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.

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") White Pine County, 40 miles west of Ely	9,985 acres of deeded land 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	Vidl hay,
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.

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.

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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.

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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