 million in 2000, $1.3 million in 1999, and $775,000 in 1998. Most of this revenue comes from land leases, principally for grazing, agricultural, communications, and easements, which totaled $608,000 in 2000, $737,000 in 1999, and $440,000 in 1998.

After deducting the cost of land sold, the gross margin on land sales increased from $926,000 in 1998 to $1.5 million in 1999 and $2.2 million in 2000.

Operating expenses were little changed over the three year period, at $1.5 million in 1998, $1.8 million in 1999, and $1.6 million in 2000.

Nevada Land recorded income of $1.9 million in 2000, compared to $1.1 million in 1999 and $204,000 in 1998. 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 net gain from the land exchange transaction. The $890,000 increase in segment income between 1998 and 1999 resulted from a $594,000 increase in gross profit from the sale of land, and lease and other revenues growing at a faster pace than operating expenses.

WATER RIGHTS AND WATER STORAGE
VIDLER WATER COMPANY, INC.

	Year Ended December 31,	
	2000	1999
REVENUES:		
Sale of Water Rights	$1,000,000	$ 270,000
Sale of Water	509,000	
Water Service	188,000	185,000
Agricultural Leases	959,000	477,000
Other	467,000	124,000
Segment Total Revenues	$3,123,000	$1,056,000
EXPENSES:		
Cost of Sales	2,244,000	185,000
Operations & Maintenance	3,312,000	2,944,000
Depreciation & Amortization	988,000	810,000
Interest	821,000	678,000
Other	612,000	386,000

Total Expenses	7,977,000	5,003,000
LOSS BEFORE TAX	$(4,854,000)	$(3,947,000)

We entered the water business with the understanding that most of the assets we acquired were not ready for immediate commercial use. There has been a considerable lead-time in developing and commercializing these assets. While we believe that considerable value has been created from these efforts, this is not reflected in our financial statements because the Company's most significant assets did not begin to generate cash flow until the first quarter of 2001. During the investment and building phase, the segment incurred costs associated with the development and acquisition of assets which would not generate positive cash flow and earnings until future years.

Vidler generated total revenues of $3.1 million in 2000, compared to $1.1 million in 1999, and $943,000 in 1998.

To this point, the bulk of recurring segment revenue has come from leasing agricultural land in Arizona. Over the past three years, revenue from leasing agricultural land has climbed each year as Vidler continued to purchase farm properties and the related water rights in the Harquahala Valley, and lease the land to farmers. Agricultural lease revenues rose from $144,000 in 1998 to $477,000 in 1999 and $959,000 in 2000.

Over the past three years, Vidler has sold water rights and related assets which were not essential to its strategy in Nevada and Arizona. In 1998, the Company sold the Sylvan Reservoir in Colorado for $550,000. In 1999, Vidler sold 300 acre-feet of priority water rights at Wet Mountain, Colorado for $270,000. In 2000, Vidler sold water rights and the related land and tunnel assets to the City of Golden, Colorado for $1 million. Due to the potential for significant capital outlays for repairs and maintenance, Vidler management decided to dispose of the land and tunnel assets in conjunction with the water rights, even though this resulted in a loss of $1.2 million being recognized on the sale of the land and tunnel assets. It is anticipated that lease or sale of the remaining Colorado water rights will result in a modest overall return.

Revenues for 2000 also included $509,000 from the sale of 3,691 acre-feet of water which Vidler had banked at Semitropic. This sale resulted in a gross profit of $342,000, which helped to offset fixed costs for depreciation and operations and maintenance at Semitropic.

Vidler generated water service revenue of $245,000 in 1998, $185,000 in 1999, and $188,000 in 2000, 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%. Once assets have been leased in perpetuity, they cannot be leased again unless the lease is canceled, where that is possible.

Segment expenses, including the cost of water rights and other assets sold, increased from $3 million in 1998 to $5 million in 1999 and $8 million in 2000. Excluding the cost of water rights and other assets sold, operating expenses were $2.6 million in 1998, $4.8 million in 1999, and $5.7 million in 2000. The increase in operating costs primarily resulted from the growth in Vidler's asset base, including expenses related to individual projects (e.g., depreciation and

interest) which were recorded prior to the related revenues being earned.

The segment loss grew from $2.1 million in 1998, to $3.9 million in 1999, and $4.9 million in 2000.

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 the $342,000 gross profit on the sale of Semitropic water and $482,000 higher agricultural lease revenues, which were partially offset by higher charges for depreciation, interest, and other expenses.

The principal factors in the $1.9 million increase in segment loss from 1998 to 1999 were $1.5 million higher expenses related to Semitropic, $547,000 of additional interest expense on non-recourse financing to purchase land and the associated water rights in the Harquahala Valley, and $645,000 higher personnel and operating expenses.

PROPERTY AND CASUALTY INSURANCE

	Year Ended December	
	2000	1999
P&C INSURANCE REVENUES:		
Earned Premiums - Sequoia	$32,741,000	$16,932,000
Earned Premiums - Citation	(158,000)	17,507,000
Net Investment Income	5,381,000	4,951,000
Realized Investment Gains	172,000	(186,000)
Other	1,121,000	756,000
Segment Total Revenues	$39,257,000	$39,960,000
P&C INSURANCE INCOME (LOSS) BEFORE TAXES:		
Sequoia Insurance Company	$1,344,000	$2,207,000
Citation Insurance Company	1,197,000	(5,886,000)
Total P&C Income (Loss) Before Taxes	$2,541,000	$(3,679,000)

The Property & Casualty Insurance segment generated total revenues of $39.3 million in 2000, compared to $40 million in 1999, and $42.9 million in 1998.

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; however, the premium is recognized as revenue, or "earned," evenly over the term of the policy. Therefore, there is a lag between changes in written premium and the resulting change in earned premium.

As explained on page 18, the amount of premium "written" by Sequoia and Citation declined in 1997, 1998, and 1999, leading to a corresponding decrease in segment "earned" premium from $36.3 million in 1998, to $34.4 million in 1999, and $32.6 million in 2000. During 1998 and 1999, Sequoia and Citation "pooled," or shared, most of their premiums and expenses. This pooling arrangement was terminated from January 1, 2000, and all business has been transitioned to Sequoia, which accounts for the near doubling in Sequoia's earned premiums in 2000. In December 2000, Citation ceased writing business and

is now "running off" the claims reserves from business written in previous years.

Due to the lag between changes in written premium and earned premium, the effect of the increased volume in Sequoia's commercial insurance business, the increase in Sequoia's A.M. Best rating, and the acquisition of Personal Express, will not be fully reflected in Sequoia's reported results until 2001.

Investment income represents interest earned from cash and cash equivalents and fixed-maturity securities, and dividends received from stocks held in the insurance company portfolios. During 2000, the average income yield on the bond portfolio increased due to both the higher prevailing level of interest rates and a refocusing onto high-grade corporate issues. This led to an 8.7% increase in segment investment income to $5.4 million. The segment investment income had declined from $5.6 million in 1998 to $5 million in 1999 because the decline in written premium volume reduced the pool of assets available for investment.

The Property and Casualty Insurance segment produced $2.5 million of income before taxes in 2000, compared to a $3.7 million loss before taxes in 1999, and before-tax income of $2.8 million in 1998. Most of the variance between years is due to the 1999 segment loss, which was caused by a $10.1 million pre-tax charge to strengthen Citation's claims reserves, principally in the artisan/contractors line of business. Citation ceased writing this type of coverage in 1995, the year before the reverse merger with Physicians Insurance Company of Ohio.

The 2000 $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 individual results of Sequoia and Citation cannot be directly compared to previous years due to the termination of the pooling agreement, and the acquisition of Personal Express.

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

	2000	1999	1998
Loss and LAE Ratio	67.6%	53.5%	52.3%
Underwriting Expense Ratio	38.6%	46.3%	43.4%
Combined Ratio	106.3%	99.8%	95.7%

In 2000, Sequoia earned $32.7 million in premiums. This is primarily composed of $29.8 million from commercial lines and $2.9 million from personal

lines, which includes some initial revenues from Personal Express. During 2000 Sequoia experienced higher claims costs than it has in recent years. Sequoia management believes this is principally due to premium rates not keeping up with the rate of increase in costs such as construction, medical care, and automobile repair. This resulted in a loss and loss adjustment expense ratio (i.e., the cost of making provision to pay claims as a percentage of earned premiums) of 67.6% in 2000, compared to 53.5% in 1999, and 52.3% in 1998. This included additional expense in 2000 to recognize unfavorable development in prior year loss reserves of $252,000, compared to favorable development of $401,000 in 1999, and favorable development of $2.1 million in 1998. The higher loss ratio was partially offset by a lower underwriting expense ratio (i.e., operating expenses as a percentage of earned premiums) of 38.6% in 2000, compared to 46.3% in 1999, and 43.4% in 1998. The reduction in the underwriting expense ratio in 2000 was due to:

(1) economies of scale. Following the termination of the pooling agreement with Citation, Sequoia's earned premiums increased 93.4% for the year. This meant that fixed underwriting expense items were spread over a larger base of revenue, therefore reducing them as a percentage of revenue; and

(2) Sequoia began to earn premiums from Personal Express. Sequoia does not pay commission on Personal Express business, so commission expense fell as a percentage of revenue.

For 2000, Sequoia's combined ratio was 106.3%, compared to 99.8% in 1999, and 95.7% in 1998.

In 2000, Citation reported negative earned premiums of $158,000. Although Citation earned $564,000 in property and casualty premiums, this was more than offset by a $722,000 reduction in earned premium revenues related to reinsurance. This represented additional reinsurance on contracts for 1998 and prior years where the premium paid by Citation depends on loss experience in the reinsured business. Under GAAP, reinsurance is recorded as a reduction in earned premiums. Citation changed to fixed rate reinsurance contracts in 1999.

Favorable reserve development of $282,000 contributed to Citation earning a $1.2 million pre-tax profit for the year. Since Citation reported negative earned premiums in 2000, and is now in "run off," its Combined Ratio is no longer meaningful.

The 1999 $3.7 million segment loss consisted of $2.2 million in income from Sequoia, which was more than offset by a $5.9 million loss from Citation.

In 1998, the segment income of $2.8 million consisted of $3.6 million in income from Sequoia, which was partially offset by an $773,000 loss from Citation. Sequoia's reported profit benefited from $2.1 million of favorable claims experience, which was partially offset by an estimated $1 million in additional claims due to the 1997-1998 "El Nino" weather pattern. Citation's $773,000 loss was caused by $3.7 million of unfavorable claims experience in the artisans/contractors line of business.

Segment policy acquisition costs were $11.7 million in 2000, compared to $9.8 million in 1999, and $11.2 million in 1998. The largest component, commissions to agents, was $7.2 million in 2000, $5.6 million in 1999, and $6.7 million in 1998. The level of agent commissions fluctuates depending on the amount of direct written premium. Other acquisition expenses totaled $4.6 million in 2000, $4 million in 1999, and $4.5 million in 1998. These include non-insurance expenses such as salaries and benefits, and sales and marketing.

MEDICAL PROFESSIONAL LIABILITY INSURANCE

	Year Ended December 31	
	2000	1999
MPL REVENUES:		
Net Investment Income	$1,543,000	$1,180,000
Other	1,853,000	1,941,000
Segment Total Revenues	$3,396,000	$3,121,000
Loss and Loss Adjustment Expenses	(1,064,000)	(6,599,000)
Other Expenses	(1,565,000)	(1,327,000)
SEGMENT TOTAL EXPENSES	(2,628,000)	(7,926,000)
INCOME (LOSS) BEFORE TAXES	$ 768,000	$(4,805,000)

Medical professional liability insurance segment revenues were $3.4 million in 2000, compared to $3.1 million in 1999, and $2.4 million in 1998. Although most of the revenues of an insurance company in "run off" come from investment income, a minor amount of earned premium can arise, for example from the recalculation of reinsurance premiums based upon loss experience.

Investment income has been declining--from $2.6 million in 1998, to $1.2 million in 1999, and $1.5 million in 2000--because the amount of income-generating investments held by Physicians and Professionals has decreased as claims are paid.

The largest component of other revenue is earned premiums, which were $1.9 million in 2000, $1.9 million in 1999, and negative $159,000 in 1998.

Loss and loss adjustment expenses were $1.1 million in 2000, $6.6 million in 1999, and $5.6 million in 1998. Other operating expenses were $1.6 million in 2000, $1.3 million in 1999, and $1.2 million in 1998.

Medical professional liability operations produced $768,000 of income before taxes in 2000, compared to losses in the two preceding years of $4.8 million in 1999 and $4.4 million in 1998, when results were adversely affected by the need to increase loss and loss adjustment expense reserves. A $1.1 million net increase in reserves was required in 2000. As well, reserves increased by $7.5 million due to the elimination of reserve discount included in the cumulative effect of change in accounting principle. Positive income was recorded following the return of approximately $1.9 million in premium for reinsurance which actuarial analysis indicated was not required.

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, which no longer permitted us to discount after December 31, 1999. The elimination of discounting

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 Notes 14 and 24 of Notes to Consolidated Financial Statements.

The additions to reserves in 1999 and 1998 were based upon actuarial analysis which indicated some deterioration of Physicians' loss experience (i.e., a greater than expected number and/or amount of claims, resulting in a greater than expected liability to pay claims) in most coverage years.

In 1999, we took a pre-tax charge to increase Physicians Insurance Company of Ohio's loss reserves by $5 million, or $3.8 million after discounting to reflect the time value of money. The addition to claims reserves was necessary because of a higher than expected number of claims (increased "frequency"). This was compounded by the fact that many of the claims were for smaller than expected amounts (reduced "severity"), causing more of them to fall below our reinsurance deductibles (i.e., the initial part of each claim which is not covered by reinsurance). This meant that Physicians had to pay a greater proportion of each claim, and that we 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. This resulted in a $2 million increase in direct and assumed loss and loss adjustment expense reserves, a $3.6 million decrease in ceded (transferred) reinsurance reserves, and a $560,000 increase in general reserves for the future adjustment of claims (unallocated loss adjustment expense). As well as these additions to reserves, claims payments in excess of established reserves throughout 1999 and loss reserve discount accretion added $3.3 million to 1999 incurred losses and loss adjustment expenses. These increases were partially offset by the recovery of $1.9 million in reinsurance premiums due to the reduction in ceded loss reserves, and $1.2 million from the discounting of these reserve increases.

In 1998, approximately $5 million was added to loss and loss adjustment expense reserves after actuarial analysis indicated deterioration in Physicians' loss experience in most prior years. The principal factor causing the deterioration was an increased number of a new type of claim, related to patients who were allegedly injured as minors but who could not take action until they reached the legal age of adulthood. No significant unusual activity was noticed in this area in 1999 or 2000.

Physicians' own claims department staff continues to process the run off of the remaining medical professional liability loss and loss adjustment expense claims. As the "run off" continues, overhead costs are being minimized as much as possible.

At December 31, 2000, medical professional liability reserves totaled $51.6 million net of reinsurance. This compares to $53.7 million at December 31, 1999, and $61.5 million at December 31, 1998, net of reinsurance and discount.

MEDICAL PROFESSIONAL LIABILITY INSURANCE -- LOSS AND LOSS EXPENSE RESERVES

	Year Ended Decem	
	2000	1999

Direct Reserves	$58.6 million	$81.6 milli
Ceded Reserves	(7.0)	(20.4)
Discount of Net Reserves		(7.5)
Net Medical Professional Liability Insurance Reserves	$51.6 million	$53.7 milli

Although, as required by Ohio insurance regulations, our medical professional liability insurance reserves are certified annually by two independent actuaries, 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.

LONG TERM HOLDINGS

	Year Ended December 3	
	2000	1999
LONG TERM HOLDINGS REVENUES (CHARGES):		
Realized Investment Gains (Losses)	$(7,623,000)	$ 626,000
Investment Income	988,000	505,000
Other	936,000	2,073,000
Segment Total Revenues	$(5,699,000)	$3,204,000
SEGMENT TOTAL EXPENSES	(9,948,000)	(11,329,000)
LOSS BEFORE INVESTEE INCOME	$(15,647,000)	$(8,125,000)
Equity Share of Investee's Net Income	1,794,000	(1,026,000)
LOSS BEFORE TAXES	$(13,853,000)	$(9,151,000)

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The Long Term Holdings segment recorded negative revenues of $5.7 million in 2000, compared to revenues of $3.2 million in 1999, and negative revenues of $1.5 million in 1998. Revenues in this segment vary considerably from year to year, primarily because of fluctuations in net realized gains or losses on the sale of investments. PICO does not sell investments 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 net realized investment loss of $7.6 million was recorded in 2000. The principal components were a $4.6 million loss on the sale of Conex, a $2.5 million write-down of the loan to MKG Enterprises to realizable value, and a $562,000 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.

Realized gains from the sale of securities from the Company's European portfolio were recorded in both 1999 and 1998. In 1999, these gains were partially offset by the $3.2 million write-down of an investment in an oil and gas investment, resulting in net realized gains of $626,000. In 1998, realized gains were more than offset by $8.2 million in write-downs. These consisted of a $3 million reduction in the carrying value of our investment in MKG Enterprises, $2.9 million related to Sri Lankan securities received by Global Equity when it sold its Sri Lankan subsidiary, and $2.2 million on a portfolio investment in North America.

In this segment, investment income includes interest on cash and cash equivalents and dividends from long term holdings. Investment income totaled $988,000 in 2000, compared to $505,000 in 1999, and $1.9 million in 1998. The decrease in 1999 was due to lower levels of cash and cash equivalents and a reduction in income earning investments in the medical professional liability insurance company portfolios as the "run off" progressed. Investment income rose in 2000, primarily due to interest income on funds raised in the rights offering.

Other revenues include operating revenues from SISCOM and Conex.

The principal expenses recognized in this segment are PICO's corporate overhead and operating expenses from SISCOM and Conex. In 2000, segment expenses were $9.9 million, compared to $11.3 million in 1999 and $6.2 million in 1998. Segment expenses decreased in 2000 due to overhead reductions.

PICO's equity share of investee's income represents our proportionate share of the net income and other events affecting equity in the investments which we carry under the equity method, less any dividends received from those investments. For 2000, equity income was approximately $1.8 million, compared to a $1 million loss in 1999, and a $780,000 loss in 1998. Here is a summary of the material investments which we accounted for under the equity method in each of the past three years:

2000	1999	1998
Jungfraubahn HyperFeed Conex's sino-foreign joint venture-until September 8, 2000 Mendell	Jungfraubahn HyperFeed Conex - until August 1, 1999 Conex's sino-foreign joint venture	Jungfrau HyperFe Conex Conex's sino-fo venture

The Long Term Holdings produced a loss before taxes of $13.9 million in 2000, compared to a loss of $9.2 million in 1999, and an $8.5 million loss in 1998. In 2000, the segment loss included a $4.6 million realized loss on the sale of Conex, and a $2.3 million operating loss for the period prior to sale, and a $1.6 million loss from SISCOM before tax and minority interest. In 1999, Conex accounted for $1.8 million of the segment loss and SISCOM $672,000.

At December 31, 2000, the consolidated investment portfolio was showing a net unrealized loss of approximately $7 million after tax, compared to a net gain of $575,000 at December 31, 1999, and a $3.1 million net unrealized loss at December 31, 1998.

DISCONTINUED OPERATIONS

Discontinued operations comprise PICO's former life and health insurance subsidiary, American Physicians Life Insurance Company, which was sold on December 4, 1998. In the 1998 income year, prior to its sale, American Physicians Life produced revenues of $9.2 million and pre-tax income of $300,000. PICO realized cash proceeds of $17 million from the disposal, and recorded a gain of $1.1 million, which is included in the discontinued operations segment result in the consolidated statements of operations.

LIQUIDITY AND CAPITAL RESOURCES--YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

PICO Holdings, Inc. is a diversified holding company. Our assets primarily consist of investments in our operating subsidiaries, investments in other public companies, and cash and cash equivalents. On a consolidated basis, the Company had $13.6 million in cash and cash equivalents at December 31, 2000, compared to $36.7 million at December 31, 1999, and $71.7 million at December 31, 1998.

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, and--potentially--the sale of investments, and the proceeds of bank borrowings or offerings of equity and debt. We endeavor to manage our cash flow to ensure that funds are always available to take advantage of new investment opportunities.

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

- Nevada Land & Resource Company, LLC is actively selling land which 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 a potential source of funds to finance other group activities;

- Over the past 3 years, Vidler Water Company, Inc. has 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 cover financing and operating expenses. Other group companies have provided financing to meet Vidler's on-going expenses and to fund capital expenditure and the purchase of additional water-righted properties.

  Vidler's most important water-related assets did not begin to generate significant cash flow until 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 water 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;

- Over the next 12 months, we expect that Sequoia Insurance Company will generate positive cash flow from increased written premium volume,

primarily as a result of growth in the existing commercial insurance business and the Personal Express acquisition. 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 will likely be 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 securities in the company's investment portfolio and recoveries from reinsurance companies; and

- As the "run off" progresses, Physicians Insurance Company of Ohio and The Professionals Insurance Company are 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 $23.1 million net decrease in cash and cash equivalents in 2000, compared to a $34.9 million net decrease in 1999, and a $15.2 million net increase during 1998.

During 2000, $10.7 million of cash was used in Operating Activities. Operating Activities used cash of $26.2 million in 1999, and $23.6 million in 1998. In all three years, the principal uses of cash were claims payments by our insurance subsidiaries and operating expenses and lease payments by Vidler.

Investing Activities used $62 million of cash in 2000. This primarily reflects:

(a) 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 high-grade corporate bonds and, to a lesser extent, in small-capitalization value stocks;
(b) the investment of a total of $14.9 million in the purchase of two water-righted ranch properties in Nevada and the construction of improvements necessary to recharge water on a commercial scale at Vidler's Arizona water storage facility; and
(c) the acquisition of Personal Express for approximately $3 million; partly offset by
(d) cash receipts of $5.5 million from land, water, water rights, and related assets sold by Nevada Land and Vidler.

In 1999, Investing Activities used $17.5 million of cash, as the purchase of additional shares in Jungfraubahn and AOG exceeded the proceeds from the sale and maturity of investments. During 1998, Investing Activities generated cash of $40.8 million. This was primarily because the proceeds from the sale and maturity of investments exceeded new purchases, and a total of $33.6 million was received from the sale of American Physicians Life, residual international investments of Global Equity, and the Physicians' former home office building in

Columbus, Ohio.

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. In 1998, Financing Activities used $1.4 million in cash due to the net purchase of treasury stock.

At December 31, 2000, 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, 2000, Sequoia had approximately $23.4 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.

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 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 SO 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, minerals and related water 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, such as Fairfield Communities, Inc., which we sold in 1996, and Resource America, Inc., which we sold in 1997. We have also made investments that have lost money, such as our approximate $4 million loss from the Korean investments in 1997, an approximate $5 million write-down of investments in 1998, a $3.2 million write-down of an oil and gas investment in 1999, and $7.1 million in investment losses in the third quarter of 2000. We reported net realized investment gains of $441,000 of gains in 1999 and gains of $21.4 million in 1997; however, we reported net realized investment losses of $7.5 million in 2000 and $4.4 million for 1998. We reported a net unrealized investment loss of $7 million at December 31, 2000, compared to a net unrealized gain of $575,000 at December 31, 1999.

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.

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 and The Professionals Insurance Company have 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, have been 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 and The Professionals Insurance Company annually obtain a certification from an independent actuary that their respective reserves for losses are adequate. They also obtain a concurring actuarial opinion. Due to the inherent uncertainties in the reserving process, there is a risk that Physicians Insurance Company of Ohio's and The Professionals Insurance Company'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 money that we set aside 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 the 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. As a result of our claims experience, we have had to significantly increase 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.

THERE HAS BEEN A DOWNTURN IN THE PROPERTY & CASUALTY INSURANCE BUSINESS WHICH, IN THE SHORT TERM, HINDERS OUR ABILITY TO PROFIT FROM THIS INDUSTRY

The property and casualty insurance industry has been highly cyclical, and the industry has been in a cyclical downturn over the last several years. This is due primarily to competitive pressures on pricing, which has resulted in lower profitability for us. 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.

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 THE OPERATIONS OF OUR INSURANCE SUBSIDIARIES AND/OR TAKE THEM OVER IF WE FAIL TO MAINTAIN ADEQUATE RESERVE LEVELS

In the past few years, the National Association of Insurance Commissioners has developed risk-based capital measurements for both property and casualty and life and health insurers. These measurements prescribe the reserve levels that insurance companies must maintain. The Commissioners have delegated to the state regulators varying levels of authority based on the adequacy of an insurer's reserves. The insurance companies' reserve levels are reported annually in their statutory annual statements to the insurance departments.

Failure to meet one or more reserve levels may result in state regulators requiring the insurance company to submit a business plan demonstrating achievement of the required reserve levels. This may include the addition of capital, a restructuring of assets and liabilities, or changes in operations. At or below certain lower reserve levels, state regulators may supervise the operation of the insurance company and/or require the liquidation of the insurance company. Such insurance department actions could adversely affect our business, financial condition, and the results of operations and cash flows and decrease the value of our investments in our insurance subsidiaries. If the insurance departments were to require changes in the operations of our insurance subsidiaries, we may incur additional expenses and we may lose customers. If the insurance departments were to require additional capital in our insurance subsidiaries or a restructuring of our assets and liabilities, our investment returns could suffer. If the insurance departments were to place our insurance companies under their supervision, we would lose customers, our revenues may decrease more rapidly than our expenses, and our investment returns would suffer. We may even lose part or all of our investments in our insurance subsidiaries if our insurance subsidiaries are liquidated by the insurance departments.

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)
- The Professionals Insurance Company — 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 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, California, 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.

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.

Our current water rights 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, California, Colorado and Nevada. The volumes of water actually derived from these rights may vary considerably based upon physical availability and may be further limited by applicable legal restrictions. Legal impediments exist to sale or transfer of some of these water rights which may affect their commercial value.

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 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.

Historically, a majority of Vidler's water service revenue has come from our Colorado water assets. 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.

THE PRICE OF WATER IS VOLATILE, WHICH CAN HAVE A SIGNIFICANT EFFECT ON OUR COSTS OF ACQUIRING WATER AND THE PRICES AT WHICH WE ARE ABLE TO SELL WATER

Our profitability is significantly affected by changes in the market price of water. Water prices may in the future fluctuate widely and are affected by climatic, demographic and technologic factors affecting demand.

ENVIRONMENTAL REGULATIONS MAY DETRACT FROM OUR FUTURE REVENUE STREAMS AND PROFITABILITY BY LIMITING OUR CUSTOMER BASE

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 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;

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- 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, 1998, the closing price of our common stock on the NASDAQ National Market was $13.25 per share, compared to $12.4375 at December 31, 2000. On a quarterly basis between these two dates, closing prices have ranged from a high of $25.3125 at June 30, 1999 to a low of $11.125 at March 31, 2000. During 2000, closing prices have ranged from a low of $9.875 per share on March 27 to a high of $14.125 on January 18.

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. In particular, Ronald Langley, our Chairman, and John R. Hart, our President and Chief Executive Officer, play key roles in investment decisions. 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.

OUR CHARTER DOCUMENTS MAY INHIBIT A TAKEOVER, PREVENTING YOU FROM RECEIVING A PREMIUM ON YOUR SHARES

The Board of Directors has authority to issue up to 2 million shares of preferred stock and to fix the rights, preference, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. Your rights as common stock holders will be subject to, and may be adversely affected by, the rights of the holders of the preferred stock. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change in control of PICO. Furthermore, such preferred stock may have other rights, including economic rights senior to the common stock, and, as a result, the issuance thereof could have a material adverse effect on the market value of the common stock.

At the Annual Meeting of Shareholders on October 19, 2000, our shareholders voted to amend the Articles of Incorporation to eliminate the preferred shares. The change took effect during the first quarter of 2001.

THE FOREGOING FACTORS, INDIVIDUALLY OR IN THE 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 subsidiaries are required to maintain reserves for payment of estimated losses and loss adjustment expense 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, Professionals, Sequoia, and Citation were $121.5 million at December 31, 2000, $139.1million at December 31, 1999, and $155 million in 1998, net of discount on medical professional liability insurance reserves in 1999 and 1998, 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 increased by $8.6 million in 2000, $16.3 million in 1999, and $7.3 million in 1998. 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 24 of Notes to Consolidated Financial Statements. These reserve changes for prior years' reserves were due to the following:

	CHANGE IN UNPAID LOSS AND LAE	
	2000	1999
Increase in provision for prior year claims	$ 1,300,413	$ 15,878,697
Retroactive reinsurance	(267,653)	(564,469)
Accretion of reserve discount		994,545
Cumulative effect of change in accounting principle	7,520,744	
Net increase in liabilities for unpaid loss and LAE of prior years	$ 8,553,504	$ 16,308,773

SEE SCHEDULE IN NOTE 14 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 Note 24 of Notes to Consolidated Financial Statements.

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. See "REINSURANCE" following this section and NOTE 13 OF NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, "REINSURANCE."

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

The following table presents the development of balance sheet liabilities for 1990 through 2000 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.

	1990	1991	1992	19
			(In thousands)	
Net liability as originally estimated:	$128,104	$129,768	$159,804	$179
Discount	30,230	30,647	31,269	32
Gross liability as originally estimated:	158,334	160,415	191,073	211
Cumulative payments as of:				
One year later	42,488	42,986	41,550	34

Two years later	81,536	81,489	73,012	69
Three years later	108,954	103,505	103,166	90
Four years later	120,063	120,073	116,278	118
Five Years later	126,100	127,725	139,028	128
Six years later	130,146	142,973	143,562	136
Seven years later	142,484	147,142	148,426	145
Eight years later	146,112	151,751	156,620	
Nine years later	150,509	159,205		
Ten years later	157,403			
Liability re-estimated as of:				
One year later	160,200	188,811	197,275	183
Two years later	179,915	184,113	179,763	184
Three years later	172,715	174,790	182,011	175
Four years later	170,847	177,811	176,304	178
Five Years later	171,968	172,431	181,721	178
Six years later	165,255	175,830	181,868	178
Seven years later	168,185	177,603	181,029	178
Eight years later	170,710	178,419	183,229	
Nine years later	172,397	180,624		
Ten years later	174,595			
Cumulative Redundancy (Deficiency)	($16,261)	($20,209)	$7,844	$33

RECONCILIATION TO FINANCIAL STATEMENTS

Gross liability - end of year
Reinsurance recoverable
Net liability before discount - end of year
Net discount
Net liability - end of year (discounted for 1998 and 1999)
Reinsurance recoverable (discounted for 1998 and 1999)

Discontinued personal lines insurance
Balance sheet liability (discounted for 1998 and 1999)

Gross re-estimated liability - latest
Re-estimated recoverable - latest
Net re-estimated liability before discount - latest
Net re-estimated discount - latest
Net re-estimated liability - latest
Net cumulative redundancy (deficiency) before discount

	YEAR		
	1996	1997	19
			(IN THO
Net liability as originally estimated:	$164,817	$128,205	$102
Discount	12,216	9,159	8
Gross liability before discount as originally estimated:	177,033	137,364	111
Cumulative payments as of:			
One year later	59,106	44,750	31
Two years later	95,574	69,571	51
Three years later	115,160	85,896	
Four years later	129,907		
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	176,922	144,367	127
Two years later	192,203	160,325	127
Three years later	202,014	160,239	
Four years later	202,767		
Five Years later			
Six years later			
Seven years later			
Eight years later			
Nine years later			
Ten years later			
Cumulative Redundancy (Deficiency)	($25,734)	($22,875)	($16

RECONCILIATION TO FINANCIAL STATEMENTS	
Gross liability - end of year	$166
Reinsurance recoverable	(54
Net liability before discount - end of year	111
Net discount	(8
Net liability - end of year (discounted for 1998 and 1999)	102
Reinsurance recoverable (discounted for 1998 and 1999)	52
	154
Discontinued personal lines insurance	
Balance sheet liability (discounted for 1998 and 1999)	$155
Gross re-estimated liability - latest	$184
Re-estimated recoverable - latest	(56
Net re-estimated liability before discount - latest	127
Net re-estimated discount - latest	
Net re-estimated liability - latest	$127
Net cumulative redundancy (deficiency) before discount	($16

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 1993, but incurred in 1990 will be included in the decrease or increase amount for 1990, 1991 and 1992. 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.

The data in the above table is based on Schedule P from each of the insurance companies' 1990 to 2000 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) of 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 2000, 1999 and 1998 is set forth in NOTE 14 OF NOTES TO PICO'S CONSOLIDATED FINANCIAL STATEMENTS, "RESERVE 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 was approved by Physicians' shareholders on August 25, 1995 and 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. Physicians and Professionals were engaged in, among other things, the business of offering medical professional liability insurance and related insurance to physicians and other health care providers principally located in Ohio.

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 inuring reinsurance.

Prior to July 16, 1995, Physicians ceded a portion of the insurance it wrote to unaffiliated reinsurers through reinsurance agreements. Physicians' reinsurers for insurance policies with effective dates between July 1, 1993 and July 15, 1995, were TIG Reinsurance Company (rated A [Excellent] by Best), Transatlantic Reinsurance Company (rated A++ [Superior] by Best) and Cologne

Reinsurance Company of America (rated NR-3 [Rating Procedure Inapplicable] by Best). 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. Physicians has not incurred any material loss resulting from a reinsurer's breach or failure to comply with the terms of any reinsurance agreement.

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 cedes 100% of its net premium and losses to

Sequoia and Sequoia then cedes 50% of its net premiums and losses to Citation. Sequoia and Citation share equally in the underwriting expenses. This arrangement was terminated effective January 1, 2000.

Citation and Sequoia have the same reinsurance program which is outlined as follows. For property business, reinsurance provides coverage of $10.4 million excess of $150,000. For casualty business, excluding umbrella coverage, reinsurance provides coverage of $4.9 million excess of $150,000. Umbrella coverages are reinsured $9.9 million excess of $100,000. The catastrophe treaties for 1998 and thereafter provide coverage of 95% of $19 million excess of $1 million per occurrence for the combined losses of Citation and Sequoia. The catastrophe treaties for 1998 and thereafter provide coverage of 95% of $14 million excess of $1 million per occurrence. Facultative reinsurance is placed with various reinsurers.

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.

With regard to Sequoia, all policy and claims liabilities prior to August 1, 1995 have been 100% reinsured with Sydney Reinsurance Corporation and unconditionally guaranteed by QBE Insurance Group Limited. Sequoia, however, retains primary responsibility to its policyholders and claimants should Sydney and QBE fail.

See Note 13 of Notes to Consolidated Financial Statements, "Reinsurance" with regard to reinsurance recoverable concentration for all property and casualty lines of business, including medical professional liability, as of December 31, 2000. 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.

REGULATION

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.

The Model Act is not expected to cause any material change in any of the insurance companies' future operations. All companies' risk-based capital results as of December 31, 2000 exceed the Company Action Level.

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 loans, 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, 2000, PICO had $77.9 million of fixed maturity securities and mortgage loans, $64 million of marketable equity securities that were subject to market risk, and $41.2 million of investments 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 loans, 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 $1.5 million for a 100 basis point decline in interest rates on its fixed securities and mortgage loans. The hypothetical 20% decrease in fair value of PICO's marketable equity securities produced a loss in fair value of $5.2 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 $7.1 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, 2000 and 1999 and for each of the three years in the period ended December 31, 2000 and the independent auditors' report is included in this report as listed in the index.

SELECTED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly financial data (in thousands, except share and per share amounts) for 2000 and 1999 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. 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 cumulative effect was recorded as of January 1, 2000 and the previously filed quarterly data has been adjusted below to reflect this change. In addition, a reconciliation of the previously reported net loss is also included below. 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.

	THREE MONTHS ENDED			
	March 31, 1999	June 30, 1999	September 30, 1999	December 1999
Premium income	$ 8,555	$ 8,527	$ 8,268	$ 11,0
Net investment income and net realized gains (losses)	1,570	4,156	3,021	(1,9
Total revenues	10,510	14,310	14,094	15,5
Net income (loss)	(2,193)	7,833	(230)	(12,2
Basic:				
Net income (loss) per share	$ (0.25)	$ 0.88	$ (0.03)	$ (1.
Weighted average common and equivalent shares outstanding	8,946,237	8,938,693	9,054,413	9,054,4
Diluted:				
Net income (loss) per share	$ (0.25)	$ 0.83	$ (0.03)	$ (1.
Weighted average common and equivalent shares outstanding	8,946,237	9,458,320	9,054,413	9,054,4
The following reconciles net loss as previously reported:				
Net loss as previously reported				
Cumulative effect of change in accounting principle				
Net income (loss) as restated				

Per share effect of cumulative change in accounting principle

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

The following reconciles net loss as previously reported:			
Net loss as previously reported	$ (4,325)	$ (49)	$ (3,108)
Cumulative effect of change in accounting principle	(4,196)	170	303
Net income (loss) as restated	$ (8,521)	$ 121	$ (2,805)
Per share effect of cumulative change in accounting principle	$ (0.46)	$ 0.01	$ 0.02

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

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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, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24 to the financial statements, in 2000 the Company changed its method of accounting for medical professional liability claims reserves.

DELOITTE & TOUCHE LLP

San Diego, California

March 19, 2001

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

ASSETS

	2000	1999
Investments (Note 4):		
Available for sale:		
Fixed maturities	$ 77,858,701	$ 47,324,414
Short-term investments	24,036,573	16,493,675
Equity securities	36,174,505	43,848,058
Investment in unconsolidated affiliates (Note 5)	27,824,291	32,066,252
Total investments	165,894,070	139,732,399
Cash and cash equivalents	13,644,312	36,738,373
Premiums and other receivables, net (Note 8)	19,032,603	12,030,709
Reinsurance receivables (Note 13)	27,594,039	45,040,368
Prepaid deposits and reinsurance premiums		1,307,442
Accrued investment income	1,717,109	1,236,919
Land and related mineral and water rights (Note 6)	137,235,241	123,671,842
Property and equipment, net (Note 10)	2,944,513	1,752,820
Deferred policy acquisition costs (Note 11)	6,299,819	4,821,228
Income taxes receivable		3,648,577
Goodwill, net (Note 1)	4,000,508	3,456,750
Other assets	5,427,828	4,591,948
Net deferred income taxes (Note 9)	11,354,592	2,019,217
Total assets	$395,144,634	$380,048,592

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

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONTINUED

DECEMBER 31, 2000 AND 1999

LIABILITIES AND SHAREHOLDERS' EQUITY

	2000
Policy liabilities and accruals:	
Unpaid losses and loss adjustment expenses, net of discount (Note 14)	$ 121,541,72
Unearned premiums	25,505,18
Reinsurance balance payable	5,631,60

Deferred gain on retroactive reinsurance	968,87
Other liabilities (Note 22)	13,148,09
Bank and other borrowings (Note 23)	15,550,38
Taxes payable	324,83
Excess of fair value of net assets acquired over purchase price (Note 1)	3,360,58
Total liabilities	186,031,28
Minority interest	3,920,73
Commitments and Contingencies (Note 12, 13, 14, 15, 16, 17, 21, 22 and 23)	
Preferred stock, $.01 par value, authorized 2,000,000; none issued (extinguished in 2000)	
Common stock, $.001 par value; authorized 100,000,000; issued 16,784,223 and 13,448,533 at December 31, 2000 and 1999, respectively	16,78
Additional paid-in capital	235,844,65
Accumulated other comprehensive loss (Note 1)	(12,732,97
Retained earnings	59,893,78
	283,022,24
Less treasury stock, at cost (4,394,127 common shares in 2000 and 1999)	(77,829,63
Total shareholders' equity	205,192,61
Total liabilities and shareholders' equity	$ 395,144,63

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

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PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	2000	
Revenues:		
Premium income	$ 34,435,754	$
Net investment income	8,238,296	
Net realized gain (loss) on investments	(7,525,762)	
Sale of land and related mineral and water rights	5,478,263	
Other income	4,726,419	
Total revenues	45,352,970	
Expenses:		
Loss and loss adjustment expenses (Notes 13 and 14)	24,026,218	
Amortization of policy acquisition costs (Note 11)	10,250,348	
Cost of land and related mineral and water rights	3,995,508	
Insurance underwriting and other expenses	22,355,463	

Total expenses	60,627,537
Equity in income (loss) of unconsolidated affiliates	1,794,069
Loss from continuing operations before income taxes and minority interest	(13,480,498)
Provision (benefit) for federal, foreign and state income taxes (Note 9)	(8,201,176)
Loss from continuing operations before minority interest	(5,279,322)
Minority interest in loss of subsidiaries	717,076
Loss from continuing operations	(4,562,246)
Income from discontinued operations, net (Note 7)	
Loss before extraordinary gain and accounting change	(4,562,246)
Extraordinary gain, net of income tax expense of $227,821	
Cumulative effect of change in accounting principle, net (Note 24)	(4,963,691)
Net loss	$ (9,525,937)
Net loss per common share - basic and diluted:	
Continuing operations	$ (0.39)
Discontinued operations	
Extraordinary gain	
Cumulative effect of change in accounting principle	(0.43)
Net loss per common share	$ (0.82)
Weighted average shares outstanding	11,604,120

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, 2000, 1999 AND 1998

	Common Stock	Additional Paid-In Capital	Retained Earnings	A C Net Unr Apprec (Deprec on Inve
Balance, January 1, 1998	$ 6,518	$ 43,173,179	$84,116,212	$ (2,6
Comprehensive Loss for 1998				
Net loss			(7,876,212)	
Net unrealized depreciation on investments net of deferred tax of $21,000 and				

reclassification adjustment of $2.4 million				(4
Foreign currency translation				
Total Comprehensive Loss				
Issuance of common stock upon acquisition of minority interest of GEC, net of costs of $1.7 million	6,811	131,381,409		
Acquisition of 412,846 shares of treasury stock		8,400,000		
Exercise of 57,307 options on treasury stock		200,000		
Balance, December 31, 1998	$ 13,329	$183,154,588	$76,240,000	$ (3,0

	Treasury Stock	Total
Balance, January 1, 1998	$ (9,828,953)	$112,734,538
Comprehensive Loss for 1998		
Net loss		
Net unrealized depreciation on investments net of deferred tax of $21,000 and reclassification adjustment of $2.4 million		
Foreign currency translation		
Total Comprehensive Loss		(10,995,231)
Issuance of common stock upon acquisition of minority interest of GEC, net of costs of $1.7 million	(57,709,089)	73,679,131
Acquisition of 412,846 shares of treasury stock	(10,000,000)	(1,600,000)
Exercise of 57,307 options on treasury stock		200,000
Balance, December 31, 1998	$(77,538,042)	$174,018,438

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

PICO HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accu Comp Net Unreal Appreciat (Depreciat on Investm
Balance, December 31, 1998	$13,329	$183,154,588	$76,240,000	$ (3,087,5
Comprehensive Loss for 1999				
Net loss			(6,820,278)	
Net unrealized appreciation on investments net of deferred tax of $2 million and reclassification adjustment of $349,000				3,662,5
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	$69,419,722	$ 575,

	Total
Balance, December 31, 1998	$174,018,438
Comprehensive Loss for 1999	
Net loss	
Net unrealized appreciation on investments net of deferred tax of $2 million and reclassification adjustment of $349,000	
Foreign currency translation	
Total Comprehensive Loss	(3,185,668)
Exercise of 120,000 warrants at $23.80 per share	2,850,359
Purchase of 13,000 PICO treasury shares	(291,593)
Balance, December 31, 1999	$173,391,536

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

				Accum Compr
	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unreal Appreciat (Depreciat on Investm
Balance, December 31, 1999	$ 13,449	$ 186,004,827	$ 69,419,722	$ 575,0
Comprehensive Loss for 2000				
Net loss			(9,525,937)	
Net unrealized depreciation on investments net of deferred tax of $3.7 million				(7,552,7
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	$ 59,893,785	$ (6,977,7

	Total
Balance, December 31, 1999	$ 173,391,536
Comprehensive Loss for 2000	
Net loss	
Net unrealized depreciation on investments net of deferred tax of $3.7 million	
Foreign currency translation	
Total Comprehensive Loss	(18,042,088)

Rights offering, net of $193,000 of expenses	49,843,163
Balance, December 31, 2000	$ 205,192,611

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

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

	2000
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$ (9,525,937)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for deferred taxes	(3,084,491)
Increase in deferred taxes related to cumulative effect	(2,557,053)
Depreciation and amortization	2,678,267
(Gain) loss on sale of investments	7,525,762
Gain on land exchange	(270,455)
Gain on disposal of discontinued operations	
Gain on sale of real estate	
Extraordinary gain on early extinguishment of debt	
Equity in (income) loss of unconsolidated affiliates	(1,794,069)
Semitropic lease payment	(2,333,640)
Dividends received from unconsolidated affiliates	622,625
Minority interest	(717,067)
Changes in assets and liabilities, net of effects of acquisitions:	
Premiums and other receivables	(7,001,894)
Income taxes	(883,883)
Reinsurance receivable	17,446,329
Reinsurance payable	(2,080,999)
Deferred policy acquisition costs	(1,478,591)
Unpaid losses and loss adjustment expenses	(17,591,153)
Unearned premiums	8,300,499
Other adjustments, net	2,044,885
Net cash used in operating activities	(10,700,865)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale of available for sale investments:	
Fixed maturities	4,690,829
Equity securities	1,170,169
Proceeds from maturity of available for sale investments	13,900,000
Purchases of available for sale investments:	
Fixed maturities	(47,954,744)
Equity securities	(14,335,900)
Net sales of short-term investments	(7,542,898)
Proceeds from the sales of real estate	

Purchases of land, water and mineral rights	(14,400,964)
Proceeds from the sale of land, water and mineral rights	5,478,263
Proceeds from sale of property and equipment	
Purchases of property and equipment	(1,107,898)
Proceeds from sale of business	
Acquisition costs for purchase of minority interest in GEC	
Investments in and advances to affiliates	(1,390,851)
Other investing activities, net	(537,258)
Net cash provided by (used in) investing activities	(62,031,252)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of bank and other borrowings	(329,968)
Cash raised in rights offering, net	49,843,163
Proceeds from debt	
Proceeds from the sale of warrants	
Proceeds from the sale of treasury stock	
Repurchase of treasury stock	
Net cash provided by (used in) financing activities	49,513,195
Effect of exchange rate changes on cash	124,861
Net increase (decrease) in cash and cash equivalents	(23,094,061)
Cash and cash equivalents, beginning of year	36,738,373
Cash and cash equivalents, end of year	$ 13,644,312
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	$ 847,000
Income taxes (recovered) paid	$ (4,907,000)

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

PICO HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and Operations:

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

Currently PICO's major activities are:

- owning and developing land and the related mineral rights and water rights through Nevada Land & Resource Company, LLC;

- owning and developing water rights & water storage operations through Vidler Water Company, Inc.;

- property and casualty insurance;
- "running off" the loss reserves of our medical professional liability insurance companies; 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, 2000 are as follows:

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 attaching water, mineral and geothermal rights.

Vidler Water Company, Inc. ("Vidler"). Vidler is a majority-owned Delaware corporation that was originally formed under the laws of the state of Colorado. Vidler's business involves identifying end users, namely municipalities or developers, in the Southwest who require water, and then locating a source and supplying the demand, utilizing the company's own assets where possible. These assets comprise water rights in the states of Colorado, Arizona, and Nevada, and water storage facilities in Arizona and California.

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 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".

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 most significant investments the Company classifies as equity affiliates are:

Jungfraubahn Holding AG ("Jungfraubahn") is a Swiss corporation engaged in the transportation, tourism and recreation sectors in Switzerland. During 2000, PICO increased ownership to 19.3% and obtained a board seat and adopted the equity method of accounting. Previously, the investment was held at cost and marked to market under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). All prior year results have been adjusted to reflect the investment at equity.

HyperFeed Technologies, Inc. ("HyperFeed") provides financial market data and data delivery solutions to the financial services industry. PICO owns approximately 36% 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 subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 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, 2000 and 1999, 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, 2000 and 1999 is comprised of investments with fixed maturities, including U.S. government bonds, agency securities, investment-grade corporate bonds and commercial paper; equity securities, including investments in common and preferred stocks, and warrants; debentures of public and private companies; mortgage interests; and real estate.

The Company applies the provisions of SFAS No. 115, 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.

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 year ended December 31, 2000, the Company's investment in MKG was considered permanently impaired, and a charge of $2.5 million was recorded to reduce the investment to its net realizable value of $500,000 (See Note 17). During 1999, the Company recorded impairment losses 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 $41.2 million and $41.8 million of the Company's investments at December 31, 2000 and 1999, 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, Minerals, Water Rights and Water Storage:

Land, minerals, 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 ranging from 3 to 15 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:

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 acquisition of Citation Insurance Group in November 1996. Negative goodwill is amortized using the straight-line method over 10 years. At December 31, 2000 and 1999, the Company had accumulated negative goodwill amortization of $2.3 million and $1.8 million, respectively. The Company also recorded goodwill related to its investment in Conex, SISCOM, Personal Express and Sequoia and amortizes the balances over various lives not exceeding 10 years. At December 31, 2000 and 1999, the Company had $1.3 million and $1.1 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.

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 resulting therefrom are reflected in current operations. Reserves for MPL unpaid losses and loss adjustment expenses for MPL insurance claims have been discounted, prior to 2000, to reflect the time value of money (See Note 24).

Recognition of Premium Revenue:

MPL and other property and casualty insurance premiums written are earned principally on a monthly pro rata basis over the lives 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.

The Company reported a loss from operations in each of the three years ended December 31, 2000 and consequently the calculation of diluted earnings per share in each year excludes the options and warrants outstanding in those years because the impact would be anti-dilutive. Stock options of 1.1 million in 2000, and 1 million in 1999 and 1998 and 223,187 warrants in 1998 were excluded from the calculation of the diluted weighted average shares outstanding.

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, 2000	1999
Net unrealized income (loss) on securities	$ (6,977,748)	$ 575,
Foreign currency translation	(5,755,230)	(4,791,
Accumulated other comprehensive loss	$ (12,732,978)	$ (4,216,

Accumulated other comprehensive loss is net of deferred income tax asset of $3.2 million and a deferred tax liability of $523,000 at December 31, 2000 and 1999, 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:

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Hedging Activities." As amended, SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position, measure those instruments at fair value and recognize changes in fair value in earnings for the period of change unless the derivative qualifies as an effective hedge that offsets certain exposure. As a result of this adoption, the Company recorded a transition adjustment in the first quarter of 2001 that decreased net income by approximately $1 million, net of a $500,000 tax benefit and increased other comprehensive income by the same amount (no effect on shareholders' equity). These adjustments will be reported as a cumulative effect of change in accounting principle. Future effects on net income will depend on market conditions.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which summarizes the SEC's interpretation of applying generally accepted accounting principles to revenue recognition in the financial statements. SAB No. 101 was subsequently amended in June 2000 and became effective for the fourth fiscal quarter of 2000 for the Company. Based on the Company's current revenue recognition policies, the adoption of SAB No. 101, as amended, did not have a material impact on PICO's consolidated financial position

or the results of operations.

2. SIGNIFICANT ACQUISITIONS:

On December 16, 1998, PICO acquired the remaining 48.8% of Global Equity, making it a wholly owned subsidiary. This was accomplished through an exchange of PICO shares for Global Equity shares at the exchange ratio of .4628 of a PICO share for each share of Global Equity. PICO issued a total of 6,810,426 shares of PICO common stock to former Global Equity shareholders. PICO subsidiaries hold 3,110,837 of these newly issued shares which are recorded at cost, as treasury stock in the consolidated balance sheets of the Company. Net of the shares issued to affiliates, PICO issued 3,699,589 common shares valued at the average market price per share 5 days before, and after the announcement of the transaction. This average was approximately $22.10 per share (post reverse split). In addition, PICO exchanged 223,187 PICO warrants with an exercise price of $23.80 per share for all the outstanding Global Equity warrants using the same exchange ratio. PICO also exchanged 484,967 stock options with the Global Equity officers, two current Global Equity directors and a former Global Equity director in exchange for surrendering their Global Equity stock options. These grants placed the participants in a substantially similar

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position regarding shares and exercise price and vesting. The acquisition was accounted for using the purchase method of accounting.

Accordingly, a portion of the purchase price was allocated to the net assets acquired based on their estimated fair values as noted in the following table:

Purchase Price:	
Value of approximately 3.7 million PICO shares exchanged	$ 81,760,917
Direct costs of acquisition	1,665,613
Value of GEC options assumed	2,731,975
	$ 86,158,505
Allocation of Purchase Price:	
Historic GEC shareholders' equity acquired	$ 58,801,561
Adjustments to assets and liabilities acquired:	
Increase in book value of surface, water and mineral rights	36,945,129
Increase in book value of PICO common stock owned by GEC	3,342,610
Deferred income tax liability	(12,930,795)
	$ 86,158,505

3. 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. Previous 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 is a 60% sino-foreign joint venture that manufactures wheeled and tracked excavators in The People's Republic of China.

Conex accounts for its 60% interest in the sino-foreign joint venture using the equity method of accounting due the fact that it does 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 sino-foreign 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 PICO'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, PICO sold its interest in Summit Global Management for $100,000, and recorded a pretax loss on sale of $75,400.

4. INVESTMENTS:

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

2000:	Cost	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 20,774,818	$ 186,444	$ (22,329
Corporate securities	43,584,813	1,026,850	(41,895
Mortgage-backed securities	12,350,000		
	76,709,631	1,213,294	(64,224
Short term investments	24,036,573		
Equity securities	47,482,543	1,471,978	(12,780,016
Investment in unconsolidated affiliates	27,824,291		
Total	$ 176,053,038	$2,685,272	$ (12,844,240

1999:	Cost	Gross Unrealized Gains	Gross Unrealized Losses
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 25,157,710	$ 8,461	$ (291,784)
Corporate securities	9,600,805	28,225	(29,003)
Mortgage-backed securities	12,850,000		
	47,608,515	36,686	(320,787)
Equity securities	42,505,664	12,478,502	(11,136,108)
Short term investments	16,493,675		
Investment in unconsolidated affiliates	32,066,252		
Total	$ 138,674,106	$ 12,515,188	$ (11,456,895)

The amortized cost and carrying value of investments in fixed maturities at December 31, 2000, 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	$10,996,524	$11,005,46
Due after one year through five years	47,229,390	48,180,51
Due after five years	6,133,717	6,322,72
Mortgage-backed securities	12,350,000	12,350,00
	$76,709,631	$77,858,70

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

	2000	1999	1998
Investment income from:			
Available for sale:			
Fixed maturities	$ 5,196,831	$ 1,593,052	$ 1,694,345
Equity securities	343,211	252,693	414,038
Short-term investments and other	2,884,099	4,809,821	7,540,967
Total investment income	8,424,141	6,655,566	9,649,350
Investment expenses	(185,845)	(268,679)	(388,630)
Net investment income	$ 8,238,296	$ 6,386,887	$ 9,260,720

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

	2000	1999	199
Gross realized gains:			
Available for sale:			
Fixed maturities	$ 110,708		$ 201,
Equity securities and other investments	15,127	$ 3,395,323	3,810,

Real estate		670,451	806,
Total gain	125,835	4,065,774	4,818,
Gross realized losses:			
Available for sale:			
Fixed maturities		(123)	(178,
Equity securities and other investments	(7,651,597)	(3,625,040)	(8,260,
Real estate			(791,
Total loss	(7,651,597)	(3,625,163)	(9,230,
Net realized gain (loss)	$ (7,525,762)	$ 440,611	$(4,411,

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

During 2000, the Company purchased 981,584 shares of Australian Oil and Gas ("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. At December 31, 2000, the Company owns a total of 8,426,044 shares, representing a 17.97% interest in AOG.

During the fourth quarter of 2000, the Company increased its voting ownership in Accu Holding AG, a Swiss corporation, to 28.3%. Generally, with a voting ownership percentage of 20% or more, the investment should be recorded under the equity method unless the investee lacks the ability to exercise significant influence. PICO lacks the ability to exercise significant influence based on the inability to obtain the financial information necessary to apply equity accounting and is accounting for this investment at cost and recording an unrealized gain under SFAS 115.

5. INVESTMENTS IN UNCONSOLIDATED AFFILIATES:

Jungfraubahn Holding AG:

Based on the Company's 19.3% voting ownership and a seat on the Board of Directors of Jungfraubahn Holding AG, beginning in the third quarter of 2000, the Company adopted the equity method of accounting for this investment. Previously the Company recorded the investment at market value under SFAS 115. The application of equity accounting requires the investment account, results of operations, retained earnings, unrealized gain/loss, and accumulated foreign currency to be adjusted retroactively to report the investment on the equity method for the percentage owned, for all periods presented. The difference between the cost of the investment and underlying equity in the net assets of the company of approximately $18 million was considered negative goodwill and was allocated to the non-current assets of Jungfraubahn. Under the equity method of accounting, the carrying value before tax of the Company's investment in Jungfraubahn was $23.7 million and $20.8 at December 31, 2000 and 1999, respectively. The market value of the investment at December 31, 2000 and 1999 was approximately $18.9 million and $15.3 million, respectively.

The earnings contribution recorded using equity accounting is included

in the statement of operations under Equity in income of unconsolidated affiliates for the percentage owned in all periods presented. The results of Jungfraubahn are adjusted to conform to US GAAP. Dividends received from Jungfraubahn are recorded as a reduction in the cost basis of the investment.

During 2000, the Company purchased 3,472 shares of 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, 2000 the Company owns 112,672 shares, or 19.3% of the Jungfraubahn.

HyperFeed Technologies, Inc.:

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 presented 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.

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 5.6%; a one year expected life; and a historical 5 year cumulative volatility of 119%.

The following is the market value of the common shares and preferred shares based on the December 31, 2000 and 1999 closing price of HyperFeed common stock:

	2000	1999
Common stock	$ 4,065,625	10,961,250
Preferred stock	7,478,980	22,137,780
	$ 11,544,605	$ 33,099,030

At December 31, 1999, the Company's investment in HyperFeed consisted of 2,370,000 shares of common stock, representing 15% 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 17% voting interest. The common and preferred stock are presented using the equity method of accounting for investments in common stock as prescribed

by APB No. 18, and have a combined carrying value of $2.8 million at December 31, 1999. 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, 1999, the common stock warrants are carried in accordance with SFAS No. 115 at an estimated fair value of $15.4 million, prior to $3.8 million in deferred tax, using the Black Scholes option-pricing model. The pre-tax unrealized gain on the warrants is $11.3 million.

During the three years ended December 31, 2000, HyperFeed recorded various capital transactions that affected PICO's voting ownership percentage. 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 3% to 35% at the end of 1999 and the purchase of additional shares by PICO increased our ownership to 36% by the end of December 31, 2000. During 1998, there were various capital transactions, other than the debt conversion, that affected PICO's voting ownership percentage. In summary, PICO's ownership percentage increased from 16.5% at the beginning of 1998 to 18% at June 30, 1998 then declined to 17.7% at September 30, 1998. The debt conversion during the fourth quarter of 1998 increased PICO's voting percentage to approximately 38% at the end of 1998.

In December 1998, the Company converted its $2.5 million HyperFeed debenture, $3.3 million line of credit and $969,000 in accrued interest into 1,907,463 shares of HyperFeed Series A voting convertible preferred shares, 2,879,077 series B voting convertible preferred shares, and 3,106,163 million warrants to purchase HyperFeed common shares, expiring in 2006. The value of the preferred shares and warrants was determined using a relative fair value approach and consequently, no gain or loss was recorded on the transaction.

6. LAND AND RELATED MINERAL AND WATER RIGHTS:

Through its subsidiary Nevada Land, the Company owns land and the related mineral 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:

	2000	19
NLRC:		
Land and related mineral and water rights	$ 42,799,043	$ 44,65
Vidler:		
Water and water rights	25,743,707	19,92
Land	55,960,544	52,32
California water storage	5,740,483	3,99
Land improvements, net	6,991,464	2,76
	94,436,198	79,01
	$ 137,235,241	$ 123,67

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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 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 contribution. 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 $145,000. 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.

At December 31, 2000 and 1999, the book value of Vidler's interest in the Semitropic Water Storage facility was $5.7 million and $4 million, respectively. During the first ten years of the agreement through November 2008, Vidler is required to make a minimum annual payment of $2.3 million. In return, Vidler is entitled to store up to 185,000 acre-feet of water underground at Semitropic for 35 years. The cash payments made during the first ten years are being capitalized and the asset is being amortized over its useful life of thirty-five years. In 2000 and 1999, the $2.3 million payments each year were capitalized to water storage, and $667,000 of expense was amortized against it each year. In addition, Vidler is required to pay annual operating and maintenance costs. In 2000 and 1999, operating costs of $889,000 and $863,000, respectively, were expensed to the Water Rights and Water Storage segment.

7. DISCONTINUED OPERATIONS:

On June 16, 1997, the Company announced a definitive agreement to sell its life and health insurance subsidiary, American Physicians Life ("American Physicians"). The closing was completed on December 4, 1998. Proceeds from the sale were $17 million in cash. Because American Physicians represented a major segment of the Company's business, in accordance with APB No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business," operations have been classified as discontinued operations.

Following is an unaudited summary of American Physicians' stand-alone financial results for the periods included in the statements of operations as discontinued operations:

	1998
Total revenues	$ 9,172,435
Income before taxes	431,650
Net income	345,716
Net income per share - basic	$ 0.07
Net income per share - diluted	$ 0.07

The following reconciles loss from continuing operations to net loss:

	1998
Loss from continuing operations before income taxes and minority interest	$ (11,988,378)
Provision for income taxes	(1,495,490)
Minority interest	4,532,632
Loss from continuing operations	(8,951,236)
Income from discontinued operations, net of income taxes of $86,000 in 1998	345,716
Gain on disposal of discontinued operations, net of income tax of $375,000 in 1998	729,308
Income from discontinued operations	1,075,024
Net loss	$ (7,876,212)

8. PREMIUMS AND OTHER RECEIVABLES:

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

	2000	1999
Agents' balances and unbilled premiums	$10,008,197	$ 6,680,
Finance receivables	3,329,670	2,793,
Trade receivables	263,400	651,
Other accounts receivable	5,645,636	2,004,
	19,246,903	12,130,
Allowance for doubtful accounts	(214,300)	(99,
	$19,032,603	$12,030,

Other accounts receivable include $2.2 million due from Dominion Capital Pty. Ltd which is affiliated with the Company through a mutual

ownership in Solpower Corporation. Also included in other accounts receivable is a $100,000 note receivable from the President and CEO of Summit Global Management for the purchase of Summit in January 2000.

9. FEDERAL INCOME TAX:

The Company and its U.S. subsidiaries, excluding U.S. subsidiaries of Global Equity, 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:

	2000	
Deferred tax assets:		
Net operating loss carryforwards	$ 20,598,362	$ 1
Loss reserves	9,023,860	1
Unearned premium reserves	1,734,353	
Unrealized depreciation on securities	3,648,678	
Deferred gain on retroactive reinsurance	329,417	
Write down of securities	3,457,381	
Equity in unconsolidated affiliates		
Other, net	550,044	
Total deferred tax assets	39,342,095	3
Deferred tax liabilities:		
Reinsurance receivables	2,823,237	
Deferred policy acquisition costs	2,141,939	
Unrealized appreciation on securities	435,151	
Equity in unconsolidated affiliates	1,344,250	
Revaluation of surface, water and mineral rights	14,880,795	1
NLRC land sales	1,065,315	
Accretion of bond discount	61,795	
Capitalized lease	1,133,434	
Total deferred tax liabilities	23,885,916	2
Net deferred tax assets before valuation allowance	15,456,179	
Less valuation allowance	(4,101,587)	
Net deferred tax asset	$ 11,354,592	$

The deferred tax asset valuation allowance as of December 31, 2000 and 1999 relates primarily to the net operating loss carryforwards (NOL's) of Global Equity and its Canadian subsidiaries. Global Equity and its subsidiaries are 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. NOLs, the Company carried a valuation allowance on a portion of its U.S. NOLs. 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.

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

	2000	1999	1998
Domestic	$ (11,129,866)	$ (14,593,039)	$ (7,907,316)
Foreign	(2,350,632)	(5,894,929)	(4,081,061)
Total	$ (13,480,498)	$ (20,487,968)	$ (11,988,377)

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

	2000	1999
Current tax benefit:		
U.S. federal	$ (450,123)	$ (729,136)
Foreign	(4,666,562)	519,544
Total current tax benefit	(5,116,685)	(209,592)
Deferred tax expense (benefit):		
U.S. federal	$ (3,775,785)	$ (9,351,935)
Foreign	691,294	(2,957,847)
Total deferred tax expense (benefit)	(3,084,491)	(12,309,782)
Total income tax expense (benefit)	$ (8,201,176)	$ (12,519,374)

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

	2000	1999

Federal income tax benefit at statutory rate	$ (4,583,369)	$ (6,965,909)
Book tax difference on sale of securities	(1,247,596)	
Settlement of tax appeal	(4,398,731)	
Change in valuation allowance	3,285,416	(8,448,347)
Amortization of goodwill	208,268	217,934
Non deductible capital loss	(166,750)	294,188
Investment valuation	(971,105)	171,115
Accrued liabilities		1,578,000
Extraordinary gain		227,821
Other	(327,309)	405,824
Federal income tax expense (benefit)	$ (8,201,176)	$ (12,519,374)

Provision has not been made for U.S. or additional foreign tax on the undistributed earnings of foreign subsidiaries. It is not practical to estimate the amount of additional tax that might be payable. At December 31, 2000 the Company had an income

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tax payable of $324,000 and at December 31, 1999 the Company had an income tax receivable of $3.6 million. The aggregate NOL's of approximately $59 million expire between 2001 and 2020. There is a $1.4 million annual limitation on the utilization of the NOL's of PICO, Citation and Sequoia.

10. PROPERTY AND EQUIPMENT:

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

	2000	1999
Office furniture, fixtures and equipment	$ 6,834,381	$ 6,838,170
Building and leasehold improvements	1,192,123	375,975
	8,026,504	7,214,145
Accumulated depreciation	(5,081,991)	(5,461,325)
Property and equipment, net	$ 2,944,513	$ 1,752,820

Depreciation expense was $1.1 million, $1 million and $1.3 million in 2000, 1999, and 1998, respectively.

11. DEFERRED POLICY ACQUISITION COSTS:

Changes in deferred policy acquisition costs were as follows:

	2000	1999
Balance, January 1	$ 4,821,228	$ 5,548,634
Additions:		
Commissions	7,232,606	5,559,587
Other	4,613,034	3,966,560
Ceding commissions	(116,701)	230,792
Deferral of expense	11,728,939	9,756,939
Adjustment for premium deficiency		
Amortization to expense	(10,250,348)	(10,484,345)
Balance, December 31	$ 6,299,819	$ 4,821,228

12. SHAREHOLDERS' EQUITY:

On February 9, 2000, PICO 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.

An investment partnership registered as PICO Equity Investors, L.P. agreed to acquire shares which were not subscribed for, up to a total of 3,333,333 shares with an aggregate subscription price of $50 million. In the event that less than 3,333,333 shares of common stock remained unpurchased by shareholders on March 27, 2000, PICO committed to sell and PICO Equity Investors, L.P. committed to purchase the number of shares necessary to increase the total number of shares purchased by PICO Equity Investors, L.P. to 3,333,333. 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.

The Company has 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.

The rights offering closed on March 27, 2000 and the Company issued 3,335,690 additional shares of common stock for proceeds of $50 million. The Company incurred approximately $192,500 of expenses directly related to the transaction.

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On December 16, 1998, PICO acquired the remaining shares of Global Equity. This was accomplished through an exchange of PICO shares for Global Equity shares at the exchange ratio of .4628 of a PICO share for each share of Global Equity. PICO issued a total of 6,810,426 shares of PICO common stock to former Global Equity shareholders. PICO subsidiaries hold 3,110,837 of these newly issued shares which are recorded as treasury stock in the consolidated balance sheets of the Company. Following the transaction, PICO had 13,328,778 shares of common stock issued and outstanding of which 4,380,779 million are accounted for as treasury stock, at cost in the consolidated balances sheets. In addition, PICO exchanged 223,187 PICO warrants with an exercise price of $23.80 per

share for all the outstanding Global Equity warrants using the same exchange ratio. The original October 23, 1998 expiration date of the warrants was extended to June 30, 1999. During 1999, 120,000 of the warrants were exercised for $2.9 million. The remaining warrants expired. No other warrants exist. PICO also exchanged 484,967 stock options to Global Equity officers, two current Global Equity directors and a former Global Equity director in exchange for surrendering their Global Equity stock options. These grants placed the participants in a substantially similar position regarding shares and exercise price, vested according to their original terms.

In August 1998, PICO acquired 412,846 shares of its own common stock at a cost of $1.6 million, and assumed call option obligations for the delivery of these shares when the options are exercised. These call options expire on December 30, 2003 and are held by PICO's chairman of the board and president and chief executive officer. On December 31, 1998, 57,307 of these options were exercised for a total of $200,000.

On November 30, 1998, the Company eliminated the 1991 Shareholder Rights Plan, which had been adopted by Citation Insurance Group prior to its acquisition by PICO. The action was taken by unanimous vote of PICO's independent directors, as required by the terms of the Plan, and on the recommendation of management.

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. No options were granted from the plan in 2000. 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 Plan. PICO is 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.

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 Plan. 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 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 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 directors were fully vested on the grant date.

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

	2000		1999		
	Shares Underlying Options	Weighted Average Exercise Prices	Shares Underlying Options	Weighted Average Exercise Prices	Un O
Outstanding at beginning of year	1,046,575	$ 15.83	1,097,021	$ 15.89	
Granted	1,091,223	15.00	10,665	13.25	
Canceled	(303,199)	18.31	(61,111)	15.63	
Options assumed in merger					
Outstanding at end of year	1,834,599	14.93	1,046,575	15.83	
Exercisable at end of year	1,113,117	14.88	1,046,575	15.83	
Weighted-average fair value of options granted during the year		$ 7.15		$ 9.02	

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exerci	
Range of Exercise Prices	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/00	E
$13.25 to $14.40	522,672	4.71	$13.45	522,672	
$15.63 to $23.95	1,311,927	16.06	$15.51	590,445	
$13.25 to $23.95	1,834,599	12.83	$14.93	1,113,117	

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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 2000, 1999 and 1998, respectively: no dividend yield for all years; risk-free interest rates are different for each grant ranging from 5% to 6.97%; the expected lives of options are estimated at 10 years, 10 years and 7 years, respectively; and a volatility of 51% for the 2000 grants, 54% for the 1999 grants, and 62% for the 1998 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:

	2000	1999	19
Reported net loss	$(9,525,937)	$ (6,820,278)	$ (7,
SFAS No. 123 charge	(2,616,496)	(96,249)	
Pro forma net loss	$(12,142,433)	$ (6,916,527)	$ (7,
Pro forma net loss per share: basic and diluted	$ (1.05)	$ (0.77)	

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

13. 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 business. 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 as follows:

2000	1999

Estimated reinsurance recoverable on:		
Unpaid losses and loss adjustment expense (net of discount of $2,180,701 in 1999)	$ 27,444,846	$ 40,333,
Reinsurance recoverable on paid losses and loss expenses	149,193	2,209,
	27,594,039	42,542,
Other balances receivable from reinsurers		2,497,
Reinsurance receivables	$ 27,594,039	$ 45,040,

Unsecured reinsurance risk is concentrated in the companies shown in the table below. The Company 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.

CONCENTRATION OF REINSURANCE

	Unearned Premiums	Reported Claims	Unreported Claims
Sydney Reinsurance Corporation		$ 5,384,733	$ 4,651,629
Continental Casualty Company		2,127,778	1,625,000
American Reinsurance Corp.	$ 92,727	42,424	
Hartford Steam & Boiler	82,094	42,000	
TIG Reinsurance Group		481,758	868,239
Transatlantic Reinsurance Company			1,256,150
Cologne Reinsurance Company of America			133,100
Gerling Global Reinsurance		112,354	255,000
Mutual Assurance, Inc.		3,913,397	195,603
GE Reinsurance Corp.		172,080	
General Reinsurance	1,710	2,707,050	10,000
National Reinsurance Corporation		697,786	90,000
PXRE Reinsurance Company		555,083	690,000
Hartford Fire Insurance Company		509,923	240,000
	$ 176,531	$16,746,366	$10,014,721

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.

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.

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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 as of December 31, 2000 and 1999 was $969,000 and $1.2 million, respectively.

Effective October 1, 1997, PRO and Physicians entered into a 100% quota share reinsurance treaty wherein PRO agreed to cede and Physicians agreed to assume all of PRO's existing claims liabilities including allocated loss adjustment expenses, but excluding unallocated loss adjustment expenses. Physicians is to administer the settlement of all claims under PRO's policies issued prior to the effective date of the 100% quota share treaty for which Physicians will be reimbursed for direct expenses incurred in adjusting PRO's claims. This 100% quota share reinsurance treaty is secondary to all of PRO's reinsurance treaties in effect prior to its effective date.

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:

	2000	1999	
Direct premiums written	$ 47,620,431	$ 36,558,158	$
Reinsurance premiums assumed	(3,020)	120,185	
Reinsurance premiums ceded	(3,573,715)	(3,019,059)	
Net premiums written	$ 44,043,696	$ 33,659,284	$
Direct premiums earned	39,987,563	39,162,077	
Reinsurance premiums assumed	2,967	144,499	
Reinsurance premiums ceded	(5,554,776)	(2,927,474)	
Net premiums earned	$ 34,435,754	$ 36,379,102	$
Losses and loss adjustment expenses incurred:			
Direct	25,883,270	47,939,738	
Assumed	(681,716)	(825,369)	
Ceded	(1,175,336)	(12,897,078)	
	24,026,218	34,217,291	
Effect of discounting on losses and loss adjustment expenses (Note 14)		994,545	

Net losses and loss adjustment expenses	$ 24,026,218	$ 35,211,836	$

14. 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 and PRO prepare their 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

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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 $58.6 million at December 31, 2000, and $71.9 million, net of discounting of $9.7 million, at December 31 1999.

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

	2000	1999

Balance at January 1	$ 139,132,875	$ 155,020,696
Less reinsurance recoverable	(40,333,000)	(52,000,444)
Net balance at January 1	98,799,875	103,020,252
Incurred loss and loss adjustment expenses for current accident year claims	22,993,457	18,903,062
Incurred loss and loss adjustment expenses for prior accident year claims	1,300,414	15,878,697
Retroactive reinsurance	(267,653)	(564,469)
Accretion of discount		994,545
Total incurred	24,026,218	35,211,835
Effect of retroactive reinsurance	267,653	564,469
Cumulative effect of accounting change	7,520,744	
Payments for claims occurring during:		
Current accident year	(10,880,842)	(8,940,341)
Prior accident years	(25,636,772)	(31,056,340)
Total paid	(36,517,614)	(39,996,681)
Net balance at December 31	94,096,876	98,799,875
Plus reinsurance recoverable	27,444,846	40,333,000
Balance at December 31	$ 121,541,722	$ 139,132,875

15. 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. Contribution expense incurred by the Company for the three years ended December 31, 2000 was $578,000, $862,000 and $618,000, respectively.

16. 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, 2000, $10.2 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.

17. 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, $1.3 million, and $1.5 million for the years ended December 31, 2000, 1999 and 1998, respectively.

In November 1998, Vidler 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 requires Vidler to pay for these privileges and rights a minimum of $2.3 million per year for 10 years beginning October 1998. The agreement calls for the lease payments to be adjusted annually by the engineering price index. The $2.3 million minimum annual lease payment is included in the summary of future minimum rental payments. On October 7, 1998, PICO signed an agreement guaranteeing payment of Vidler's obligations under the agreement. PICO's maximum obligation under this guarantee is $3.2 million, adjusted annually by the engineering price index. The guarantee expires October 7, 2008.

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

2001	3,317,540
2002	3,138,935
2003	2,566,494
2004	2,366,145
2005	2,363,915
Thereafter	6,417,510
Total	$20,170,539

On January 10, 1997, Global Equity commenced an action in British Columbia against MKG Enterprises Corp. ("MKG") and Vignoble Wines Agency Inc. ("Vignoble") to enforce repayment of a $5 million 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. Global Equity subsequently brought a motion to have a receiver-manager appointed for MKG and Vignoble, which motion has been adjourned. In addition, 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, Global Equity entered into settlement discussions with the third party to liquidate the underlying assets of MKG. Although discussions still continue, Global Equity would receive approximately $500,000 of the proceeds as full satisfaction of the loan.

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 Nevada Land in connection with such capital investment. Either party could terminate this consulting agreement in April 2002 if the partnership had not received or become entitled to receive by that time any amount of the consulting fee. No payments have been made under this agreement through December 31, 1998. By letter dated March 13, 1998, Nevada Land gave notice of termination of the consulting agreement based on Nevada Land's determination of default by the partnership under the terms of the agreement. In November 1998, the partnership sued Nevada Land for wrongful termination of the consulting contract. On March 12, 1999, Nevada Land filed a cross-complaint against the partnership for breach of written contract, breach of fiduciary duty and seeking declaratory relief. Effective September 1, 1999, the parties entered into a settlement agreement wherein they agreed that the lawsuit would be dismissed without prejudice, and that Nevada Land would deliver a report on or before June 30, 2002 to the limited partnership of the amount of the consulting fee which would be owed by Nevada Land to the limited partnership if the consulting agreement were in effect.

BSND, Inc. ("BSND"), a wholly-owned subsidiary of Vidler Water Company, has resolved a partnership dispute relating to Big Springs Associates, a partnership which owns real property and water rights in Nevada (the "Partnership"). BSND owns 50% of the Partnership. Under the terms of an agreement resolving the dispute, BSND agreed to sell its interest in the

Partnership to the other partner for $12.65 million in cash, a gain to Vidler of approximately $2.0 million. If the transaction has not closed by August 1, 2001, BSND will own the Partnership in its entirety.

The Company is subject to various other litigation that arises in the ordinary course of 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, results of operations or cash flows of the Company.

18. RELATED-PARTY TRANSACTIONS:

The employment agreements entered into with Ronald Langley and John R. Hart in 1997 for annual base salaries of $800,000 also entitles each to an incentive award based on the growth of the Company's book value per share in excess of a threshold that is calculated as 80% of the previous five year average return for the S&P 500. No award was paid during 2000, 1999 or 1998 under this program.

Summit Global Management, Inc. is a Registered Investment Advisor providing investment advisory services to managed accounts including the Company's subsidiaries, until June 30, 2000. On January 1, 1995, Summit's President and CEO was granted an option expiring December 31, 2004 to purchase 49% of Summit's common shares for a nominal amount, which represented the fair value on the grant date. In January 2000, PICO sold

its interest in Summit to its chief executive officer in exchange for a note receivable of $100,000 bearing interest at 7% per annum, and due 2002. In addition, Summit owes PICO approximately $65,000 for operating expenses. The agreement that two of the Company's directors, now officers of the Company, were entitled to receive 50% of the first $1 million of profits attributed to PICO's ownership of Summit's common stock terminated on January 31, 2000. No compensation was ever earned under this arrangement.

On March 6, 1996, Charles E. Bancroft, the President and Chief Executive Officer of Sequoia entered into an incentive agreement with Sequoia after its acquisition by Physicians. Under the terms of this incentive agreement, Mr. Bancroft is to receive a payment equal to ten percent of the increase in Sequoia's value upon his retirement, removal from office for reasons other than cause, or the sale of Sequoia to a third party. For purposes of the incentive agreement, the increase in Sequoia's value is to be measured from August 1, 1995; the date Physicians acquired Sequoia. Mr. Bancroft was not eligible to receive any incentive payment, until he was continuously employed by Sequoia from August 1, 1995 through August 1, 1998. On March 20, 1998 this incentive agreement was clarified to include the combined increase in value of Sequoia and Citation. The increase in value of Citation will be measured from January 1, 1998. The Company recorded compensation expense related to this arrangement of $160,000, $210,000 and $110,000 during the years ended December 31, 2000, 1999 and 1998, respectively.

Certain of the Company's subsidiaries have stock option arrangements with officers and other employees for stock of the respective subsidiary. Options are granted under these arrangements at the estimated fair value of the subsidiary's stock at the time of grant. Therefore, no compensation has been recorded by the Company related to these arrangements. During 1998, 18,950 options to acquire approximately 1.9% of existing shares of Vidler were exercised for $108,000. During 2000, 19,037 options to acquire 1.9% of the existing shares of Vidler were exercised for $109,000 and a loss, calculated in accordance with Staff Accounting Bulletin No. 51, of $525,000 before tax was recorded on the sale.

In 1998, the Company entered into an agreement with its president and chief executive officer to defer a portion of his 1998 regular compensation in a deferred compensation rabbi trust account held in the name of the Company. The deferrals are included within the Company's consolidated balance sheet. Salary deferrals to the trust amounted to $316,000 for 1998. There were no deferrals into this trust in 1999 or 2000.

In August 1998, the Company acquired 412,846 shares of its common stock at a cost of $1.6 million, and assumed call option obligations for the delivery of these shares when the options are exercised. These call options expire on December 30, 2003 and are held by the chairman of PICO's board and its chief executive officer. On December 31, 1998, 57,307 of these options were exercised for a total of $200,000.

During 2000, the Company sold its interest in Conex Continental Inc. to Dominion Capital Pty. Limited, an Australian corporation. PICO and Dominion each have an ownership interest in the common stock of Solpower Corporation. PICO accounts for Solpower at cost and records unrealized gains or losses under SFAS 115. PICO loaned Solpower $500,000 to purchase its 50% interest in Protocol Resource Management, Inc. and PICO acquired the other 50% of Protocol. The loan bears interest at 10.8% and PICO received a warrant to purchase 1 million shares of Solpower common stock. PICO records its interest in Protocol using the equity method of

accounting. During 2000, PICO loaned approximately $2.2 million to Dominion

Capital Pty. Limited. The loans bear interest at a weighted rate of 10.2% and are due in 2001. PICO carries the loans at cost plus accrued interest.

19. STATUTORY INFORMATION:

The Company and its insurance subsidiaries are subject to regulation by the insurance departments of the states of domicile and other states in which the companies are licensed to operate and file financial statements using statutory accounting practices prescribed or permitted by the respective Departments of Insurance. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. Physicians has received written approval from the Ohio Department to discount its medical professional liability unpaid loss and loss adjustment expense reserves, including related reinsurance recoverable using a 4% discount rate through December 31, 1999. Effective January 1, 2000, the Ohio Department of Insurance withdrew its permission for Physicians to discount reserves. Statutory practices vary in certain respects from generally accepted accounting principles. The principal variances are as follows:

(1) Certain assets are designated as "non-admitted assets" and charged to shareholders' equity for statutory accounting purposes (principally certain agents' balances and office furniture and equipment).

(2) Deferred policy acquisition costs are expensed for statutory accounting purposes.

(3) Deferred federal income taxes are not recognized for statutory accounting purposes.

(4) Equity in net income of subsidiaries and affiliates is credited directly to shareholders' equity for statutory accounting purposes.

(5) Fixed maturity securities classified as available for sale are carried at amortized cost.

(6) Loss and loss adjustment expense reserves and unearned premiums are reported net of the impact of reinsurance for statutory accounting purposes.

The Company and its wholly-owned insurance subsidiaries' policyholders' surplus and net income (loss) as of and for the years ended December 31, 2000, 1999 and 1998 on the statutory accounting basis are as follows:

	2000	1999	1998

Physicians Insurance Company of Ohio:	(Unaudited)		
Statutory net income (loss)	$ 10,212,601	$ (6,578,611)	$ 2,556,946
Policyholders' surplus	33,996,556	35,022,961	31,515,421
The Professionals Insurance Company:			
Statutory net income	$ 130,790	$ 158,012	$ 105,286
Policyholders' surplus	3,773,247	3,437,580	3,516,143
Sequoia Insurance Company:			
Statutory net income (loss)	$ (2,660,660)	$ 497,523	$ 4,284,251
Policyholders' surplus	23,442,970	25,389,791	23,568,505
Citation Insurance Company:			
Statutory net income (loss)	$ 4,549,292	$ (5,519,801)	$(4,395,534)
Policyholders' surplus	14,328,017	16,502,888	21,811,840

Certain insurance subsidiaries are owned by other insurance subsidiaries. In the table above, investments in such subsidiary-owned insurance companies are reflected in statutory surplus of both the parent and subsidiary-owned insurance company. As a result, at December 31, 2000, 1999, and 1998, statutory surplus of approximately $27.2 million, $28.8 million and $27.1 million, respectively, is reflected in both the parent and subsidiary-owned insurance companies.

20. SEGMENT REPORTING:

The Company is a diversified holding company engaged in five major operating segments: Land, Minerals and Related Water Rights; Water Rights and Water Storage; Property and Casualty Insurance; Medical Professional Liability ("MPL") Insurance and Long Term Holdings.

Segment performance is measured by revenues and segment profit before tax in addition to changes in shareholders' equity. This information provides the basis for calculation of return on shareholders' equity, which is the main performance measurement used in analyzing segment performance. In addition, assets identifiable with segments are disclosed as well as capital expenditures, and depreciation and amortization. The Company has operations and investments both in the U.S. and abroad. Information by geographic region is also similarly disclosed.

Land, Minerals and Related Water Rights

PICO is engaged in land, water and mineral rights operations through its subsidiary Nevada Land. Nevada Land owns approximately 1.2 million acres of land and related mineral and water rights in northern Nevada. Revenue is generated by land sales, land exchanges and leasing for grazing, agricultural and other uses. Revenue is also generated from the development of water rights and mineral rights in the form of outright sales and royalty agreements.

Water Rights and Water Storage

Vidler is engaged in the following water rights and water storage activities:

- acquiring water rights, redirecting the water 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
- purchase and storage of water for resale in dry years.

Property and Casualty Insurance

PICO's Property and Casualty Insurance operations are conducted by our California-based subsidiaries Sequoia and Citation.

Sequoia writes property and casualty insurance in California and Nevada, focusing on the niche markets of farm insurance and small to medium-sized commercial insurance. Sequoia also writes personal insurance, and expanded this line of business through the acquisition of Personal Express Insurance Services, Inc. during 2000.

In the past, Citation wrote commercial property and casualty insurance in California and Arizona. Sequoia now directly writes all business in California and Nevada. Citation ceased writing business in December 2000, and is now "running-off" the loss reserves from its existing business.

In this segment, revenues come from premiums earned on policies written and investment income on the assets held by the insurance companies.

MPL Operations

Until 1995, Physicians and Professionals wrote medical professional liability insurance, mostly in the state of Ohio. Physicians and Professionals have stopped writing new business and are being "run off". This means that they are handling claims arising from historical business, and selling investments when funds are needed to pay claims.

As expected during the run-off process, the bulk of this segment's revenues come from investment income. The Physicians' and Professionals' portfolios contain some of the Company's long term holdings.

Long Term Holdings

The Long Term Investments segment comprises investments where we own less than 50% of the company, or the company is too small to constitute a segment of its own.

PICO invests in companies, which our management identifies as undervalued based on fundamental analysis. Typically, the stocks will be selling for less than tangible book value or appraised intrinsic value (i.e. what we think 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, potential catalysts for change, or attractive industry characteristics.

We also have a small portfolio of alternative investments, where we deviated from our traditional value criteria in an attempt to capitalize on areas of potentially greater growth without incurring undue risk

Investments directly related to the insurance operations are included within those segments

Segment information by major operating segment follows (in thousands):

	Land, Mineral and Related Water Rights	Water Rights and Water Storage	Property and Casualty	MPL
2000:				
Revenues	$ 5,276	$ 3,123	$ 39,257	$ 3,396
Income (loss) before income taxes	1,918	(4,854)	2,541	768
Identifiable assets	52,002	108,215	137,808	30,155
Depreciation and amortization	28	988	253	396
Capital expenditures		15,029	321	8
1999:				
Revenues (charges)	$ 7,147	$ 1,055	$ 39,960	$ 3,153
Income (loss) before income taxes	1,094	(4,551)	(3,679)	(4,805)
Identifiable assets	53,810	80,313	136,589	39,827
Depreciation and amortization	33	810		971
Capital expenditures		355		147
1998:				
Revenues	$ 2,820	$ 592	$ 42,927	$ 2,420
Income (loss) before income taxes	188	(2,006)	2,825	(4,442)
Identifiable assets	52,540	65,748	138,408	62,774
Depreciation and amortization	33	152	496	81
Capital expenditures		4,783	648	86

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Segment information by geographic region follows (in thousands):

	United States	Canada	Europe	Australia
2000				
Revenues	$ 47,688	$(2,482)	$ 147	
Loss before income taxes	(12,815)	(2,616)	1,951	
Identifiable assets	354,609	2,115	30,269	$8,151
Depreciation and amortization	2,544			
Capital expenditures	15,509			
1999				
Revenues	$ 51,148		$ 2,672	
Income (loss) before income taxes	(23,094)		4,383	
Identifiable assets	332,830		29,901	$8,280
Depreciation and amortization	2,770			
Capital expenditures	577			

1998			
Revenues (charges)	$ 48,308	$(2,233)	$ 3,192
Income (loss) before income taxes	(13,666)	560	3,160
Identifiable assets	361,458	7,811	22,631
Depreciation and amortization	1,233	259	
Capital expenditures	5,641		

21. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that fair value:

- CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS, RECEIVABLES, PAYABLES AND ACCRUED LIABILITIES: Carrying amounts for these items approximate fair value because of the short maturity of these instruments.

- INVESTMENTS: Fair values are estimated based on quoted market prices, or dealer quotes for the actual or comparable securities. Fair value of warrants to purchase common stock of publicly traded companies is estimated based on values determined by the use of accepted valuation models at the time of acquisition. Fair value for equity securities that do not have a readily determinable fair value is estimated based on the value of the underlying common stock. The Company regularly evaluates the carrying value of securities to determine whether there has been any diminution in value that is other than temporary and adjusts the value accordingly.

- DEPOSITS WITH REINSURERS AND REINSURANCE RECOVERABLES: The carrying amounts of deposits with reinsurers and reinsurance recoverable with fixed amounts due are reasonable estimates of fair value.

- INVESTMENT IN AFFILIATE: Investments in which the Company owns between 20% and 50%, and/or has the ability to significantly influence the operations and policies of the investee, are carried at equity. The balance of the investment is regularly evaluated for impairment.

- BANK AND OTHER BORROWINGS: Carrying amounts for these items approximate fair value because current interest rates and, therefore, discounted future cash flows for the terms and amounts of loans disclosed in Note 23, are not significantly different from the original terms.

	December 31, 2000		
	Carrying Amount	Estimated Fair Value	Car Am
Financial assets:			

Fixed maturities	$77,858,701	$77,858,701	$47,3
Short-term investments	24,036,573	24,036,573	16,4
Equity securities	36,174,505	36,174,505	43,8
Investment in unconsolidated affiliates	27,824,291	23,016,375	32,0
Cash and cash equivalents	13,644,312	13,644,312	36,7
Deposits with reinsurers and reinsurance recoverables	7,604,288	7,604,288	4,7
Financial liabilities:			
Bank and other borrowings	15,550,387	15,550,387	15,7

22. OTHER LIABILITIES:

	2000	1999
Accounts payable	$ 1,295,218	$ 2,900,899
Accrued investment obligation		5,000,000
Unearned income	1,146,636	192,057
Accrued O&M - Semitropic	889,850	863,950
Accrued commissions	883,084	726,770
Option fees unearned	850,000	
Accrued vacation	645,695	509,146
Accrued bonus	730,000	570,000
Accrued interest payable	404,045	451,157
Other liabilities	6,303,565	4,739,644
	$ 13,148,093	$ 15,953,623

23. BANK AND OTHER BORROWINGS:

At December 31, 2000 and 1999, bank and other borrowings consisted of loans and promissory notes incurred to finance the purchase of land and investment securities. The weighted average interest rate on these borrowings was approximately 7.4% and 6.9% at December 31, 2000 and 1999, respectively.

At December 31, 2000, Global Equity SA has a loan facility with a Swiss bank for a maximum of 15 million CHF based on a margin not higher than 30% of the securities deposited with the bank. The actual amount available is dependent on the value of the collateral held after a safety margin established by the bank. It may be used as an overdraft or for payment obligations arising from securities transactions. At December 31, 2000 $9.5 million CHF (approximately $5.9 million US dollars) is outstanding bearing interest at approximately 5.6%.

At December 31, 2000, $9.7 million of the total outstanding debt is within Vidler, incurred with the acquisition of land in the Harquahala Valley. The weighted average rate of interest on these notes is 8.5% which are collateralized by the purchased properties.

Nevada Land & Resource Company issued a $5 million promissory note, maturing on October 1, 2000 in connection with the acquisition of lands. The note was collateralized by 9.4 acres of land, which held geothermal leases. The notes bore interest at 9% and were paid monthly to the extent that payment was received on four geothermal leases associated with the land. In April 1999, Nevada Land & Resource Company settled the note

payable by exchanging the particular land deed, which was collateral for the note. As a result of this settlement the Company recognized a net extraordinary gain of $442,000.

At December 31, the Company's borrowings consisted of the following:

	2000	1999
5.58% (4% in 1999) Swiss loans	$ 5,894,838	$ 5,718,911
8% Notes due:		
2007 - 2008	455,957	489,366
2012	359,218	376,745
8.5% Notes due:		
2004	1,540,354	1,560,000
2008 - 2009	3,772,131	3,909,648
2019	2,774,894	2,833,533
9% Notes due:		
2003	188,356	204,025
2008	564,639	612,279
	$ 15,550,387	$ 15,704,507

The Company's future minimum principal debt repayments for the years ending December 31, are as follows:

2001	$ 6,240,379
2002	374,661
2003	538,541
2004	1,862,312
2005	415,314
Thereafter	6,119,180
Total	$15,550,387

24. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

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 Ohio Department of Insurance and financial statements prepared in accordance with US GAAP for the year ended December 31, 2000. The effect of this change 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. Had the change been made as of the first day of the earliest period presented, the net loss and loss per share for 1999 and 1998 would have been reduced by $995,000 and $0.11 per share and $643,000, and $0.11 per

share, respectively.

25. SUBSEQUENT EVENT

On March 19, 2001, Vidler sold 2,165.5 acres of land, and the related 6,496.5 acre-feet of water rights, in the Harquahala Valley to a unit of Allegheny Energy, Inc. for approximately $9.1 million. The transaction resulted in a pre-tax gain of approximately $2.4 million, which will be recorded in the first quarter of 2001.

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

The Board of Directors is divided into three classes, with the terms of office of each class ending in successive years.

The following table sets forth information regarding the Company's directors, including their ages, a brief description of their business experience, certain directorships held by each of them and the year in which each became a director of the Company.

Director Name	Business Experience
Directors with terms ending in 2001:	
Robert R. Broadbent	Retail consultant since 1989; Chairman of Higbee Company from 19 1989; President, CEO, Director and Vice Chairman of the Higbee C from 1979 to 1984; President and Chief Executive Officer of Libe House - Mainland from 1976 to 1978; Chairman and CEO of Gimbel's 1973 to 1976; Director of Physicians from 1993 to 1995.
Carlos C. Campbell	President of C.C. Campbell & Company, Reston, Virginia, since 19 Director of Resource America, Inc., Fidelity Mortgage Funding, I Passport Health.
David A. Williams	CEO of Beutel Goodman & Co. Ltd. from 1991 to 1995; President, Roxborough Holdings Limited, Toronto, Ontario since 1995; Direct Global Equity Corporation, Enhanced Marketing Services, Equis Financial Network, FRI Corporation, Krystal Bond Corporation, Oc Industries Ltd., Phoenix Duff and Phelps Corp., Pinetree Capita Corporation, Micropulse Inc., Radiant Energy Corporation, and Si Brands Ltd.
Directors with terms ending in 2002:	
John R. Hart	President of Quaker Holdings Limited, an investment company, sin 1991; Principal with Detwiler, Ryan & Company, Inc., an investme bank, from 1982 to 1991; Director of Physicians since 1993; Pres and CEO of Physicians since 1995; President and CEO and Director

	Global Equity Corporation since 1995; Director of PC Quote, Inc; President and CEO and Director of the Company since 1996.
Ronald Langley	Director of Physicians since 1993; Chairman of Physicians since Chairman and Director of Global Equity Corporation since 1995; Director of PC Quote, Inc; Chairman and Director of the Company 1996. Director of MC Shipping, Inc. since 1997.
John D. Weil	President, Clayton Management Company, a strategic investment co Director of Todd Shipyards Corporation, Oglebay Norton Company, Southern Investors Service Company, Inc., Allied Health Products Inc., and Baldwin & Lyons, Inc.

Nominees standing for election for terms ending in 2003:

S. Walter Foulkrod, III, Esq.	Attorney; owner of S. Walter Foulkrod, III & Associates, Attorne Law, Harrisburg, PA, since 1994; President and Chairman of Foulk Reynolds & Havas, PC, from 1984 to 1994; Director of Physicians 1988.
Richard D. Ruppert, MD	Physician; President of Medical College of Ohio from 1978 to 199 President of American Society of Internal Medicine from 1992 to Director of Physicians since 1988.

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For information on the executive officers of Registrant, see Part I, Item 1., "Executive Officers."

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10% of the Company's Common Stock to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ("SEC"). Such persons are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by such persons.

Based on a review of the copies of these reports received by the Company and written representations from certain reporting persons that they have complied with the relevant filing requirements, the Company believes that all filing requirements have been complied with on a timely basis for the fiscal year ended December 31, 2000.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation for fiscal year 2000 of the (i) Chief Executive Officer of the Company (ii) the four most highly compensated executive officers of the Company as of December 31, 2000 (Messrs. Langley, Hart, Sharpe, Burchfield, and Mosier are sometimes hereinafter referred to as "Named Officers"). Amounts under the caption "Bonus" are amounts earned for performance during the year including amounts paid after the end of the year.

SUMMARY COMPENSATION TABLE

Long-

Name and Principal Position Chief Executive Officer:	Year	Annual Compensation Salary	Bonus	Compens Awar Securi Underl Opti (Shar
John R. Hart(1)	2000	$800,000	-0-	456,58
President and Chief	1999	$800,000	-0-	-0
Executive Officer	1998	$800,000	-0-	-0
Executive Officers:				
Ronald Langley(2)	2000	$800,000	-0-	427,93
Chairman of the	1999	$800,000	-0-	-0
Board of Directors	1998	$800,000	-0-	-0
Richard H. Sharpe(3)	2000	$203,422	-0-	75,14
Chief Operating Officer	1999	$192,570	-0-	-0
	1998	$199,029	-0-	-0
Gary W. Burchfield(4)	2000	$150,037	-0-	21,04
Chief Financial Officer	1999	$141,750	-0-	-0
And Treasurer	1998	$164,640	-0-	-0
James F. Mosier(5)	2000	$140,059	-0-	21,04
General Counsel	1999	$131,985	-0-	-0
and Secretary	1998	$126,910	-0-	-0

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(1) Mr. Hart became President and CEO of the Company on November 20, 1996. Prior to that time he was President and CEO of Physicians since July 15, 1995.

(2) Mr. Langley became Chairman of the Board of Directors of Physicians on July 15, 1995. He became Chairman of the Board of Directors of the Company on November 20, 1996.

(3) Mr. Sharpe became Chief Operating Officer of Physicians on June 3, 1994. He became Chief Operating Officer of the Company on November 20, 1996.

(4) Mr. Burchfield became Chief Financial Officer and Treasurer of Physicians on November 3, 1995. He became Chief Financial Officer and Treasurer of the Company on November 20, 1996.

(5) Mr. Mosier became General Counsel and Secretary of Physicians in 1984. He became General Counsel and Secretary of the Company on November 20, 1996.

(6) This represents grants of non-statutory stock options in the year 2000 pursuant to the PICO Holdings, Inc. 2000 Nonstatutory Stock Option Plan.

(7) Represents amounts contributed by the Company to the PICO Holdings, Inc. Employees 401(k) Retirement Plan and Trust. This retirement plan conforms to the requirements of the Employee Retirement Income Security Act.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information with respect to options granted during 2000 to each of the Named Officers:

OPTION GRANTS IN 2000

Name	Number of Securities Underlying Options Granted (2)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	Pot Ass Pr --
Ronald Langley	427,932	39.5%	$15.00	4/7/20	
John R. Hart	456,586	42.2%	$15.00	4/7/20	
Richard H. Sharpe	75,149	6.9%	$15.00	4/7/20	
Gary W. Burchfield	21,042	1.9%	$15.00	4/7/20	
James F. Mosier	21,042	1.9%	$15.00	4/7/20	

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(1) The amounts reflected in this table represent certain assumed rates of appreciation only. Actual realized values, if any, on option exercises will be dependent on the actual appreciation of the PICO stock over the term of the options. There can be no assurances that the Potential Realizable Values in this table will be achieved.

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(2) These options were granted on April 7, 2000, subject to approval by the Company's shareholders obtained on October 19, 2000, under the PICO Holdings 2000 Nonstatutory Option Plan at a fair market value in excess of 100% of the PICO common stock value on that date. PICO is authorized to issue 1,200,000 shares of common stock to employees and directors of and consultants to the Company, pursuant to awards granted as non-qualified stock options. 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.

OPTION EXERCISES AND FISCAL 2000 YEAR-END VALUE

The following table provides information concerning options held as of December 31, 2000 by the persons named in the Summary Compensation Table. No options were exercised by these individuals during 2000.

Aggregate Option Exercises in Last Fiscal Year And Fiscal Year-End Option Values

	Number of Securities Underlying Unexercised Options at 12/31/00		Value of Unexercised In-the-Money-Options At 12/31/00 (1)	
Name	Exercisable	Unexercisable	Exercisable	Unexerci

Ronald Langley(2)	405,938	285,288	-0-	-0
John R. Hart(2)	415,489	304,391	-0-	-0
Richard H. Sharpe	85,169	50,099	-0-	-0
Gary W. Burchfield	49,097	14,028	-0-	-0
James F. Mosier	49,097	14,028	-0-	-0

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(1) Based on the closing price of the Company's Common Stock on December 29, 2000 on the Nasdaq National Market of $12.4375 per share.

(2) In addition to these options shown above, Mr. Langley and Mr. Hart have a right to purchase shares of the Company under Call Option Agreements assumed by the Company in August 1998; see Item 12, footnote 4.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Weil and Campbell, and Dr. Ruppert, serve as members of the Compensation Committee. Mr. Langley and Mr. Hart have been directors and executive officers of Global Equity since September 5, 1995.

REPORT OF THE COMPENSATION COMMITTEE

This report of the Compensation Committee, and the Stock Price Performance Graph set forth below, shall not be deemed incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended (the "Securities Act") or under the Securities Exchange Act of 1934, as amended (the "Exchange Act") except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the Securities Act or the Exchange Act.

COMMITTEE MEMBERS

The three-member Compensation Committee of the Board of Directors is a standing committee composed entirely of outside Directors. Mr. Weil is the chairman and Mr. Campbell and Dr. Ruppert are the other members.

COMMITTEE FUNCTIONS

The Compensation Committee is responsible for assuring that all of the executive compensation programs of the Company are developed, implemented, and administered in a way that supports the Company's fundamental philosophy that a significant proportion of executive compensation should be effectively linked to Company performance.

The Compensation Committee meets on a regularly scheduled basis. It reviews and approves the overall executive compensation program, which includes both base pay and incentive compensation. It considers and approves individual executive officer compensation packages based on recommendations of the Company's Chief Executive Officer. It recommends, for the approval of the full Board, any modification to the compensation package of the Company's Chief Executive Officer.

EXECUTIVE COMPENSATION PHILOSOPHY

The Board of Directors of Physicians retained an independent compensation expert, William M. Mercer, Incorporated ("Mercer"). In 1996, Mercer conducted an analysis of marketplace executive compensation levels. The scope of Mercer's study covered the Company's Chairman and President and Chief Executive Officer. The objectives of Mercer's study were as follows:

- Analyze the scope, responsibilities and skill requirements of the jobs performed by Messrs. Langley and Hart and compare and contrast to comparable benchmark executive positions found in the marketplace.

- Develop an appropriate methodology for selecting comparable benchmark jobs, industry categories and a peer group of companies comparable to the Company in terms of business focus, industry classification and size; and competing for senior executives with the skills, expertise and talent demonstrated by the Company's top two executives.

- For the appropriate benchmark jobs, industry category and Peer Company group, collect information on marketplace compensation levels and practices from compensation surveys and peer company proxy statements. The companies included in the peer company group are not necessarily those included in the Nasdaq Insurance Stock Index. Determine the most relevant marketplace compensation levels and to compare actual Company compensation levels.

- Develop alternate approaches for structuring the total compensation package for the Company's top two executives, in terms of compensation elements to be used, the mix of total pay and how short and long term incentive compensation might be structured to accurately reflect performance.

Mercer's study recommended to the Compensation Committee a compensation strategy with the following objectives:

- To provide a total compensation package that:

  - is competitive with market rates for executives with similar skill, talent and job requirements.

  - is closely linked to the Company's strategy and the role of covered executives in building shareholder value through growing the book value and, ultimately, the market value of the Company.

- To retain critical executive talent by:

  - providing a reasonable and competitive level of current income (cash flow).

  - providing for loss of future incentive opportunity if an executive terminates employment before unrealized investment gains are realized.

- To link executive rewards to shareholder interests by:

  - tying incentive awards to growth in book value which ultimately translates into increased market price per share (as investments are liquidated for gains, and the Company grows earnings).

  - granting additional stock options in the future once current options are exercised or expire.

The Compensation Committee believes that to accomplish these goals, the executive compensation program should be based on three distinct components: base pay, annual incentives, and long-term incentives. The Company obtains industry and peer group surveys, and consults with independent experts, to evaluate the Company's executive compensation programs in comparison with those offered by its comparable competitors.

In March 2000, the Compensation Committee asked Mercer to examine the present level of stock options granted to the Company's management, to recommend an appropriate level of stock options to be granted in the future to the Company's management, and to review the level of compensation paid to the Company's nonemployee directors. The Compensation Committee believed such a review by Mercer was necessary in order to assist the Company in retaining and attracting qualified directors and executives, and to link executive and director rewards to the long term interests of the Company's shareholders. Mercer's study recommended that additional stock options be granted to management to enhance the Company's ability to retain and attract key executives. Mercer's study also recommended that, to enable the Company to remain competitive and to continue to be able to retain and attract qualified members of the Board of Directors and to align directors' long term interests with those of shareholders, nonemployee directors compensation should be increased and should contain an element of stock options granted annually. The nonemployee directors options granted annually will vest immediately as a further incentive to nonemployee directors and to further link nonemployee directors compensation with the Company's performance. In line with the recent study by Mercer, with respect to annual cash remuneration paid to nonemployee directors, the board approved the Compensation Committee's recommendation that the Company's annual retainer fee be increased to $20,000 per nonemployee director.

The Compensation Committee has considered amendments to the Internal Revenue Code denying deductions for annual compensation to certain executives in excess of $1 million, subject to certain exceptions. The Company's compensation structure has been such that it does not believe that it is likely that the $1 million cap will affect the Company in the near future. The Internal Revenue Service has issued proposed regulations which, among other things, provide for a transition period of three years for plans previously approved by shareholders. The Company is studying the proposed regulations, but has not yet determined what steps may be required or desirable with respect to its existing plans.

EXECUTIVE COMPENSATION PROGRAM

The features of the executive compensation program as recommended by Mercer and approved by the Compensation Committee are:

BASE COMPENSATION. A fixed rate, to be reviewed annually. Future adjustments will take into account movement in executive compensation levels, changes in job responsibilities, and the size of the Company.

INCENTIVE AWARDS. Based on growth of book value per share in a fiscal year. Awards are earned when a pre-determined threshold is surpassed. If book value per share of the Company exceeds this threshold, the incentive award is equal to 5% of the increase in book value per share multiplied by the number of shares outstanding at the beginning of the fiscal year.

In addition, the Board of Directors of Physicians granted options under the Physicians Insurance Company of Ohio 1995 Non-Qualified Stock Option Plan. The options granted under said option plan were designed to reinforce the relationship between the Company's future performance and the executive's

potential future financial rewards. These options were assumed by PICO Holdings, Inc. on November 20, 1996. In line with this philosophy of providing incentives to executive officers, the Company agreed to convert the Global Equity options of said officers on an economically equivalent basis, to options to purchase shares of the Company effective with the close of the PICO/Global Equity Combination. On April 7, 2000, PICO granted, subject to approval by the Company's shareholders obtained on October 19, 2000, non-qualified common stock options to employees and directors of the Company.

GOALS OF COMPENSATION COMMITTEE

The Compensation Committee attempts to align executive compensation with the value achieved by the executives for the Company's shareholders. The Company's compensation program for executives emphasizes a combination of base salary, discretionary bonuses, and stock options designed to attract, retain, and motivate executives who will maximize shareholder value. The Compensation Committee considers individual and Company performance, as well as compensation paid by comparable companies.

Executives also participate in other employee benefit programs, including health insurance, group life insurance, and the Company's 401(k) Plan.

DISCUSSION OF 1999 COMPENSATION FOR THE CHIEF EXECUTIVE OFFICER

No bonus was paid with respect to the Company's performance in 1999. In 1997, the Compensation Committee recommended to the Board of Directors, and the Board of Directors accepted the recommendation, that it was appropriate for the CEO and the Chairman to be compensated as employees, rather than as consultants. Accordingly, effective December 31, 1997, the CEO and Chairman entered into employment agreements with the Company. The terms of these employment agreements are substantially similar to the terms of the consulting agreements.

June 28, 2000 Compensation Committee

John D. Weil, Chairman
S. Walter Foulkrod, III, Esq.
Richard D. Ruppert, MD

As stated above, the Compensation Committee believes the interest of the Company shareholders is best served by aligning the CEO's short-term compensation, over and above competitive fixed annual rate of pay, with an increase in the Company's book value per share which will ultimately be reflected in higher market values per share. Specifically, a threshold was set at 80% of the S&P 500's annualized total return for the five previous calendar years. For 2000, this threshold was approximately 17%. Since the Company's book value per share decreased in 2000, no bonus, i.e. short-term incentive, was payable for 2000.

The Compensation Committee awarded long term incentives in 1995 in the form of 175,247 non-qualified stock options at the then current market value. In addition, the Committee recommended that the CEO's options with Global Equity, initially granted in 1995, be converted on an economically equivalent basis to purchase shares of the Company upon consummation of the Global Equity/PICO transaction, December 16, 1998. In August 1998, the Committee recommended and the Board agreed that the Company assume the obligations of Guinness Peat Group plc to the CEO and Chairman under November 1993 Call Option Agreements. In 2000, the Compensation Committee awarded long-term incentives in the form of 456,586 non-qualified stock options with an exercise price of $15.00 per share, compared

to the then current market value of $11.1875 per share.

The Committee believes that the compensation provided by this combination of fixed annual compensation, and short-term and long term incentives provides a mechanism to fairly compensate the CEO while providing the CEO with a strong incentive to maximize shareholder value.

The Committee believes that the compensation provided by this combination of fixed annual compensation, and short-term and long term incentives provides a mechanism to fairly compensate the CEO while providing the CEO with a strong incentive to maximize shareholder value.

STOCK PRICE PERFORMANCE GRAPH

The graph below compares cumulative total return of the Company, the NASDAQ Insurance Stocks Index, and the NASDAQ Stock Market (U.S. Companies) for the period January 1, 1996 through December 31, 2000.

COMPARISON 5-YEAR CUMULATIVE TOTAL RETURN
AMONG PICO HOLDINGS, INC., NASDAQ INSURANCE STOCK INDEX, AND
RUSSELL 2000 INDEX

[CHART]

	Dec-95	Dec-96	Dec-97	Dec-98	Dec-99	Dec-00
PICO Holdings	100.00	117.86	183.93	75.71	70.36	71.07
NASDAQ Insurance Stock Index	100.00	113.37	139.09	139.00	146.70	169.68
Russell 2000 Index	100.00	114.76	138.31	133.54	159.75	153.03

ASSUMES $100 INVESTED ON JAN. 1, 1996
FISCAL YEAR ENDING DEC. 31, 2000

The graph assumes $100 was invested on January 1, 1996 in the Company's common stock, the NASDAQ Insurance Stocks Index, and the Russell 2000 Index, and that all dividends were reinvested. The performance of PICO Holdings, Inc. stock on this graph represents the historical performance of shares of Citation Insurance Group, which was renamed PICO Holdings, Inc. on November 20, 1996. It does not represent the historical stock performance of Physicians Insurance Company of Ohio.

EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

Mr. Langley and Mr. Hart each entered into employment agreements effective December 31, 1997 with the Company. Total compensation to Mr. Langley and Mr. Hart under these employment agreements is $800,000 each on an annual basis. These employment agreements include a change in control clause providing that if there was a change of control before December 31, 1999, the Company was required to immediately pay each employee a total lump sum of $2.4 million and an amount equal to three times the highest annual bonus paid to the employee in the last three years.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of March 1, 2001, with

respect to the beneficial ownership of the Company's common stock entitled to vote by each person known by the Company to be the beneficial owner of more that 5% of common stock, and by each director, each executive officer and all executive officers, former chief executive officers, and directors as a group. Except as otherwise indicated, each person has sole investment and voting power, subject to community property laws. As of March 1, 2001, there were 16,784,223 shares of the Company issued and outstanding. Of these shares, 4,394,127 are held by the Company and its subsidiaries, and may therefore not be voted under California law. The following table excludes shares of the Company held by the Company and its subsidiaries since those shares are not entitled to vote.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES AND NATURE OF BENEFICIAL OWNERSHIP (1)
Ronald Langley(2)(4)(5)	3,975,383
John R. Hart(3)(4)(5)	3,966,217
Robert R. Broadbent (6)	10,949
Carlos C. Campbell (7)	1,500
S. Walter Foulkrod, III, Esq. (6)	4,404
Richard D. Ruppert, MD (8)	8,798
John D. Weil (9)(5)	4,084,392
David A. Williams (6)	155,000
Richard H. Sharpe (10)	93,339
Gary W. Burchfield (11)	54,420
Maxim C. W. Webb (12)	40,759
Sheila C. Ferguson (13)	11,112
James F. Mosier (14)	54,316
PICO Equity Investors, L.P. (15)	3,333,333
Dimensional Fund Advisors, Inc	687,805
Artisan Partners L.P., Artisan Investment Corp., Andrew A. Zeigler, Carlene M. Zeigler	1,162,400
Executive Officers and Directors as a Group (13 persons)	5,793,923

* Less than one percent (1%)

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(1) Sole voting and investment power unless otherwise indicated.

(2) Of these shares, 405,938 represent beneficial ownership of options granted or assumed under Company stock option plans exercisable as of March 1, 2001. Included in these shares are 3,716 shares held in the Company's 401(k) Plan.

(3) Of these shares, 415,489 represent beneficial ownership of options granted or assumed under Company stock option plans exercisable as of March 1, 2001. Included in these shares are 5,272 shares held in the Company's 401(k) Plan. These shares do not include 19,940 shares of the Company held in a deferred compensation plan Rabbi Trust for Mr. Hart.

(4) These shares also include call options owned by Mr. Langley and Mr. Hart. Mr. Langley and Mr. Hart each had 1993 call option agreements with of Guinness Peat Group plc. In August 1998, the Company assumed Guinness Peat's obligations with respect to these 412,846 options. Mr. Langley exercised 57,307 of his call options in December 1998 and has 149,116 call options remaining. Mr. Hart has not exercised any call options and has 206,423 call options remaining.

(5) Mr. Langley, Mr. Hart and Mr. Weil each own equal membership interests in PICO Equity Investors Management, LLC, which has voting control of 3,333,333 shares of the Company.

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(6) Of these shares, 1,500 represent beneficial ownership of options exercisable as of March 1, 2001.

(7) These shares represent beneficial ownership of options exercisable as of March 1, 2001.

(8) Of these shares, 1,500 represent beneficial ownership of options exercisable as of March 1, 2001. Dr. Ruppert shares voting and investment power with his wife.

(9) Of these shares, 694,558 are owned by a partnership which Mr. Weil controls, and 1,500 represent beneficial ownership of options exercisable as of March 1, 2001.

(10) Of these shares, 85,169 represent beneficial ownership of options exercisable as of March 1, 2001. Included in these shares are 3,661 shares held in the Company's 401(k) Plan.

(11) Of these shares, 49,097 represent beneficial ownership of options exercisable as of March 1, 2001. Included in these shares are 1,128 shares held in the Company's 401(k) Plan.

(12) Of these shares, 38,966 represent beneficial ownership of options exercisable as of March 1, 2001. Included in these shares are 1,412 shares held in the Company's 401(k) Plan.

(13) Of these shares, 5,000 represent beneficial ownership of options exercisable as of March 1, 2001. Included in these shares are 1,583 shares held in the Company's 401(k) Plan.

(14) Of these shares, 49,097 represent beneficial ownership of options exercisable as of March 1, 2001. Included in these shares are 2,370 shares held in the Company's 401(k) Plan.

(15) Pursuant to a rights offering conducted by the Company in March 2000, an

investment partnership named PICO Equity Investors, L.P. acquired on March 28, 2000, 3,333,333 newly issued shares which were not subscribed for in the rights offering. PICO Equity Investors, L.P. is managed by PICO Equity Investors Management, LLC. PICO Equity Investors Management, LLC is owned by Mr. Langley, Mr. Hart and Mr. Weil. PICO Equity Investors Management, LLC will exercise all voting and investment decisions with respect to these 3,333,333 shares for up to ten years. The interest of PICO Investors Management, LLC in any profits and losses earned on this investment will be proportional to the capital contributions made to PICO Equity Investors, L.P. by the partners, i.e., 1,000/50,001,000. There are no other fees or other management compensation of any kind payable to Mr. Langley, Mr. Hart and Mr. Weil.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Langley and Mr. Hart entered into employment agreements with the Company, effective December 31, 1997. See Part II, Item 8., NOTE 17, "Related-Party Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, SCHEDULES AND EXHIBITS.

1. FINANCIAL STATEMENTS.

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Consolidated Statements of Operations for the Years Ended December 31, 2000, 1999 and 1998 ....

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2000, 1999, and 1998 ... 5

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998..................

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2. FINANCIAL STATEMENT SCHEDULES.

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULES

To the Shareholders and Board of Directors of
PICO Holdings, Inc.:

We have audited the consolidated financial statements of PICO Holdings, Inc. and subsidiaries (the "Company") at December 31, 2000 and 1999, and for the three years in the period ended December 31, 2000, and our report thereon (which expresses an unqualified opinion, and includes an explanatory paragraph concerning the change in accounting for medical professional liability claims reserves). Our audits of the consolidated financial statements also included the 2000, 1999 and 1998 financial statement schedules of the Company, listed in Item 14. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, based on our audits, such 2000, 1999, and 1998 financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

San Diego, California
March 19, 2001

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SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS

	December 31, 2000
ASSETS	
Cash and cash equivalents	$ 4,331,102
Investments in subsidiaries	126,892,188
Equity securities and other investments	31,464,151
Deferred income taxes	5,670,439
Other assets	38,546,947
Total assets	$ 206,904,827
LIABILITIES AND SHAREHOLDERS' EQUITY	
Accrued expense and other liabilities	$ 1,712,216
Preferred stock, $.01 par value, authorized 2,000,000 shares; none issued (extinguished in 2000)	
Common stock, $.001 par value, authorized 100,000,000 shares: issued 16,784,223 and 13,448,533 at December 31, 2000 and 1999, respectively	16,784
Additional paid-in capital	235,844,655
Accumulated other comprehensive loss	(12,732,978)

Retained earnings	59,893,785
	283,022,246
Less treasury stock, at cost (4,394,127 in 2000 and 1999)	(77,829,635)
Total shareholders' equity	205,192,611
Total liabilities and shareholders' equity	$ 206,904,827

This statement should be read in conjunction with the notes to the consolidated financial statements included in the Company's 2000 Form 10-K

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SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2000	1999
Investment (losses) income, net	$ (4,067,068)	$ 659,
Equity in income (loss) of subsidiaries	3,085,082	(3,939,
Total revenues (charges)	(981,986)	(3,279,
Expenses	6,055,643	5,024,
Loss from continuing operations before income taxes	(7,037,629)	(8,304,
Provision (benefit) for income taxes	(2,475,383)	(1,484,
Loss from continuing operations	(4,562,246)	(6,820,
Income from discontinued operations, net		
Cumulative effect of accounting change, net	(4,963,691)	
Net loss	$ (9,525,937)	$ (6,820,

CONDENSED STATEMENTS OF CASH FLOWS

	2000	1999
Cash flow from operating activities:		
Net loss	$ (9,525,937)	$ (6,820,
Adjustments to reconcile net income (loss) to net cash used or provided in operating activities:		
Equity in (income) loss of subsidiaries	(3,085,082)	3,939,
Income from discontinued operations, net		
Cumulative effect of accounting change, net	4,963,691	
Changes in assets and liabilities:		
Accrued expenses and other liabilities	(15,765,565)	4,709,
Other assets	(37,926,455)	8,144,
Net cash provided by (used in) operating activities	(61,339,348)	9,973,
Cash flow from investing activities:		
Sale of investments	12,910,084	

Purchase of investments		(10,052,
Net cash provided by (used in) investing activities	12,910,084	(10,052,
Cash flow from financing activities:		
Cash received from exercise of warrants		2,850,
Cash received from rights offering, net	49,843,163	
Purchase of treasury shares		(291,
Net cash provided by investing activities	49,843,163	2,558,
Increase in cash and cash equivalents	1,413,899	2,479,
Cash and cash equivalents, beginning of year	2,917,203	437,
Cash and cash equivalents, end of year	$ 4,331,102	$ 2,917,

This statement should be read in conjunction with the
notes to the consolidated financial statements
included in the Company's Form 10-K

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SCHEDULE II

PICO HOLDINGS, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions (1) Charged to Costs and Expenses	Deductions
Year-end December 31, 2000			
Allowance for Doubtful Accounts, net	$ 99,488	$ 114,812	
Valuation Allowance for Deferred Federal Income Taxes	$ 816,163	$ 3,285,424	
Year-end December 31, 1999			
Allowance for Doubtful Accounts, net	$ 94,525	$ 4,963	
Valuation Allowance for Deferred Federal Income Taxes	$ 12,184,499	$ (11,368,336)	
Year-end December 31, 1998			
Allowance for Doubtful Accounts, net	$ 119,024	$ 61,204	$ (85,703)
Valuation Allowance for Deferred Federal Income Taxes	$ 6,800,000	$ 5,384,499	

(1) Increases and decreases in provisions for the allowance for doubtful accounts are charged to expense accounts. Changes in the allowance for deferred federal income taxes are charged to provision (benefit) for federal, foreign and state income taxes except for amounts relating to unrealized investment gains and losses.

(2) Changes in the valuation allowance relating to unrealized investment gains and losses are netted against the net unrealized appreciation (depreciation) on investments account.

SCHEDULE V

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION
(In thousands)
December 31, 2000

	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums	Premium Revenue	Net Investment Income	Losse and Los Expen
Medical professional liability		$ 58,610		$ 1,853	$ 640	$ 1,
Other property and casualty	$ 6,300	62,932	$25,505	32,583	5,622	22,
Total medical professional liability and property and casualty	6,300	121,542	25,505	34,436	6,262	24,
Other operations					1,976	
Total continuing	$ 6,300	$ 121,542	$25,505	$ 34,436	$ 8,238	$ 24,

	Other Operating Expenses	Net Premiums Written
Medical professional liability	$ 1,580	$ 1,853
Other property		

and casualty	3,514	42,191
Total medical professional liability and property and casualty	5,094	44,044
Other operations	21,257	
Total continuing	$ 26,351	$ 44,044

SCHEDULE V

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION
(In thousands)
December 31, 1999

	Deferred Policy Acquisition Costs	Losses, Claims and Loss Expense Reserves	Unearned Premiums	Premium Revenue	Net Investment Income	L E
Medical professional liability		$ 71,859		$ 1,940	$ 1,188	$
Other property and casualty	$ 4,821	67,274	$ 17,205	34,439	4,950	
Total medical professional liability and property and casualty	4,821	139,133	17,205	36,379	6,138	
Other operations					249	
Total continuing	$ 4,821	$ 139,133	$ 17,205	$ 36,379	$ 6,387	$

	Other Operating Expenses	Net Premiums Written
Medical		

professional liability	$ 857	$ 1,934
Other property and casualty	4,528	31,719
Total medical professional liability and property and casualty	5,385	33,653
Other operations	22,868	
Total continuing	$ 28,253	$ 33,653

SCHEDULE V

PICO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION
(In thousands)
December 31, 1998

	Deferred Policy Acquisition Costs	Losses, Claims and Loss Expense Reserves	Unearned Premiums	Premium Revenue	Net Investment Income	Losses and Loss Expenses
Medical professional liability		$ 85,877		$ (159)	$ 2,580	$ 5,628
Other property and casualty	$ 5,549	69,144	$20,804	36,290	5,500	24,900
Total medical professional liability and property and casualty	5,549	155,021	20,804	36,131	8,080	30,528
Other operations					1,181	
Total continuing	$ 5,549	$ 155,021	$20,804	$ 36,131	$ 9,261	$30,528

Other Operating Expenses	Net Premiums Written

Medical professional liability	$ 1,156	$ (160)
Other property and casualty	4,325	35,508
Total medical professional liability and property and casualty	5,481	35,348
Other operations	11,560	
Total continuing	$ 17,041	$35,348

3. EXHIBITS

Exhibit Number	Description
+ 2.2	Agreement and Plan of Reorganization, dated as of May 1, 1996, among PICO, Citation Holdings, Inc. and Physicians and amendment thereto dated August 14, 1996 and related Merger Agreement.
+++++ 2.3	Second Amendment to Agreement and Plan of Reorganization dated November 12, 1996.
# 2.4	Agreement and Debenture, dated November 14, 1996 and November 27, 1996, Respectively, by and between Physicians and HyperFeed.
# 2.5	Purchase and Sale Agreement by, between and among Nevada Land & Resource Company, LLC, Global Equity, Western Water Company and Western Land Joint Venture dated April 9, 1997.
+++++3.1	Amended and Restated Articles of Incorporation of PICO.
+ 3.2.2	Amended and Restated By-laws of PICO.
* 10.8	Flexible Benefit Plan
* 10.16	Office Lease between Citation and North Block Partnership dated July, 1990.
*** 10.16.1	Amendments Nos. 1 and 2 to Office Lease between Citation and North Block Partnership dated January 6, 1992 and February 5, 1992, respectively.
**** 10.16.2	Amendments Nos. 3 and 4 to Office Lease between Citation and North Block Partnership dated December 6, 1993 and October 4, 1994, respectively.
-***** 10.23	PICO Severance Plan for Certain Executive Officers, Senior Management and Key Employees of the Company and its Subsidiaries,

including form of agreement.

-10.55 Consulting Agreements, effective January 1, 1997, regarding retention of Ronald Langley and John R. Hart as consultants by Physicians and Global Equity.

++ 10.57 PICO 1995 Stock Option Plan

-+++ 10.58 Key Employee Severance Agreement and Amendment No. 1 thereto, each made as of November 1, 1992, between PICO and Richard H. Sharpe and Schedule A identifying other substantially identical Key Employee Severance Agreements between PICO and certain of the executive officers of PICO.

+++ 10.59 Agreement for Purchase and Sale of Shares, dated May 9, 1996, among Physicians, Guinness Peat Group plc and Global Equity.

++ 10.60 Agreement for the Purchase and Sale of Certain Assets, dated July 14, 1995 between Physicians, PRO and Mutual Assurance, Inc.

++ 10.61 Stock Purchase Agreement dated March 7, 1995 between Sydney Reinsurance Corporation and Physicians.

++ 10.62 Letter Agreement, dated September 5, 1995, between Physicians, Christopher Ondaatje and the South East Asia Plantation Corporation Limited.

++++ 10.63 Amendment No. 1 to Agreement for Purchase and Sale of Certain Assets, dated July 30, 1996 between Physicians, PRO and Mutual Assurance, Inc.

+++++ 16.1. Letter regarding change in Certifying Accountant from Deloitte & Touche LLP, Independent auditors

18. Letter from Deloitte and Touche LLP regarding change in accounting principle.

21. Subsidiaries of PICO.

23.1. Independent Auditors' Consent - Deloitte & Touche LLP.

28. Form S-8, Registration Statement under the Securities Act of 1933, for the PICO Holdings, Inc. Employees 401(k) Retirement Plan and Trust, Registration No. 333-36881.

29. Form S-8, Registration Statement under the Securities Act of 1933, for the Physicians Insurance Company of Ohio 1995 Non-Qualified Stock Option Plan and assumed by PICO Holdings, Inc., Registration No. 333-32045.

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* Incorporated by reference to exhibit of same number filed with Registration Statement on Form S-1 (File No. 33-36383).

***	Incorporated by reference to exhibit of same number filed With 1992 Form 10-K.
****	Incorporated by reference to exhibit of same number filed with 1994 Form 10-K.
*****	Incorporated by reference to exhibit bearing the same number filed with Registration Statement on Form S-4 (File No. 33-64328).
+	Filed as Appendix to the prospectus in Part I of Registration Statement on Form S-4 (File No. 333-06671)
++	Incorporated by reference to exhibit filed with Physicians' Registration Statement No. 33-99352 on Form S-1 filed with the SEC on November 14, 1995.
+++	Incorporated by reference to exhibit filed with Registration Statement on Form S-4 (File no. 333-06671).
++++	Incorporated by reference to exhibit filed with Amendment No. 1 to Registration Statement No. 333-06671 on Form S-4.
+++++	Incorporated by reference to exhibit of same number filed with Form 8-K dated December 4, 1996.
-	Executive Compensation Plans and Agreements.
#	Incorporated by reference to exhibit of same number filed with Form 10-K dated April 15, 1997.
##	Incorporated by reference to exhibit * of same number filed with 10-K/A dated April 30, 1997.
###	Incorporated by reference to Form S-8 filed with the Securities and Exchange Commission (File No. 333-36881).
####	Incorporated by reference to Form S-8 filed with the Securities and Exchange Commission (File No. 333-32045).

(b) REPORTS ON FORM 8-K.

On March 19, 2001, PICO filed a Form 8-K announcing that it's water rights and water storage subsidiary, Vidler Water Company, Inc., had sold a portion of its land and water rights in Arizona's Harquahala Valley ground water basin to a unit of Allegheny Energy, Inc.

On December 22, 1998 and January 8, 1999, PICO filed Form 8-K and Form 8-K/A, respectively, announcing jointly with Global Equity the December 16, 1998 closing of the PICO/Global Equity Combination and the 1-for-5 Reverse Stock Split.

On October 9, 1998, PICO filed a Form 8-K announcing the conversion of the Company's HyperFeed subordinated convertible debenture, working capital loans and accrued interest into HyperFeed 5% Convertible Preferred Stock and common stock warrants.

On October 9, 1998, PICO filed a Form 8-K announcing jointly with Global Equity the September 18, 1998 filing with the SEC of their Joint Proxy Statement in connection with the PICO/Global Equity Combination.

On July 21, 1998, PICO filed a Form 8-K announcing the favorable response by Global Equity's independent committee of directors regarding the PICO/Global Equity Combination including disclosure of the share exchange ratio.

On May 20, 1998, PICO filed a Form 8-K announcing PICO's consideration of the proposed PICO/Global Equity Combination through a Plan of Arrangement.

See also Item 9 of Part II of this report for a listing of additional 8-K documents filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 29, 2001

PICO Holdings, Inc.

By: /s/ John R. Hart

John R. Hart
Chief Executive Officer
President and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on March 29, 2001 the following persons in the capacities indicated.

Signature	Title
/s/ Ronald Langley Ronald Langley	Chairman of the Board
/s/ John R. Hart John R. Hart	Chief Executive Officer, President and Director
/s/ Gary W. Burchfield Gary W. Burchfield	Chief Financial Officer and Treasurer (Chief Accounting Officer)
/s/ S. Walter Foulkrod, III, Esq. S. Walter Foulkrod, III, Esq.	Director

/s/ Richard D. Ruppert, MD --------------------------------------- Richard D. Ruppert, MD	Director
/s/ David A. Williams --------------------------------------- David A. Williams	Director
/s/ Carlos C. Campbell --------------------------------------- Carlos C. Campbell	Director
/s/ Robert R. Broadbent --------------------------------------- Robert R. Broadbent	Director
/s/ John D. Weil --------------------------------------- John D. Weil	Director