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PICO HOLDINGS INC /NEW
Form 11-K
July 13, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington DC 20549

FORM 11-K

(Mark One)

- (X) ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the plan year ended September 30, 2003

OR

- () TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the Transition Period from to

Commission File Number: 0-18786

- A. Full title of the plan and the address of the plan, if different
from that of the issuer named below:

PICO HOLDINGS, INC. EMPLOYEES 401(k) RETIREMENT PLAN AND TRUST

- B. Name of issuer of the securities held pursuant to the plan and the
address of its principal executive office:

PICO HOLDINGS, INC.
875 PROSPECT STREET, SUITE 301
LA JOLLA, CALIFORNIA 92037

Index to Exhibits appears on Page 11
Page 1 of 12 pages

REQUIRED INFORMATION

The following financial statements and schedules for PICO Holdings, Inc.
Employees 401(k) Retirement Plan and Trust are being filed herewith:

Signature

Report of Independent Registered Public Accounting Firm

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Financial Statements:

Statements of Net Assets Available for Benefits, September 30, 2003 and 2002

Statement of Changes in Net Assets Available for Benefits for the Year Ended September 30, 2003

Notes to the Financial Statements

Supplemental Schedules:

Form 5500, Schedule H, Part IV, Line 4i - Schedule of Assets Held for Investment Purposes as of September 30, 2003

Index to Exhibits

Exhibit 1 - Consent of Independent Registered Public Accounting Firm

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SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

PICO HOLDINGS, INC. EMPLOYEES 401(k)
RETIREMENT PLAN AND TRUST

/s/ Maxim C. W. Webb

Chief Financial Officer and Treasurer

Date: July 13, 2004

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PICO Holdings, Inc.
Employees 401(k) Retirement Plan and Trust
Columbus, Ohio

We have audited the accompanying statements of net assets available for benefits of PICO Holdings, Inc. Employees 401(k) Retirement Plan and Trust (the "Plan") as of September 30, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended September 30, 2003. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on

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our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of September 30, 2003 and 2002, and the changes in net assets available for benefits for the year ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes as of September 30, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. Such supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2003 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic 2003 financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio
July 9, 2004

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PICO HOLDINGS, INC. EMPLOYEES 401(k)
RETIREMENT PLAN AND TRUST

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 2003 AND 2002

| ASSETS | 2003 | 2002 |
|-----------------------------------|-------------|-------------|
| INVESTMENTS: | | |
| Mutual funds | \$3,196,075 | \$4,236,420 |
| Common stock | 662,056 | 739,052 |
| Cash and cash equivalents | 1,258,937 | 1,598,391 |
| | ----- | ----- |
| Total investments | 5,117,068 | 6,573,863 |
| RECEIVABLES: | | |
| Employer's matching contributions | 9,290 | 10,773 |
| Participants' contributions | 4,234 | 11,550 |

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| | | |
|---|-------------|-------------|
| Employer's profit sharing contributions | 200,189 | 467,791 |
| | ----- | ----- |
| Total receivables | 213,713 | 490,114 |
| | ----- | ----- |
| NET ASSETS AVAILABLE FOR BENEFITS | \$5,330,781 | \$7,063,977 |
| | ===== | ===== |

See notes to financial statements.

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PICO HOLDINGS, INC. EMPLOYEES 401(k)
RETIREMENT PLAN AND TRUST

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED SEPTEMBER 30, 2003

| | | |
|---|--|--------------|
| ADDITIONS: | | |
| Interest and dividends | | \$ 104,651 |
| Net appreciation in fair value of investments | | 790,610 |
| Contributions: | | |
| Employer | | 457,171 |
| Participants | | 439,510 |
| | | ----- |
| Total additions | | 1,791,942 |
| BENEFITS PAID TO PARTICIPANTS | | (3,525,138) |
| | | ----- |
| NET DECREASE IN NET ASSETS AVAILABLE FOR BENEFITS | | (1,733,196) |
| NET ASSETS AVAILABLE FOR BENEFITS: | | |
| Beginning of year | | 7,063,977 |
| | | ----- |
| End of year | | \$ 5,330,781 |
| | | ===== |

See notes to financial statements.

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PICO HOLDINGS, INC. EMPLOYEES 401(k)
RETIREMENT PLAN AND TRUST

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

1. DESCRIPTION OF PLAN

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The following description of the PICO Holdings, Inc. Employees 401(k) Retirement Plan and Trust (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

GENERAL -- The Plan is a defined contribution 401(k) profit sharing plan covering eligible employees, as defined in the Plan Agreement of PICO Holdings, Inc. (the "Plan Sponsor"). The Plan was adopted to provide retirement benefits to employees of the Plan Sponsor. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA") and has been determined to be qualified for tax-exempt status by the Internal Revenue Service ("IRS").

CONTRIBUTIONS -- Each year, participants may contribute up to the maximum allowed by law of pretax annual compensation, as defined in the Plan, not to exceed \$10,000 (based on Section 401(a)(17) compensation limit of \$200,000 as indexed). The Plan Sponsor matches up to 5% of the elective deferral of base compensation that a participant contributes to the Plan. The Plan Sponsor's matching contribution does not begin until the first day of the quarter after an employee completes one year of service. Additional amounts which represent profit sharing, as defined in the Plan, may be contributed at the option of the Plan Sponsor's Board of Directors.

PARTICIPANT ACCOUNTS -- Each participant's account is credited with the participant's contributions, employer matching contributions, earnings as applicable, and allocations of (a) the Plan Sponsor's discretionary profit sharing contributions and (b) Plan earnings, and debited for withdrawals as applicable. Forfeited balances of terminated participants' nonvested accounts are used to first reinstate previously forfeited account balances of reemployed participants and any remainder will be used to reduce the Plan Sponsor's discretionary profit sharing contribution for the current or subsequent Plan year in which the forfeiture occurs. Forfeitures of \$25,173 and \$22,035 in 2003 and 2002, respectively, were used to reduce the Plan Sponsor's discretionary profit sharing contribution.

VESTING -- Participants are immediately vested in their contributions, the employer matching contributions, plus earnings thereon. Vesting in the Plan Sponsor's discretionary profit sharing contribution portion of their accounts plus actual earnings thereon is based on years of credited service in accordance with the following schedule:

| YEARS OF SERVICE | PERCENTAGE |
|------------------|------------|
| Less than three | 0 % |
| 3 | 20 % |
| 4 | 40 % |
| 5 | 60 % |
| 6 | 80 % |
| 7 or more | 100 % |

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INVESTMENT OPTIONS -- Upon enrollment in the Plan, a participant may direct 100% of elective deferrals, employer match and discretionary profit sharing amounts. A participant chooses from a number of different mutual fund options. In addition, participants are able to invest in the stock of PICO Holdings, Inc., the Plan Sponsor.

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LOANS TO PARTICIPANTS -- Loans to participants are not permitted under the Plan, and no loans were outstanding at September 30, 2003 and 2002.

PAYMENT OF BENEFITS -- Upon termination of service, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or annual installments. If the value of the participant's account is \$5,000 or less, the Trustee shall distribute the entire vested account to the participant. Amounts payable to such participants at September 30, 2003 and 2002 were \$0 and \$4,570, respectively.

PLAN TERMINATION -- While the Plan Sponsor has not expressed any intent to discontinue the Plan or its contributions thereto, they have the right to do so at any time, subject to the provisions of ERISA. In the event of partial or total termination of the Plan, participants' account balances become fully vested and the disposition of the net assets must be made for the benefit of the participants or their beneficiaries (See Note 6).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION -- The accounting records of the Plan are maintained on the accrual basis. Purchases and sales of securities are recorded on the trade date. Interest income is recorded as earned and dividend income is recorded on the ex-dividend date.

INVESTMENT VALUATION -- Investments in mutual funds, money market funds and PICO Holdings, Inc. common stock fund are valued at quoted market prices.

ADMINISTRATIVE EXPENSES -- The Plan's expenses are paid by the Plan Sponsor.

USE OF ESTIMATES -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and the changes in net assets during the reporting period and disclosure of contingent assets at the date of the financial statements. Actual results could differ from those estimates.

INVESTMENT RISK -- The Plan utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

RECLASSIFICATIONS -- Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

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3. TAX STATUS

The Internal Revenue Service has determined and informed the Company, by a letter dated September 17, 2003, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code ("IRC"). The Plan has been amended since the latest determination

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letter. However, the Plan administrator believes the Plan, as currently designed, is in compliance and is being operated within the applicable requirements of the IRC.

4. INVESTMENTS

The Plan's investments which exceeded 5% of net assets available for benefits as of September 30 consisted of the following:

| | 2003 | 2002 |
|---|-------------|-------------|
| Smith Barney Money Market -- Government Portfolio | \$1,258,937 | \$1,590,954 |
| Strong Government Securities | 411,165 | 784,066 |
| PICO Holdings, Inc., Common Stock | 662,056 | 739,052 |
| American Century Ultra Fund | 413,012 | 685,188 |
| Royce Premier Fund | 478,503 | 493,394 |
| Citi S&P 500 Index Funds | 321,769 | |
| Neuberger Berman Focus Trust Fund | 290,433 | |

5. RELATED PARTY TRANSACTIONS

Plan investments include common stock of PICO Holdings, Inc. and Smith Barney Money Market Government Portfolio funds. PICO Holdings, Inc. is the Plan Sponsor, Smith Barney Corporate Trust Company is the Plan Custodian, and Citistreet Retirement Services is the record keeper. The Plan Sponsor pays all administrative expenses of the Plan.

6. CHANGES IN PLAN PARTICIPATION

On March 31, 2003, approximately 51% of Plan participants were terminated from the Plan as a result of PICO Holdings, Inc.'s sale of its subsidiary Sequoia Insurance Company. Participants' account balances became fully vested upon termination. As of the end of the plan year, six terminated Sequoia employees maintain participants' account balances in the Plan. The value of these six accounts as of September 30, 2003 totaled \$362,942.

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PICO HOLDINGS, INC. EMPLOYEES 401(k)
RETIREMENT PLAN AND TRUST

FORM 5500 SCHEDULE H, PART IV LINE 4I -- SCHEDULE OF ASSETS HELD
FOR INVESTMENT PURPOSES (AT END OF YEAR)
SEPTEMBER 30, 2003

| DESCRIPTION | NUMBER OF SHARES | COST | |
|--|------------------------|------------|----|
| INVESTMENTS -- MUTUAL FUNDS: | | | |
| ABN AMRO Montag & Caldwell Growth -- N Share | 4,227 | \$ 118,959 | \$ |
| American Century Ultra Fund | 16,934 | 623,104 | 4 |
| Citi S&P 500 Index Funds | 31,484 | 354,002 | 3 |
| Credit Suisse Warburg Pincus | 4,677 | 46,576 | |
| Dreyfus Emerging Markets | 6,562 | 81,711 | |

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| | | | |
|---|-----------|-------------|-------|
| Dreyfus Founders Discovery Fund | 6,900 | 253,904 | 1 |
| Dreyfus US Treasury Long | 1,731 | 27,640 | |
| Europacific Growth Fund | 6,374 | 159,478 | 1 |
| Gabelli Growth Fund | 6,049 | 210,179 | 1 |
| Gabelli Global Growth Fund | 1,662 | 31,321 | |
| ING GNMA Income Fund | 8,480 | 74,502 | |
| INVESCO Health Sciences | 4,770 | 228,134 | 2 |
| Merril Lynch International Value Fund | 936 | 19,522 | |
| Neuberger Berman Focus Trust Fund | 12,348 | 393,542 | 2 |
| Royce Premier Fund | 41,718 | 436,443 | 4 |
| Strong Government Securities | 36,678 | 393,016 | 4 |
| Washington Mutual Investors | 9,136 | 239,639 | 2 |
| | | ----- | --- |
| Total Mutual Funds | | 3,691,672 | 3,1 |
| PICO Holdings, Inc., Common Stock | 50,156 | 601,078 | 6 |
| Smith Barney Money Market -- Government Portfolio | 1,258,937 | 1,258,937 | 1,2 |
| | | ----- | --- |
| TOTAL | | \$5,551,687 | \$5,1 |
| | | ===== | ==== |

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PICO HOLDINGS, INC.
EMPLOYEES 401(k) RETIREMENT PLAN & TRUST
ANNUAL REPORT ON FORM 11-K

FOR PLAN YEAR ENDED SEPTEMBER 30, 2003

INDEX TO THE EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| ----- | ----- |
| 1 | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm |

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