

WESCO FINANCIAL CORP  
Form 10-Q  
August 14, 2001  
Table of Contents

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

Quarterly report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934

For the Quarterly period ended June 30, 2001 or

Transition report pursuant to section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-4720

**WESCO FINANCIAL CORPORATION**

\_\_\_\_\_  
(Exact name of Registrant as Specified in its Charter)

**DELAWARE**

**95-2109453**

\_\_\_\_\_  
(State or Other Jurisdiction of  
incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

**301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901**

\_\_\_\_\_  
(Address of Principal Executives Offices)  
(Zip Code)  
**626/585-6700**

\_\_\_\_\_  
(Registrant's Telephone Number, Including Area Code)

\_\_\_\_\_  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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  No

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 7,119,807 as of August 10, 2001

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Submission of Matters to a Vote of Security-Holders

**PART II. OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K

**SIGNATURES**

CONDENSED CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

CONDENSED CONSOLIDATED BALANCE SHEET

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

The condensed consolidated financial statements of Wesco Financial Corporation ( Wesco ), listed in the accompanying index, are incorporated as an integral part of this report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

See pages 11 through 15.

Item 4. Submission of Matters to a Vote of Security-Holders

Following is a table showing the votes cast for, and withheld from voting for, each nominee at the annual meeting of shareholders of Wesco held May 2, 2001, at which meeting the shareholders reelected all of its Directors:

| Name                     | Favorable<br>Votes | Votes<br>Withheld |
|--------------------------|--------------------|-------------------|
| Charles T. Munger        | 6,893,520          | 42,813            |
| Robert H. Bird           |                    |                   |
| 6,893,831 37,502         |                    |                   |
| Carolyn H. Carlburg      |                    |                   |
| 6,926,060 10,273         |                    |                   |
| Robert E. Denham         |                    |                   |
| 6,926,721 9,582          |                    |                   |
| James N. Gamble          |                    |                   |
| 6,929,606 6,727          |                    |                   |
| Elizabeth Caspers Peters |                    |                   |
| 6,924,739 11,594         |                    |                   |
| David K. Robinson        |                    |                   |
| 6,926,606 9,727          |                    |                   |

There were no abstentions or broker non-votes. No other matters were voted upon at the meeting.

**PART II. OTHER INFORMATION**

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits None
- (b) Reports on Form 8-K None

-2-

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**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESCO FINANCIAL CORPORATION

Date: August 10, 2001

By: \_\_\_\_\_

Jeffrey L. Jacobson  
Vice President and  
Chief Financial Officer  
(principal financial and  
accounting officer)

**WESCO FINANCIAL CORPORATION  
FINANCIAL STATEMENTS FILED WITH FORM 10-Q  
FOR QUARTER ENDED JUNE 30, 2001**

**INDEX**

|                                                                                                                                     | <u>Page(s)</u> |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------|
| Condensed consolidated statement of income and retained earnings three- and six-month periods ended June 30, 2001 and June 30, 2000 | 4              |
| Condensed consolidated balance sheet June 30, 2001 and December 31, 2000                                                            | 5              |
| Condensed consolidated statement of cash flows six-month periods ended June 30, 2001 and June 30, 2000                              | 6              |
| Notes to condensed consolidated financial statements                                                                                | 7-10           |

-3-

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**Table of Contents**

**WESCO FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF  
INCOME AND RETAINED EARNINGS**  
(Dollar amounts in thousands except for amounts per share)  
(Unaudited)

| <u>Three Months<br/>Ended</u> | <u>Six Months<br/>Ended</u> |
|-------------------------------|-----------------------------|
|-------------------------------|-----------------------------|

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| June<br>30,<br>2001 | June<br>30,<br>2000 | June<br>30,<br>2001 | June<br>30,<br>2000 |
|---------------------|---------------------|---------------------|---------------------|
|---------------------|---------------------|---------------------|---------------------|

Revenues:

|                               |           |           |           |           |
|-------------------------------|-----------|-----------|-----------|-----------|
| Sales and service revenues    | \$116,203 | \$120,560 | \$236,734 | \$184,647 |
| Insurance premiums earned     | 8,900     | 5,335     | 17,577    | 9,846     |
| Dividend and interest income  | 18,174    | 13,191    | 38,029    | 25,188    |
| Realized net securities gains | 430,322   |           | 613,727   |           |
| Other                         | 783       | 794       | 1,571     | 1,542     |

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144,060 570,202 293,911 834,950

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Costs and expenses:

|                                                             |        |        |         |        |
|-------------------------------------------------------------|--------|--------|---------|--------|
| Cost of products and services sold                          | 36,955 | 39,574 | 76,407  | 65,805 |
| Insurance losses, loss adjustment and underwriting expenses | 7,257  | 4,356  | 14,436  | 8,602  |
| Selling, general and administrative expenses                | 73,328 | 64,674 | 142,528 | 94,813 |
| Interest expense                                            | 1,447  | 1,383  | 2,713   | 2,035  |
| Goodwill amortization                                       | 1,878  | 1,786  | 3,709   | 2,743  |

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120,865 111,773 239,793 173,998

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Income before income taxes  
23,195 458,429 54,118 660,952  
Provision for income taxes  
(8,089) (160,348) (19,195) (230,159)

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Net income  
15,106 298,081 34,923 430,793  
Retained earnings beginning of period  
1,483,701 682,883 1,466,126 552,343  
Cash dividends declared and paid  
(2,243) (2,172) (4,485) (4,344)

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Retained earnings end of period  
\$1,496,564 \$978,792 \$1,496,564 \$978,792

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Amounts per capital share based on 7,119,807 shares  
outstanding throughout each period:

Net income

\$2.12 \$41.87 \$4.90 \$60.51

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Cash dividends

\$ .315 \$ .305 \$ .630 \$ .610

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\_\_\_\_\_  
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\_\_\_\_\_

See notes beginning on page 7.

-4-

**Table of Contents**

**WESCO FINANCIAL CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET**  
(Dollar amounts in thousands)  
(Unaudited)

|                                  | <u>June 30,</u><br>2001 | <u>Dec. 31,</u><br>2000 |
|----------------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                    |                         |                         |
| Cash and cash equivalents        |                         |                         |
| \$289,345                        | \$153,810               |                         |
| Investments:                     |                         |                         |
| Securities with fixed maturities |                         |                         |
| 724,432                          | 839,683                 |                         |
| Marketable equity securities     |                         |                         |
| 632,613                          | 833,937                 |                         |
| Rental furniture, net            |                         |                         |
| 242,693                          | 244,847                 |                         |

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Goodwill of acquired businesses,  
net  
267,265 260,037  
Other assets  
137,327 128,601

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\$2,293,675 \$2,460,915

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LIABILITIES AND  
SHAREHOLDERS EQUITY

Insurance losses and loss  
adjustment expenses  
\$45,600 \$39,959  
Deferred furniture rental income  
and security deposits  
26,734 27,669  
Notes payable  
76,268 56,035  
Income taxes payable, principally  
deferred  
210,706 305,175  
Other liabilities  
57,147 55,043

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Total liabilities  
416,455 483,881

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Shareholders equity:

Capital stock and capital in excess  
of par value  
30,439 30,439  
Unrealized appreciation of  
investments, net of taxes  
350,217 480,469  
Retained earnings  
1,496,564 1,466,126

\_\_\_\_\_  
 \_\_\_\_\_

Total shareholders' equity  
 1,877,220 1,977,034

\_\_\_\_\_  
 \_\_\_\_\_

\$2,293,675 \$2,460,915

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See notes beginning on page 7.

**Table of Contents**

**WESCO FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
 (Dollar amounts in thousands)  
 (Unaudited)

|                                                                         | Six Months Ended |                  |
|-------------------------------------------------------------------------|------------------|------------------|
|                                                                         | June 30,<br>2001 | June 30,<br>2000 |
| Cash flows from operating activities, net                               | \$64,034         | \$(136,717)      |
| Cash flows from investing activities:                                   |                  |                  |
| Maturities of investments                                               |                  |                  |
| 366,653 932,893                                                         |                  |                  |
| Sales of investments                                                    |                  |                  |
| 5,505                                                                   |                  |                  |
| Purchases of investments                                                |                  |                  |
| (251,474) (270,309)                                                     |                  |                  |
| Acquisition of businesses, net of cash<br>and cash equivalents acquired |                  |                  |
| (16,514) (380,460)                                                      |                  |                  |
| Purchases of rental furniture                                           |                  |                  |
| (40,561) (48,070)                                                       |                  |                  |



Other, net  
(2,218) (2,172)

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Net cash flows from investing  
activities  
55,886 237,387

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Cash flows from financing activities:

Net borrowings (repayments) of notes  
20,100 13,700  
Payment of cash dividends  
(4,485) (4,344)

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Net cash flows from financing  
activities  
15,615 9,356

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Increase in cash and cash equivalents  
135,535 110,026  
Cash and cash equivalents beginning  
of period  
153,810 66,331

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Cash and cash equivalents end of  
period  
\$289,345 \$176,357

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Supplementary information:

Interest paid during period  
\$2,559 \$1,980

Income taxes paid, net, during period  
\$43,461 \$220,604

See notes beginning on page 7.

-6-

**Table of Contents**

**WESCO FINANCIAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollar amounts in thousands except for amounts per share)  
(Unaudited)

Note 1

The condensed consolidated financial statements include the accounts of Wesco Financial Corporation ( Wesco ) and its subsidiaries, including CORT Business Services, Inc. ( CORT ), acquired in the first quarter of 2000 (see Note 3). In the opinion of management, all adjustments necessary to a fair statement of the consolidated results of operations (consisting only of normal recurring accruals) are reflected in such statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets, which changes the current accounting model that requires amortization of intangible assets, supplemented by impairment tests to determine whether such assets have become permanently impaired, to an accounting model that continues to require impairment tests to determine whether permanent impairment exists but no longer calls for amortization except for intangible assets with finite lives. The provisions of SFAS No. 142 will generally be effective for Wesco at the beginning of 2002. Although Wesco has not completed its assessment of this new accounting standard, its management believes that its implementation may have a material effect on Wesco's consolidated earnings beginning in 2002 and on the comparability of such earnings with those of prior periods.

Note 2

Reference is made to the following financial information deemed generally applicable to the condensed consolidated financial statements: (1) the notes to Wesco's consolidated financial statements appearing on pages 34 through 41 of its 2000 Form 10-K Annual Report, and (2) the audited consolidated financial statements of CORT, attached as Exhibit 99 to Wesco's Form 8-K/A filed April 28, 2000.

Note 3

In late February 2000, a wholly owned subsidiary of Wesco acquired all of the outstanding common stock of CORT pursuant to a tender offer and merger. The acquisition has been accounted for as a purchase, with CORT's accounts included in the condensed consolidated financial

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statements as of the date of acquisition.

The following unaudited table presents pro forma consolidated operating data for Wesco and its subsidiaries for the six months ended June 30, 2000 as if CORT had been acquired on January 1, 2000. It reflects (1) elimination of estimated income that would have been earned during the period if investments liquidated in 2000 to fund most of the purchase had been liquidated on January 1, 2000, (2) inclusion of interest expense throughout the period as if line-of-credit borrowings to fund a portion of the purchase had been made

-7-

### Table of Contents

on January 1, 2000, and (3) amortization of the excess of purchase price over fair value of identified net assets acquired (goodwill) over 40 years beginning January 1, 2000.

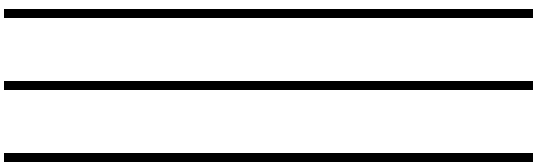
|                            | Six Months<br>Ended<br>June 30,<br>2000 |
|----------------------------|-----------------------------------------|
| Sales and service revenues | \$ 234,874                              |
| Total revenues             |                                         |
| 874,143                    |                                         |
| Net income                 |                                         |
| 428,523                    |                                         |
| Per Wesco capital share    |                                         |
| 60.19                      |                                         |

#### Note 4

Following is a summary of securities with fixed maturities:

|                                                                 | June 30, 2001    | December 31, 2000 |
|-----------------------------------------------------------------|------------------|-------------------|
| Amortized (Carrying) Amortized (Carrying) Cost Value Cost Value | Quoted<br>Market | Quoted<br>Market  |
| Mortgage backed securities                                      |                  |                   |
| \$703,810 \$716,662 \$635,173 \$647,210                         |                  |                   |
| Other                                                           |                  |                   |
| 7,737 7,770 192,495 192,473                                     |                  |                   |
|                                                                 |                  |                   |



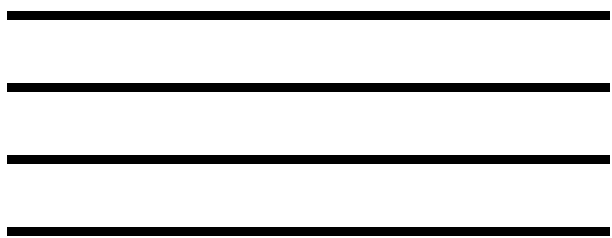


**Table of Contents**

Note 5

The following table sets forth Wesco's consolidated comprehensive income (loss) for the three- and six-month periods ended June 30, 2001 and 2000:

|                                                                                                                                                       | Three Months Ended |               | Six Months Ended |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                                                                                                                       | June 30, 2001      | June 30, 2000 | June 30, 2001    | June 30, 2000 |
| Net income                                                                                                                                            | \$ 15,106          | \$ 298,081    | \$ 34,923        | \$ 430,793    |
| Increase (decrease) in unrealized appreciation of investments, net of income tax effect of \$8,996, (\$12,142), \$70,203 and \$50,169                 | (16,855)           | 22,812        | (130,252)        | (92,727)      |
| Reversal of unrealized appreciation upon inclusion of realized net gains in net income, net of income tax effect of \$0, \$150,613, \$0 and \$214,805 | (279,710)          | (398,922)     |                  |               |
| <hr/>                                                                                                                                                 |                    |               |                  |               |
| <hr/>                                                                                                                                                 |                    |               |                  |               |
| <hr/>                                                                                                                                                 |                    |               |                  |               |
| <hr/>                                                                                                                                                 |                    |               |                  |               |
| Comprehensive income (loss)                                                                                                                           | \$(1,749)          | \$41,183      | \$( 95,329)      | \$( 60,856)   |



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Note 6

Following is condensed consolidated financial information for Wesco, broken down by business segment, including a furniture rental segment created in 2000 by the acquisition of CORT (see Note 3):

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2001 |

Insurance segment:

Revenues

\$26,768 \$18,403 \$55,048 \$34,776

Net income

13,270 10,325 27,549 19,732

Assets at end of period

1,649,643 1,881,982 1,649,643 1,881,982

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Furniture rental segment:

Revenues

\$103,960 \$103,323 \$209,918 \$149,373

Net income

3,494 9,073 10,269 13,270

Assets at end of period

331,146 329,269 331,146 329,269

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Industrial segment:

Revenues

\$12,232 \$17,271 \$26,810 \$35,345

Net income

(8) 555 275 1,262

Assets at end of period

21,326 27,055 21,326 27,055

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Goodwill of acquired businesses:

Amortization, net of income taxes  
 \$(1,707) \$(1,658) \$(3,384) \$(2,572)  
 Assets at end of period  
 267,265 260,926 267,265 260,926

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**Table of Contents**

| Three Months Ended |                  | Six Months Ended |                  |
|--------------------|------------------|------------------|------------------|
| June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2001 |

Realized net securities gains:

Before taxes (included in revenues)  
 \$ 430,322 \$ 613,727  
 After taxes (included in net income)  
 279,710 398,922

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Other items unrelated to business segments:

Revenues  
\$1,100 \$883 \$2,135 \$1,729  
Net income  
57 76 214 179  
Assets at end of period  
24,295 21,011 24,295 21,011

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Consolidated totals:

Revenues  
\$144,060 \$570,202 \$293,911 \$834,950  
Net income  
15,106 298,081 34,923 430,793  
Assets at end of period  
2,293,675 2,520,243 2,293,675 2,520,243

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**Table of Contents**

WESCO FINANCIAL CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to management's discussion and analysis of Wesco's consolidated financial condition and results of operations appearing on pages 18 through 26 of its 2000 Form 10-K Annual Report and to Exhibit 99 to Wesco's Form 8-K/A filed April 28, 2000 for information deemed generally appropriate to an understanding of the accompanying condensed consolidated financial statements. The information set forth in the following paragraphs updates such information.

FINANCIAL CONDITION

Wesco's shareholders' equity at June 30, 2001 was approximately \$1.9 billion (\$264 per share). Of this amount, 19% represented unrealized appreciation of securities, which could differ substantially from gains ultimately realized. Wesco's management continues to believe that the Wesco group has adequate liquidity and financial strength to minimize any downturn in its fortunes.



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RESULTS OF OPERATIONS

The following summary sets forth the contribution to Wesco's consolidated net income of each business segment—insurance, furniture rental and industrial—as well as activities not considered related to such segments. Realized net securities gains and goodwill amortization are excluded from segment activities, consistent with the way Wesco's management views the business operations. (Amounts are in thousands, *all after income tax effect*.)

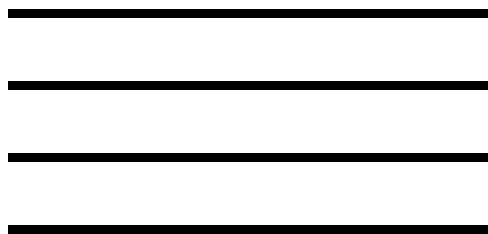
|                                          | Three Months Ended |                  | Six Months Ended |                  |
|------------------------------------------|--------------------|------------------|------------------|------------------|
|                                          | June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2000 |
| Insurance segment                        | \$13,270           | \$10,325         | \$27,549         | \$19,732         |
| Furniture rental segment                 |                    |                  |                  |                  |
| 3,494 9,073 10,269 13,270                |                    |                  |                  |                  |
| Industrial segment                       |                    |                  |                  |                  |
| (8) 555 275 1,262                        |                    |                  |                  |                  |
| Unrelated to business segment operations |                    |                  |                  |                  |
| Goodwill amortization                    |                    |                  |                  |                  |
| (1,707) (1,658) (3,384) (2,572)          |                    |                  |                  |                  |
| Other nonsegment items                   |                    |                  |                  |                  |
| 57 76 214 179                            |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| Income before realized securities gains  |                    |                  |                  |                  |
| 15,106 18,371 34,923 31,871              |                    |                  |                  |                  |
| Realized net securities gains            |                    |                  |                  |                  |
| 279,710 398,922                          |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| Consolidated net income                  | \$15,106           | \$298,081        | \$34,923         | \$430,793        |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |
| <hr/>                                    |                    |                  |                  |                  |

**Table of Contents**

*Insurance Segment*

The insurance segment comprises Wesco-Financial Insurance Company ( Wes-FIC ) and The Kansas Bankers Surety Company ( KBS ). Following is a summary of the results of segment operations, which represent essentially the combination of underwriting results with dividend and interest income (in thousands):

|                              | Three Months Ended |                  | Six Months Ended |                  |
|------------------------------|--------------------|------------------|------------------|------------------|
|                              | June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2000 |
| Premiums written             | \$9,260            | \$8,446          | \$19,892         | \$15,486         |
| Premiums earned              | \$8,900            | \$5,335          | \$17,577         | \$9,846          |
| Underwriting gain            | \$1,643            | \$980            | \$3,141          | \$1,244          |
| Dividend and interest income | 17,868             | 13,068           | 37,471           | 24,930           |
| Income before income taxes   | 19,511             | 14,048           | 40,612           | 26,174           |
| Income tax provision         | (6,241)            | (3,723)          | (13,063)         | (6,442)          |
| Segment net income           | \$13,270           | \$10,325         | \$27,549         | \$19,732         |



Premiums written for the first six months of 2001 included \$10.6 million attributable to Wes-FIC and \$9.3 million attributable to KBS. Of those amounts, \$4.9 million and \$4.4 million were written in the second quarter, respectively. Premiums written for the first six months of 2000 included \$6.8 million attributable to Wes-FIC and \$8.7 million attributable to KBS. Of those amounts, \$4.0 million and \$4.4 million were written in the second quarter, respectively. The increase in Wes-FIC's premiums written in 2001 was attributable principally to its ongoing participation in a three-year arrangement for the reinsurance of certain property and casualty exposure ceded by a large, unaffiliated insurer.

Earned premiums for the second quarter and first six months of 2001 included \$4.5 million and \$9.0 million attributable to Wes-FIC, versus \$1.3 million and \$1.8 million attributable to Wes-FIC for the comparable periods of 2000. The remainder in each period was attributable to KBS. The increase in Wes-FIC's earned premiums in 2001 related mainly to the reinsurance participation described in the preceding paragraph.

The underwriting gains reported for the 2001 and 2000 periods were attributable to the profitable underwriting results of KBS. The improvement in underwriting results in 2001 was due mainly to a decrease in losses incurred by KBS. KBS's reinsurance program was restructured effective January 1, 1998 in an effort to improve operating results over the long term in return for greater short-term volatility.

The income tax provision of the insurance segment generally fluctuates somewhat as a percentage of its pre-tax income mainly due to fluctuations in the relationship of substantially tax-exempt components of income to total pre-tax income.

-12-

**Table of Contents**

*Furniture Rental Segment*

The furniture rental segment consists of CORT Business Services Corporation (CORT), which was acquired in late February 2000 (see Note 3 to the accompanying condensed consolidated financial statements). Following is a summary of CORT's operating results for the second quarters of 2001 and 2000, and first six months of 2001. For comparison, we also present (1) unaudited data for the entire six-month period ended June 30, 2000, excluding items not classified as segment-related by Wesco goodwill amortization, securities gains or losses, and income tax provisions or benefits related thereto, and (2) data included in Wesco's consolidated results from late February to June 30, 2000. (Amounts are in thousands.)

| Three Months Ended |               | Six Months Ended |               | Late February to |
|--------------------|---------------|------------------|---------------|------------------|
| June 30, 2001      | June 30, 2000 | June 30, 2001    | June 30, 2000 | June 30, 2000    |
|                    |               |                  |               |                  |

Revenues:

|                   |          |          |           |           |           |
|-------------------|----------|----------|-----------|-----------|-----------|
| Furniture rentals | \$86,902 | \$88,241 | \$175,797 | \$169,294 | \$126,684 |
| Furniture sales   | 17,058   | 15,082   | 34,121    | 30,306    | 22,689    |

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Total revenues  
\$103,960 \$103,323 \$209,918 \$199,600 \$149,373

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Income before income taxes  
\$5,497 \$14,806 \$16,473 \$28,667 \$21,490  
Income tax provision  
(2,003) (5,733) (6,204) (11,129) (8,220)

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Segment net income  
\$3,494 \$9,073 \$10,269 \$17,538 \$13,270

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CORT's furniture rental revenues for the first six months of 2001 increased 3.8% over those reported for the entire first half of 2000, but declined 1.5% for the second quarter. Excluding rental revenues from recently acquired locations, trade show operations and a significant, short-term contract in 2000 with the U. S. Bureau of the Census, core rental revenues were up 5.5% for the same first half comparison, but up only 0.4% for the second quarter. CORT's management notes that both the number of leases outstanding and the average revenue per lease were declining by the end of 2001's second quarter due to the continued weakness of the economy. Furniture sales revenues increased approximately 12.6% for the first six months and 13.1% for the second quarter of 2001, reflecting CORT's ongoing efforts to control rental furniture levels while maintaining showroom quality.

Income before income taxes decreased to 5.3% of total revenues for the second quarter of 2001 from 14.3% for the second quarter of 2000. Income before income taxes decreased to 7.8% of total revenues for the first six months of 2001 from 14.4% for the first half of 2000. These decreases were due not only to reductions in gross profit resulting from the decline in rental revenues but also to unfavorable operating expense comparisons, particularly in the employee compensation category. CORT's management has indicated that it is taking aggressive measures to reduce expenses in an effort to maintain CORT's profitability.

### *Industrial Segment*

Following is a summary of the results of operations of the industrial segment, consisting of the businesses of Precision Steel Warehouse, Inc. and its subsidiaries (in thousands):

-13-

### **Table of Contents**

|                                                | Three Months Ended |                  | Six Months Ended |                  |
|------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                | June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2000 |
| Revenues, principally sales and services       | \$ 12,232          | \$ 17,271        | \$ 26,810        | \$ 35,345        |
| Income before income taxes                     | \$ 20              | \$ 919           | \$ 488           | \$ 2,094         |
| Income tax provision<br>(28) (364) (213) (832) |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
| Segment net income (loss)                      |                    |                  |                  |                  |
| \$(8) \$555 \$275 \$1,262                      |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |
|                                                |                    |                  |                  |                  |

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Revenues of Precision Steel's businesses for the second quarter and first six months of 2001 decreased \$5.0 million and \$8.5 million, or approximately 29% and 24%, from the corresponding 2000 figures. Pounds of steel products sold decreased by approximately 33% and 29%, respectively. Precision Steel's management attributes the decline in sales volume principally to deteriorating activity in the manufacturing sector of the economy coupled with increasing competitive pressures.

Income before income taxes and net income of the industrial segment are dependent not only on revenues, but also on operating expenses and the cost of products sold. The latter, as a percentage of revenues, amounted to 81.6% and 80.9% for the second quarters of 2001 and 2000, and 81.3% and 80.5% for the corresponding six-month periods. The cost percentage typically fluctuates slightly from period to period as a result of changes in product mix and price competition at all levels.

*Unrelated to Business Segment Operations*

Set forth below is a summary of items increasing (decreasing) Wesco's consolidated net income that are viewed by management as unrelated to the operations of the insurance, furniture rental and industrial segments (in thousands):

|                                                         | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                         | June 30,<br>2001   | June 30,<br>2000 | June 30,<br>2001 | June 30,<br>2000 |
| Goodwill amortization, before income tax effect         | \$(1,878)          | \$(1,786)        | \$(3,709)        | \$(2,743)        |
| Income tax benefit                                      |                    |                  |                  |                  |
| 171 128 325 171                                         |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| Goodwill amortization                                   |                    |                  |                  |                  |
| \$(1,707) \$(1,658) \$(3,384) \$(2,572)                 |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| Realized net securities gains, before income tax effect |                    |                  |                  |                  |
| \$ 430,322 \$ 613,727                                   |                    |                  |                  |                  |
| Income tax provision                                    |                    |                  |                  |                  |
| (150,612) (214,805)                                     |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |
| _____                                                   |                    |                  |                  |                  |

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Realized net securities gains  
\$ 279,710 \$ 398,922

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Other nonsegment items, net, before income tax effect  
\$43 \$80 \$254 \$211  
Income tax (provision) benefit  
14 (4) (40) (32)

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\$57 \$76 \$214 \$179

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Goodwill relates to the acquisitions of CORT and KBS, as well as smaller entities acquired by CORT following its purchase by Wesco in February 2000. The increase in amortization of goodwill for the six months ended June 30, 2001 was due principally to the inclusion of a full six months' amortization of CORT goodwill

**Table of Contents**

in 2001, versus less than five months in 2000.

Realized gains and losses on the Wesco group's investments have fluctuated in amount from period to period, sometimes impacting net income significantly. However, the amounts and timing of these realizations have no predictive or practical analytical value.

Although there were no realized securities gains or losses in the first six months of 2001, Wesco's consolidated earnings for the first six months of 2000 included realized net gains of \$398.9 million, after income taxes, including \$279.7 million realized in the second quarter. The gains realized in 2000, although material in relation to Wesco's earnings, had only a minor impact on its shareholders' equity: Wesco's investments are carried at market value, and most of the gains had already been reflected in the unrealized appreciation component of shareholders' equity in prior accounting periods.

Other non-segment items comprise mainly rental income from owned commercial real estate and dividend and interest income from investments owned outside the insurance segment, reduced by interest and other expenses.

\* \* \* \* \*

Wesco's effective consolidated income tax rate typically fluctuates from period to period for various reasons, such as the inclusion in consolidated revenues of significant, varying amounts of dividend income, which is substantially exempt from income taxes. The respective income tax provisions, expressed as percentages of income before income taxes, amounted to 34.9% and 35.0% for the quarters ended June 30, 2001 and June 30, 2000, and 35.5% and 34.8% for the six-month periods then ended.

Consolidated revenues, expenses and net income reported for any period are not necessarily indicative of future revenues, expenses and net income in that they are subject to significant variations in amount and timing of securities gains and losses and the possible occurrence of other unusual nonoperating items such as the acquisition of CORT in February 2000 (see Note 3 to the accompanying condensed consolidated financial statements). In addition, consolidated revenues, expenses and net income from operations are expected to be much more volatile than they were prior to Wes-FIC's entry into the super-catastrophe reinsurance business several years ago and, to a lesser degree, the restructuring of KBS's reinsurance program in 1998.

Shareholders' equity is impacted not only to the extent that unusual items affect earnings, but also to reflect changes in unrealized appreciation of investments, which are not reflected in net income.

**FORWARD-LOOKING STATEMENTS**

Certain written or oral representations of management stated herein or elsewhere constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as contrasted with statements of historical fact. Forward-looking statements include statements which are predictive in nature, or which depend upon or refer to future events or conditions, or which include words such as *expects*, *anticipates*, *intends*, *plans*, *believes*, *estimates*, *may*, or *could*, or which involve hypothetical events. Forward-looking statements are based on information currently available and are subject to various risks and uncertainties that could cause actual events or results to differ materially from those characterized as being likely or possible to occur.