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WESCO FINANCIAL CORP
Form 10-Q
November 14, 2001

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 September 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
(State or Other Jurisdiction of
incorporation or organization)

95-2109453
(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 X 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

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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 November 10, 2001

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 16.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits -- None

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

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: November 12, 2001

By: /s/ Jeffrey L. Jacobson

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 SEPTEMBER 30, 2001

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

	Three Months Ended	
	Sept. 30, 2001	Sept. 30, 2000
Revenues:		
Sales and service revenues	\$ 109,009	\$ 125,210
Insurance premiums earned	9,703	6,418
Dividend and interest income	17,362	14,441
Realized net securities gains	--	653,407
Other	835	771
	136,909	800,247

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Costs and expenses:		
Cost of products and services sold	35,423	41,951
Insurance losses, loss adjustment and underwriting expenses ..	18,908	6,440
Selling, general and administrative expenses	68,697	66,299
Interest expense	843	1,658
Goodwill amortization	1,884	1,796
	-----	-----
	125,755	118,144
	-----	-----
Income before income taxes	11,154	682,103
Income tax (provision) benefit	37	(238,917)
	-----	-----
Net income	11,191	443,186
Retained earnings -- beginning of period	1,496,564	978,792
Cash dividends declared and paid	(2,243)	(2,172)
	-----	-----
Retained earnings -- end of period	\$ 1,505,512	\$ 1,419,806
	=====	=====
Amounts per capital share based on 7,119,807 shares outstanding throughout each period:		
Net income	\$ 1.57	\$ 62.24
	=====	=====
Cash dividends	\$.315	\$.305
	=====	=====

See notes beginning on page 7.

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

	Sept. 30, 2001	Dec. 31, 2000
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 358,062	\$ 153,810
Investments:		
Securities with fixed maturities	696,394	839,683
Marketable equity securities	630,179	833,937
Rental furniture, net	230,121	244,847
Goodwill of acquired businesses, net	265,806	260,037
Other assets	130,855	128,601
	-----	-----

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\$2,311,417
=====

\$2,460,915
=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance losses and loss adjustment expenses	\$ 58,292	\$ 39,959
Deferred furniture rental income and security deposits ..	23,980	27,669
Notes payable	60,435	56,035
Income taxes payable, principally deferred	216,628	305,175
Other liabilities	61,412	55,043
	-----	-----
Total liabilities	420,747	483,881
	-----	-----
Shareholders' equity:		
Capital stock and capital in excess of par value	30,439	30,439
Unrealized appreciation of investments, net of taxes ..	354,719	480,469
Retained earnings	1,505,512	1,466,126
	-----	-----
Total shareholders' equity	1,890,670	1,977,034
	-----	-----
	\$2,311,417	\$2,460,915
	=====	=====

See notes beginning on page 7.

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

	Nine Months Ende	
	Sept. 30,	Sept
	2001	2
	-----	-----
Cash flows from operating activities, net	\$ 126,074	\$ (3
	-----	-----
Cash flows from investing activities:		
Sales and maturities of investments	499,053	1,6
Purchases of investments	(348,014)	(5
Acquisition of businesses, net of cash and cash equivalents acquired ..	(17,683)	(3
Purchases of rental furniture	(50,818)	(

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Other, net	(2,031)	-----	-----
Net cash flows from investing activities	80,507	-----	-----
Cash flows from financing activities:			
Net borrowings	4,399		
Payment of cash dividends	(6,728)	-----	-----
Net cash flows from financing activities	(2,329)	-----	-----
Increase in cash and cash equivalents	204,252		3
Cash and cash equivalents -- beginning of period	153,810	-----	-----
Cash and cash equivalents -- end of period	\$ 358,062	=====	\$ 4
Supplementary information:			
Interest paid during period	\$ 3,639	=====	\$
Income taxes paid, net, during period	\$ 39,651	=====	\$ 4

See notes beginning on page 7.

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

Note 1

Reference is made to the following for information deemed generally applicable to the condensed consolidated financial statements of Wesco Financial Corporation ("Wesco") and its subsidiaries: (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. The information set forth below in these notes updates such information.

As explained in Note 1 to the consolidated financial statements on page 34 of Wesco's 2000 Form 10-K Annual Report, the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions based on its evaluation of facts and circumstances using information available at the time such estimates and assumptions are made. For example, in the third quarter of 2001, Wesco's

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Wesco-Financial Insurance Company subsidiary recorded a charge of \$10,000 before income taxes (\$6,500 after taxes), reflecting estimated insurance losses and expenses that may result from the September 11 terrorist activity. The amount is an estimate and is subject to considerable estimation error. Management believes it will take years to resolve complicated coverage issues, as well as to develop an accurate estimation of insured losses that will ultimately be incurred.

In addition to the aforementioned loss provision, in management's opinion, the condensed consolidated financial statements reflect all adjustments (all of them of a normal recurring nature) necessary to a fair statement of interim results in accordance with GAAP.

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. The accompanying condensed consolidated statement of income for the nine-month periods ended September 30, 2001 and 2000 include goodwill amortization of \$5,113 and \$4,281, after income taxes, respectively.

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Note 2

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 statements as of the date of acquisition.

The following unaudited table presents pro forma consolidated operating data for Wesco and its subsidiaries for the nine months ended September 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 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.

	Nine Months Ended Sept. 30, 2000 -----
Sales and service revenues.....	\$ 360,084

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Total revenues.....	1,670,424
Net income.....	868,513
Per Wesco capital share.....	121.99
	=====

Note 3

Following is a summary of securities with fixed maturities:

	September 30, 2001		December 31, 2000	
	Quoted Market Amortized Cost	(Carrying) Value	Quoted Market Amortized Cost	(Carrying) Value
Mortgage-backed securities ..	\$668,618	\$690,480	\$635,173	\$647,210
Other	5,807	5,914	192,495	192,473
	-----	-----	-----	-----
	\$674,425	\$696,394	\$827,668	\$839,683
	=====	=====	=====	=====

Following is a summary of marketable equity securities (all common stocks):

	September 30, 2001		December 31, 2000	
	Cost	Quoted Market (Carrying) Value	Cost	Quoted Market (Carrying) Value
The Coca-Cola Company	\$ 40,761	\$337,582	\$ 40,761	\$439,095
The Gillette Company	40,000	190,720	40,000	231,200
Other	27,020	101,877	27,020	163,642
	-----	-----	-----	-----
	\$107,781	\$630,179	\$107,781	\$833,937
	=====	=====	=====	=====

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Note 4

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

Three Months Ended

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	Sept. 30, 2001	Sept. 30, 2000	Se
Net income	\$ 11,191	\$ 443,186	\$
Increase (decrease) in unrealized appreciation of investments, net of income tax effect of \$(2,150), \$(32,309), \$68,054 and \$17,860	4,502	59,463	(
Reversal of unrealized appreciation upon inclusion of realized net gains in net income, net of income tax effect of \$228,634 and \$443,439 in the 2000 periods ..	--	(424,773)	
Comprehensive income (loss)	\$ 15,693	\$ 77,876	\$

Note 5

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		Se
	Sept. 30, 2001	Sept. 30, 2000	Se
Insurance segment:			
Revenues	\$ 26,853	\$ 21,543	\$
Net income	9,580	10,147	
Assets at end of period	1,683,937	1,766,869	1,
Furniture rental segment:			
Revenues	\$ 97,533	\$ 109,127	\$
Net income	3,246	9,543	
Assets at end of period	314,604	340,828	
Industrial segment:			
Revenues	\$ 11,505	\$ 16,104	\$
Net income (loss)	(71)	291	
Assets at end of period	20,961	26,464	
Goodwill of acquired businesses:			
Amortization, net of income taxes	\$ (1,729)	\$ (1,709)	\$
Assets at end of period	265,806	260,080	

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Realized net securities gains:				
Before taxes (included in revenues)	\$	--	\$ 653,407	\$
After taxes (included in net income)		--	424,773	
		=====	=====	=====
Other items unrelated to business segments:				
Revenues	\$	1,018	\$ 66	\$
Net income		165	141	
Assets at end of period		26,109	27,353	
		=====	=====	=====
Consolidated totals:				
Revenues	\$	136,909	\$ 800,247	\$
Net income		11,191	443,186	
Assets at end of period		2,311,417	2,421,594	2,
		=====	=====	=====

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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. Further, in reviewing the following paragraphs, attention is directed to the accompanying condensed consolidated financial statements including the notes thereto.

FINANCIAL CONDITION

Wesco's shareholders' equity at September 30, 2001 was approximately \$1.9 billion (\$266 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 resources to minimize the impact of a downturn in its fortunes.

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.)

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	Three Months Ended		Nine Months Ended	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Insurance segment	\$ 9,580	\$ 10,147	\$ 37,129	\$ 37,129
Furniture rental segment	3,246	9,543	13,515	13,515
Industrial segment	(71)	291	204	204
Unrelated to business segment operations --				
Goodwill amortization	(1,729)	(1,709)	(5,113)	(5,113)
Other nonsegment items	165	141	379	379
Income before realized securities gains ..	11,191	18,413	46,114	46,114
Realized net securities gains	--	424,773	--	424,773
Consolidated net income	\$ 11,191	\$ 443,186	\$ 46,114	\$ 466,887

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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		Nine Months Ended	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000
Premiums written	\$ 9,199	\$ 7,997	\$ 29,091	\$ 23,483
Premiums earned	\$ 9,703	\$ 6,418	\$ 27,280	\$ 16,264
Underwriting gain (loss)	\$ (9,206)	\$ (22)	\$ (6,065)	\$ 1,222
Dividend and interest income	17,150	15,125	54,621	40,055
Income before income taxes	7,944	15,103	48,556	41,277
Income tax (provision) benefit	1,636	(4,956)	(11,427)	(11,398)
Segment net income	\$ 9,580	\$ 10,147	\$ 37,129	\$ 29,879

Premiums written for the first nine months of 2001 included \$15.6 million attributable to Wes-FIC and \$13.5 million attributable to KBS. Of those amounts, \$5.0 million and \$4.2 million were written in the third quarter, respectively. Premiums written for the first nine months of 2000 included \$10.3 million attributable to Wes-FIC and \$13.2 million attributable to KBS. Of those

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amounts, \$3.5 million and \$4.5 million were written in the third 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 third quarter and first nine months of 2001 included \$5.2 million and \$14.2 million attributable to Wes-FIC, versus \$2.2 million and \$4.0 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 losses reported for the 2001 periods resulted from a loss provision of \$10 million before income taxes (\$6.5 million after taxes) recorded by Wes-FIC in the third quarter as a result of the terrorist activity of September 11, 2001. The amount is an estimate and is subject to considerable estimation error. Managements of Wes-FIC and Berkshire Hathaway Inc., Wesco's ultimate parent, have indicated that they believe that it will take years to resolve complicated coverage issues, as well as to develop an accurate estimation of insured losses that will ultimately be incurred. The underwriting gain reported for the first nine months of 2000 resulted from KBS underwriting gains exceeding Wes-FIC losses. The small underwriting loss reported for the third quarter of 2000 was caused by KBS's incurring larger-than-usual losses; KBS's reinsurance program had been restructured effective January 1, 1998 in an effort to improve operating results over the long term in return for greater short-term volatility.

Pre-tax dividend and interest income earned by Wesco's insurance segment for the third quarter of 2001 increased \$2.0 million over the comparable figure for the third quarter of 2000 and \$14.6 million for the first nine months of 2001 over the corresponding 2000 figure. These reflect principally the growth in the portfolio of fixed-maturity investments.

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

Furniture Rental Segment

The furniture rental segment consists of CORT Business Services Corporation ("CORT"), which was acquired in late February 2000 (see Note 2 to the accompanying condensed consolidated financial statements). Following is a summary of CORT's operating results for the third quarters of 2001 and 2000, and first nine months of 2001. For comparison, we also present (1) unaudited data for the entire nine-month period ended September 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 September 30, 2000. (Amounts are in thousands.)

Three Months Ended

Nine Months Ended

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	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2000	Febr Sep 2
Revenues:					
Furniture rentals	\$ 80,247	\$ 91,686	\$ 256,044	\$ 260,980	\$ 2
Furniture sales	17,286	17,441	51,407	47,747	
Total revenues	\$ 97,533	\$ 109,127	\$ 307,451	\$ 308,727	\$ 2
Income before income taxes	\$ 5,020	\$ 15,510	\$ 21,493	\$ 44,114	\$
Income tax provision	(1,774)	(5,967)	(7,978)	(17,204)	(
Segment net income	\$ 3,246	\$ 9,543	\$ 13,515	\$ 26,910	\$

CORT's furniture rental revenues for the first nine months of 2001 decreased 1.9% from those reported for the entire first nine months of 2000, and declined 12.5% for the third 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 unchanged for the first nine months of 2001 from those reported for the same period of 2000, but down 11.0% for the third quarter from the comparable prior year figure. CORT's management notes that both the number of leases outstanding and the average revenue per lease were continuing on a downward trend begun in 2001's second quarter and attributes the decline mainly to continued weakness of the economy, especially in the technology segment. Furniture sales revenues increased approximately 7.7% for the first nine months but decreased 0.9% for the third quarter of 2001 from those reported for the comparable periods of 2000.

Income before income taxes decreased to 5.1% of total revenues for the third quarter of 2001 from 14.2% for the third quarter of 2000. Income before income taxes amounted to 7.0% of total revenues for the first nine months of 2001 versus 14.3% for the comparable period of 2000. These decreases were due not only to a reduction in gross profit resulting mainly from the decline in rental revenues but also to unfavorable operating expense comparisons, particularly in the employee compensation category. CORT's management is taking aggressive measures to reduce expenses in an effort to maintain CORT's profitability.

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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):

	Three Months Ended		Nine Months En	
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001	Sep 2
Revenues, principally sales and services	\$ 11,505	\$ 16,104	\$ 38,315	\$ 51

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	=====	=====	=====	=====
Income (loss) before income taxes	\$ (148)	\$ 491	\$ 340	\$ 2
Income tax (provision) benefit	77	(200)	(136)	(1)
	-----	-----	-----	-----
Segment net income (loss)	\$ (71)	\$ 291	\$ 204	\$ 1
	=====	=====	=====	=====

Revenues of Precision Steel's businesses for the third quarter and first nine months of 2001 decreased \$4.6 million and \$13.1 million, or approximately 29% and 26%, from the corresponding 2000 figures. Pounds of steel products sold decreased by approximately 29% for each period. 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 83.2% and 82.8% for the third quarters of 2001 and 2000, and 81.9% and 81.2% for the corresponding nine-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		Nine
	Sept. 30,	Sept. 30,	Sept. 30,
	2001	2000	2001
	-----	-----	-----
Goodwill amortization, before income tax effect	\$ (1,884)	\$ (1,796)	\$ (5,593)
Income tax benefit	155	87	480
	-----	-----	-----
Goodwill amortization	\$ (1,729)	\$ (1,709)	\$ (5,113)
	=====	=====	=====
Realized net securities gains, before income tax effect	\$ --	\$ 653,407	\$ --
Income tax provision	--	(228,634)	--
	-----	-----	-----
Realized net securities gains	\$ --	\$ 424,773	\$ --
	=====	=====	=====

	Three Months Ended		Nine
	Sept. 30,	Sept. 30,	Sept. 30,
	-----	-----	-----

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	2001 -----	2000 -----	2001 -----
Other nonsegment items, net, before income tax effect	\$ 222	\$ 183	\$ 476
Income tax provision	(57)	(42)	(97)
	-----	-----	-----
	\$ 165	\$ 141	\$ 379
	=====	=====	=====

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 nine months ended September 30, 2001 was due principally to the inclusion of a full nine months' amortization of CORT goodwill in 2001, versus less than eight months' in 2000. As explained in Note 1 to the accompanying condensed consolidated financial statements, goodwill accounting will change significantly in 2002.

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 nine months of 2001, Wesco's consolidated earnings for the first nine months of 2000 included realized net gains of \$823.7 million, after income taxes, including \$424.8 million realized in the third 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. Income taxes, expressed as percentages of income before income taxes, amounted to a benefit of 0.3% for the quarter ended September 30, 2001, a provision of 35.0% for the quarter ended September 30, 2000, and provisions of 29.4% and 34.9% for the nine-month periods ended September 30, 2001 and 2000.

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 2 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 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.

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FORWARD-LOOKING STATEMENTS

Certain written or oral representations of Wesco's 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. Such statements should be considered judgments only, not guarantees, and Wesco's management assumes no duty, nor has any specific intention, to update them.

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