

ANGELICA CORP /NEW/
Form 8-K
September 11, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **September 11, 2007**

ANGELICA CORPORATION

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction
of incorporation)

1-5674

(Commission
File Number)

43-0905260

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

424 South Woods Mill Road

Chesterfield, Missouri

(Address of principal executive
offices)

63017-3406

(Zip Code)

(314) 854-3800

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 7.01 Regulation FD Disclosure

Angelica Corporation (the "Company") has furnished with this Form 8-K a slide presentation that it intends to use from time to time in conferences and discussions with securities analysts, stockholders and others interested in the Company. In light of the fact that the Company has recently announced its intent to sell or close its Edison, New Jersey service center and consolidate from nine markets into eight markets, certain of the slides in the attached presentation present historical financial and operating results and statistics for the first half of 2007 and 2006 that reflect both the historical results as previously reported under United States generally accepted accounting principles as well as those results eliminating the revenues and expenses attributable to the Edison, New Jersey facility. The slide presentation is furnished on Exhibit 99.1 and is hereby incorporated by reference into this Item 7.01.

The information contained in this Item 7.01, including the information set forth in Exhibit 99.1 which is incorporated herein by reference, shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, unless the Company specifically incorporates the information by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

99.1 Slide presentation of Angelica Corporation

* * *

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 hereunto duly authorized.

Dated: September 11, 2007

ANGELICA CORPORATION

By: /s/ James W. Shaffer
James W. Shaffer
Vice President and Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
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99.1	Slide Presentation of Angelica Corporation
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Amounts per share:

Net income

\$ 11.53	\$ 15.33	\$ 12.93	\$ 41.37	\$ 6.66
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Cash dividends

1.54	1.50	1.46	1.42	1.38
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The reinsurance activities of Wesco's insurance segment are managed by Berkshire Hathaway's National Indemnity Company (NICO) subsidiary and represent participations in contracts in which NICO and other members of the Berkshire Insurance Group also participate. Financial information associated with these participations is identified in Wesco's consolidated financial statements, as well as in Item 6, Selected Financial Data, as affiliated business.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In reviewing this item, attention is directed to Item 6, Selected Financial Data, and Item 1, Business.

OVERVIEW

The principal goal of Wesco's management is to maximize gain in Wesco's intrinsic business value per share over the long term. Accounting consequences do not influence business decisions, nor do fluctuations in annual net income. To accomplish desired growth, a high priority is placed on the purchases of companies having excellent economic characteristics, run by outstanding managers. Management strives to main high liquidity to ensure that Wesco and its subsidiaries are able to endure unforeseen circumstances, including recessionary economic cycles and periods of significant declines in the trading prices of investments, with a

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margin of safety, and to invest in common stocks of outstanding publicly traded companies at prices deemed reasonable. In the event that such investments are not available, capital is preserved through investments principally in high-quality cash equivalents and securities of the U.S. Government and its agencies.

Wesco's operating businesses are managed on a decentralized basis. There are essentially no centralized or integrated business functions (such as sales, marketing, purchasing, legal or human resources) and there is minimal involvement by Wesco's management in the day-to-day business activities of the operating businesses. Wesco's Chairman, President and Chief Executive Officer, Charles T. Munger, is also Vice Chairman of Berkshire Hathaway, and consults with Warren E. Buffett, Chairman and Chief Executive Officer of Berkshire Hathaway, with respect to Wesco's investment decisions, major capital allocations, and the selection of the chief executives to head each of Wesco's operating units, subject to ultimate approval of Wesco's Board of Directors.

The operations of Wesco's Wesco-Financial Insurance Company (Wes-FIC) subsidiary are managed by Berkshire Hathaway's National Indemnity Company (NICO) subsidiary. Wes-FIC participates principally in reinsurance contracts in which NICO and other Berkshire Hathaway insurance subsidiaries participate in the reinsurance of property and casualty risks of unaffiliated insurance companies. Terms of Wes-FIC's participation are essentially identical to those by which the other Berkshire Hathaway insurance subsidiaries participate, except as to the percentages of participation (see Item 1, Business, for further information). Financial information relative to these participations appearing in Item 6, Selected Financial Data, and in Wesco's consolidated financial statements, is identified as affiliated business.

FINANCIAL CONDITION

Wesco continues to have a strong consolidated balance sheet at December 31, 2008, with high liquidity and relatively little debt. Its equity investments are in strong, well-known companies, although the trading prices of those investments declined significantly subsequent to year end 2007, as explained below. The practice of concentrating in a few issues, rather than diversifying, follows the investment philosophy of the chairmen-CEOs of Wesco and its parent, Berkshire Hathaway, who consult with respect to Wesco's investments and major capital allocations. Wesco has no direct investments in subprime loans.

Wesco's shareholders' equity at December 31, 2008 was \$2.4 billion, (\$333.96 per share), down \$157.1 million from the \$2.5 billion reported at December 31, 2007 (\$356.03 per share). During 2008, a series of crises occurred in the U.S. financial and capital markets systems, as well as in the credit and housing markets. These conditions accelerated during the latter half of 2008 and into the fourth quarter in particular, into an economic recession, as evidenced by declining consumer confidence, lower consumer spending, bankruptcies and significant job losses. Equity and debt markets have seen major declines on a worldwide basis as well, which have negatively impacted the fair value of Wesco's investments. Wesco carries its investments on its consolidated balance sheet at fair value, with net unrealized appreciation or depreciation included as a component of shareholders' equity, net of deferred taxes, without being reflected in earnings. During 2008, the net after-tax unrealized appreciation in fair value of Wesco's investments declined by \$226.4 million. As a result of further declines in market values of Wesco's equity securities subsequent to yearend 2008, shareholders' equity has declined, by \$303 million (\$42.56 per share) through February 24, 2009.

Because unrealized appreciation or depreciation is recorded based principally upon market quotations, gains or losses ultimately realized upon sale of investments could differ substantially from recorded unrealized appreciation or depreciation. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk, as well as Notes 1, 2 and 8 to Wesco's accompanying consolidated financial statements, for additional information on Wesco's investments.

Wesco's liability for unpaid losses and loss adjustment expenses at December 31, 2008 totaled \$215.3 million versus \$93.8 million at December 31, 2007. The increase related mainly to the retrocession agreement with Berkshire

Hathaway's National Indemnity Company (NICO) subsidiary, to assume 10% of NICO's quota share reinsurance of Swiss Reinsurance Company and its major property-casualty affiliates (Swiss Re). Under this retrocession agreement, Wes-FIC has assumed 2% part of NICO's 20% quota share

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reinsurance of all Swiss Re property-casualty risks incepting over the five-year period ending December 31, 2012 on the same terms as NICO's agreement with Swiss Re. The agreement is more fully described in Item 1, Business, above.

Wesco's consolidated borrowings totaled \$40.4 million at December 31, 2008 versus \$37.2 million at December 31, 2007. These amounts related primarily to a \$100 million revolving credit facility used in CORT's furniture rental business. In addition to this recorded debt, Wesco and its subsidiaries had \$142.2 million of operating lease and other contractual obligations at December 31, 2008, versus \$138.3 million one year earlier. (See the section on off-balance sheet arrangements and contractual obligations appearing below in this Item 7, as well as Note 7 to the accompanying consolidated financial statements, for additional information on debt.)

Wes-FIC enjoys Standard & Poor's Corporation's highest rating, AAA, with respect to its claims-paying ability.

RESULTS OF OPERATIONS

Wesco's consolidated net income has fluctuated from year to year, often significantly, as a result of the realization of gains on investments. The amount, if any, of realized gain or loss in any year has no predictive value and variations in amount from year to year have no practical analytical value. Realized gains amounted to \$7.0 million (\$4.6 million, after taxes) for 2008 and \$24.2 million (\$15.8 million, after income taxes) for 2007. No gains or losses were realized in 2006.

Wesco's reportable business segments are organized in a manner that reflects how Wesco's top management views those business activities. Wesco's management views insurance businesses as possessing two distinct operations underwriting and investing, and believes that underwriting gain or loss is an important measure of their financial performance. Underwriting gain or loss represents the simple arithmetic difference between the following line items appearing on the consolidated statement of income: (1) insurance premiums earned, less (2) insurance losses and loss adjustment expenses, and insurance underwriting expenses. Management's goal is to generate underwriting gains over the long term. Underwriting decisions are the responsibility of the unit managers; investing is the responsibility of Charles T. Munger in consultation with Warren E. Buffett, subject to ultimate approval by Wesco's Board of Directors. Accordingly, underwriting results are evaluated without allocation of investment income.

Wesco's consolidated 2008 net income, excluding realized investment gains, decreased by \$15.8 million for the year, due mainly to (1) hurricane losses and expenses of \$8.8 million, after taxes, recorded in the third quarter of 2008 in connection with Wes-FIC's Swiss Re contract, (2) bank deposit insurance losses of \$4.7 million, after taxes, incurred by Kansas Bankers Surety Company in the third quarter of 2008, before its decision to exit this line of insurance, essentially over the next 12 months, and (3) increased operating expenses of the furniture rental business due principally to the expansion of its rental relocation services and the initiation of operations in the United Kingdom.

The operations of Wesco's subsidiaries have also been impacted generally by the weakening economic conditions, which Berkshire and Wesco management believe will likely persist through 2009 and into 2010 before meaningful improvements become evident. Wesco's subsidiaries will continue to take cost reduction actions in response to the current economic situation, including reducing capital expenditures and operating expenses, to partially compensate for the declines in demand for their goods and services. Wesco has historically attempted to manage its financial condition such that it can weather cyclical economic conditions. Management believes that the economic franchises of Wesco's business operations will remain intact and that operating results will ultimately return to more normal historic levels.

The consolidated data in the second table in Item 6, above, are set forth essentially in the income statement format customary to generally accepted accounting principles (GAAP). Revenues, including realized net investment gains, are followed by costs and expenses, and a provision for income taxes, to arrive at net income. The following summary

sets forth the after-tax contribution to GAAP net income of each business segment insurance, furniture rental and industrial as well as activities not considered related

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to such segments. Realized net investment gains 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.*)

	Year Ended December 31,		
	2008	2007	2006
Insurance segment:			
Underwriting	\$ (2,942)	\$ 7,040	\$ 5,164
Investment income	64,274	65,207	58,528
Furniture rental segment	15,744	20,316	26,884
Industrial segment	842	915	1,211
Nonsegment items other than investment gains	(356)	(73)	246
Realized investment gains	4,554	15,756	
Consolidated net income	\$ 82,116	\$ 109,161	\$ 92,033

In the following sections the data set forth in the foregoing summary on an after-tax basis are broken down and discussed.

Insurance Segment

Wesco engages principally in reinsurance of property and casualty risks through Wesco-Financial Insurance Company (Wes-FIC). It also engages in primary insurance through The Kansas Bankers Surety Company (KBS). Their operations are conducted or supervised by wholly owned subsidiaries of Berkshire Hathaway, Wesco's ultimate parent company. In reinsurance activities, defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities are assumed. In primary insurance activities, defined portions of the risks of loss from persons or organizations that are directly subject to the risks are assumed. For purposes of the following discussion, the results have been disaggregated between reinsurance and primary insurance activities. Following is a summary of the insurance segment's underwriting activities. (Amounts are in thousands.)

	Year Ended December 31,		
	2008	2007	2006
Insurance premiums written			
Reinsurance	\$ 298,622	\$ 35,346	\$ 35,710
Primary	17,850	19,493	19,800
Total	\$ 316,472	\$ 54,839	\$ 55,510
Insurance premiums earned			
Reinsurance	\$ 217,584	\$ 34,998	\$ 33,323
Primary	20,380	19,413	20,826
Total	237,964	54,411	54,149
Insurance losses, loss adjustment expenses and underwriting expenses	242,491	43,580	46,205
Underwriting gain (loss), before income taxes			

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Reinsurance	(2,162)	2,158	2,538
Primary	(2,365)	8,673	5,406
Total	(4,527)	10,831	7,944
Income taxes	(1,585)	3,791	2,780
Underwriting gain (loss)	\$ (2,942)	\$ 7,040	\$ 5,164

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Contractual delays in reporting, and limitations in details reported, by the ceding companies necessitate that estimates be made of reinsurance premiums written and earned, as well as reinsurance losses and expenses. Under the Swiss Re contract, for example, estimates of premiums, claims and expenses are expected to be reported 45 days after the end of each quarterly period. Estimates are therefore made each reporting period by management for the activity not yet reported. Such estimates are developed by NICO based on information publicly available and adjusted for the impact of its, as well as Wes-FIC's management's, assessments of prevailing market conditions and other factors with respect to the underlying reinsured business. The relative importance of the Swiss Re contract to Wesco's results of operations causes those results to be particularly sensitive to this estimation process. However, increases or decreases in premiums earned as a result of the estimation process related to the reporting lag will typically be substantially offset by corresponding increases or decreases in claim and expense estimates. Periodic underwriting results can also be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. See the Critical Accounting Policies section of this discussion for information concerning the loss reserve estimation process.

Written and earned reinsurance premiums for 2008 increased by \$263.3 million (745%) and \$183.6 million (522%), over the respective 2007 figures, as a result of the inception of the Swiss Re contract at the beginning of 2008. Written and earned premiums assumed under the Swiss Re contract were \$265.2 million and \$183.2 million, respectively. Actual premiums assumed over the remainder of the five-year period could vary significantly depending on Swiss Re's response to market conditions and opportunities that arise over the contract term. For 2008, written aviation-related reinsurance premiums decreased by \$2.0 million (5.9%), and earned aviation-related premiums decreased by \$0.6 million (1.7%), from those of 2007. For 2007, written aviation-related premiums decreased by \$0.4 million (1.0%), but earned aviation-related reinsurance premiums increased by \$1.7 million, over the corresponding 2006 figures, despite a 33.3% increase in the level by which Wes-FIC participated in the hull and liability pools in 2007. As competition in the aviation risk market has intensified in recent years, the pool manager has continued to exercise underwriting discipline by not writing policies where pricing has been deemed inadequate with respect to risks assumed. Thus, aviation-related reinsurance premiums written by the pool manager have declined overall for each of the past several years.

Written primary insurance premiums decreased by \$1.6 million (8.4%) for 2008 and by \$0.3 million for 2007, from the corresponding prior year figures. Earned primary insurance premiums increased by \$1.0 million (5.0%) for 2008 but decreased by \$1.4 million (6.8%) for 2007, as compared with the corresponding prior year figures. These fluctuations related mainly to KBS's bank deposit guarantee bonds, which insure deposits above FDIC limits for specific customers of mainly Midwestern banks. Because of recent events in the banking industry, including a number of bank failures, management is less confident in the long-term profitability of this line of business than previously. In September 2008, KBS notified its customers of its decision to exit this line of insurance as rapidly as feasible. The aggregate face amount of outstanding bonds has been reduced, from \$9.7 billion at September 30, 2008, insuring 1,671 separate institutions, to \$5.8 billion at December 31, 2008, and to \$3.4 billion at February 15, 2009, insuring 796 institutions, the first date that non-renewals and non-voluntary cancellations became effective. Management believes that few of those institutions are facing a significant risk of failure, and through policy limits and reinsurance, KBS has effectively limited its exposure per bank (or group of affiliated banks) to \$7.6 million, after taxes. Nonetheless, a large number of bank failures for which KBS has deposit guarantee bond exposure could have a material adverse effect on the financial results of KBS and Wesco. Because net premiums earned on bank deposit guarantee bonds accounted for 47% of KBS's primary insurance volume for 2008, primary insurance premiums are expected to significantly decrease in future periods.

Management believes that underwriting gain or loss is an important measure of financial performance of insurance companies. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. A combined ratio of less than 100% connotes an underwriting profit and a combined ratio of greater than 100% connotes an underwriting loss. The ratio is figured on a

pre-tax basis. Underwriting results of Wesco's insurance segment have generally

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been favorable, but have fluctuated from year to year for various reasons, including competitiveness of pricing in terms of premiums charged for risks assumed, and volatility of losses incurred.

Reinsurance generated an underwriting loss of \$2.2 million, before taxes, for 2008, due to the inclusion in that figure of the pre-tax underwriting loss of \$5.4 million generated by the Swiss Re contract. During the third quarter of 2008, Hurricanes Gustav and Ike struck the Caribbean and the Gulf coast region of the United States, producing large catastrophe losses for the property-casualty insurance industry. Management presently estimates that Wes-FIC's share of Swiss Re's losses from these events was \$13.5 million, before taxes, although the final figure could vary significantly as additional information becomes known. The loss estimate was based on management's assessment of publicly available information.

Underwriting gains from the aviation-related contracts were \$3.2 million, \$2.2 million and \$2.5 million, before taxes, for 2008, 2007 and 2006, representing combined ratios of 90.8%, 93.9% and 94.0%, all of which management considers to have been favorable. These figures reflect the detrimental effects of increasingly competitive pressures, which have resulted in the ongoing softening of prices, in terms of premiums charged for risks assumed, throughout those years. Underwriting results fluctuate from period to period. The severity component of aviation-related losses tends to be volatile, especially with respect to losses incurred during a single reporting period. Had it not been for net favorable reserve development of \$4.2 million in 2008 and \$3.2 million in 2007, essentially all of which related to the aviation-related contracts, reinsurance activities would have generated underwriting losses of \$0.8 million (\$0.05 million, after taxes) for 2008 and \$1.3 million (\$0.8 million, after taxes) for 2007. The underwriting results for 2006 included net unfavorable reserve development of \$0.4 million (\$0.03 million, after taxes), comprised of unfavorable development of \$1.7 million attributable to the aviation-related contracts, partially offset by \$1.3 million of favorable development for a contract whose coverage period ended in 1989.

Combined ratios from primary insurance were 111.6%, 55.1% and 73.8% for 2008, 2007 and 2006. KBS's combined ratios have typically been very favorable. In 2008, however, pre-tax underwriting results deteriorated by \$11.0 million from those of 2007 due principally to the establishment of loss reserves with respect to three large claims, principally one for \$6.9 million, net of reinsurance, (\$4.5 million, after taxes) resulting from the FDIC's seizure of a bank, a portion of whose deposits were insured by KBS. KBS management estimates that it is possible, but not certain, that a portion of that loss may eventually be recovered as the FDIC liquidates the bank's assets and distributes funds to the bank's creditors and owners of deposits in excess of FDIC limits, including KBS. Recoveries, if any, will be recorded when received. As noted above, KBS has stopped writing coverage for excess bank deposits and is taking steps to lessen its exposure to losses from bank failures, as rapidly as feasible.

Underwriting results from primary insurance for 2008 also reflect \$0.4 million of unfavorable loss development, an amount not considered significant. In 2007, pre-tax underwriting results improved by \$3.3 million (\$2.1 million, after taxes) and included net favorable reserve development of \$3.6 million (\$2.3 million, after taxes) associated with estimates of losses recorded in several previous years, most notably, the reversal of a \$1.9 million estimated loss recorded in 2005, following a court decision. Underwriting results for 2006 included net unfavorable loss development of \$0.2 million (\$0.1 million, after taxes), an amount not considered significant.

It should be noted that the profitability of a reinsurance or insurance arrangement is better assessed after all losses and expenses have been realized, perhaps many years after the coverage period, rather than for any given reporting period. As noted above, because of recent events in the banking industry, including a number of bank failures, management is less confident in the long-term profitability of one of KBS's products, deposit guarantee bonds, than previously. As KBS exits this line of insurance, its loss exposure is declining rapidly. No other trends have been identified which directly relate to losses, other than the effects from increasing competition, causing declining premium rates, fluctuations in exchange rates of foreign currencies relative to the U.S. dollar, which will affect the underwriting results under the Swiss Re contract, and the weakening economy, which might result in a decrease in the demand for

insurance overall. Losses incurred by Wesco's insurance segment, by their very nature, occur unexpectedly and fluctuate from period to period in both

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frequency and magnitude. Wesco's insurers cede minimal amounts of their direct business, and as a result underwriting results may be volatile.

Since September 11, 2001, the insurance industry has been particularly concerned about its exposure to claims resulting from acts of terrorism. In spite of partial relief provided to the insurance industry by the Terrorism Risk Insurance Act, enacted in 2002 and amended by the Terrorism Risk Extension Act of 2005, and the Terrorism Risk Insurance Program Reauthorization Act of 2007, Wes-FIC is exposed to insurance losses from terrorist events. Wes-FIC's (and thus Wesco's) exposure to such losses from an insurance standpoint cannot be predicted. Management, however, does not believe it likely that, on a worst-case basis, Wesco's shareholders' equity would be severely impacted by future terrorism-related insurance losses under reinsurance or insurance contracts currently in effect. Losses from terrorism could, however, significantly impact Wesco's periodic reported earnings.

Other industry concerns in recent years have included exposures to losses relating to environmental contamination and asbestos. Management currently believes such exposures to be minimal.

Following is a summary of investment income produced by Wesco's insurance segment (in thousands of dollars).

	Year Ended December 31,		
	2008	2007	2006
Investment income, before taxes	\$ 84,920	\$ 89,716	\$ 83,441
Income taxes	20,646	24,509	24,913
Investment income, after taxes	\$ 64,274	\$ 65,207	\$ 58,528

Investment income of the insurance segment comprises dividends and interest earned principally from the investment of shareholder capital (including reinvested earnings) as well as float (principally, premiums received before payment of related claims and expenses which increased in 2008, and is expected to continue to increase, as a result of Wes-FIC's entry into the Swiss Re contract). Wes-FIC has redeployed approximately \$1 billion, net, of amounts previously invested in cash equivalents and fixed maturity investments, into marketable equity securities since the latter part of 2007. In addition, interest rates earned on cash-equivalent investments have steadily declined since the latter part of 2007. Thus, pre-tax dividend income earned by the insurance segment increased by \$33.0 million and, interest income decreased by \$37.8 million for 2008, as compared with the corresponding 2007 figures. The \$6.3 million (7.5%) increase in pre-tax investment income for 2007 reflected a \$11.7 million increase in dividend income, attributable principally to the investment of \$801.7 million, net, in equity securities in the latter part of 2007, partially offset by a decline in interest income resulting mainly from the use of interest-bearing cash equivalents and fixed-maturity investments for the purchase of the equity securities.

Wesco continues to seek to invest in the purchase of businesses and in long-term equity holdings.

Wesco's insurance subsidiaries, as a matter of practice, maintain liquidity in amounts which exceed by wide margins expected near-term requirements for payment of claims and expenses. As a result, it would be unlikely that any unanticipated payment of claims or expenses would require the liquidation of investments at a loss. Wesco does not attempt to match long-term investment maturities to estimated durations of claim liabilities.

Reference is made to the table of contractual obligations appearing on page 32.

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Following is a summary of the results of operations of CORT Business Services Corporation (CORT), Wesco's furniture rental segment. (Amounts are in thousands.)

	Year Ended December 31,		
	2008	2007	2006
Revenues:			
Furniture rentals	\$ 340,162	\$ 327,671	\$ 324,300
Furniture sales	61,800	61,704	69,551
Service fees	8,081	6,795	6,454
	410,043	396,170	400,305
Cost of rentals, sales and fees	97,997	91,407	101,605
Selling, general and administrative expenses	287,498	268,469	252,657
Interest expense	1,798	2,408	2,711
	387,293	362,284	356,973
Income before income taxes	22,750	33,886	43,332
Income taxes	7,006	13,570	16,448
Segment net income	\$ 15,744	\$ 20,316	\$ 26,884

Furniture rental revenues for 2008 increased \$12.5 million (3.8%) from those of 2007, after increasing \$3.4 million (1.0%) for 2007 from those of 2006. Excluding rental revenues from trade shows and locations not in operation throughout each year, rental revenues for 2008 decreased 2.7% from those of 2007, following a decrease of approximately 0.6% in the preceding year. The number of furniture leases outstanding at yearend 2008, excluding leases acquired from Aaron Rents, Inc. (Aaron discussed in Item 1, Business), declined 8.3% during 2008, after having declined by 5.7% in 2007, from those of the previous year, following a trend that was established late in 2006. Growth in the furniture rental business is closely tied to periods of economic expansion, and in this recent period of economic contraction CORT has relied principally on price increases, an increase in tradeshow demand, and acquisitions for its revenue growth.

Furniture sales revenues for 2008 were relatively unchanged from those of 2007, following a decrease of \$7.8 million (11.3%) in 2007 from those of 2006. The decreases from the level attained in 2006 are believed to be attributed principally to the continued softening of the housing market that has contributed to an industry-wide decline in retail furniture sales.

Service fees for 2008 increased \$1.3 million (18.9%) from those of 2007, after increasing \$0.3 million (5.3%) in 2007 from those of 2006. Traditionally, the furniture rental segment has concentrated the marketing efforts of its relocation services towards individual residential customers. Late in 2006, CORT began a new initiative to expand the variety of its relocation services, and it redirected the thrust of this activity toward providing these services to corporate relocation departments for their relocating employees in need of temporary or longer-term housing. Service fee revenues remain disappointing.

Cost of rentals, sales and fees amounted to 23.9% of revenues for 2008, versus 23.1% for 2007, and 25.4% for 2006. Costs as a percentage of revenues increased in 2008 primarily due to higher depreciation expense on recently acquired rental furniture and an increase in inventory write-offs related to an effort to improve the overall quality of the rental furniture inventory. The decrease in costs as a percentage of revenues for 2007 was due principally to improvements in revenue mix, with a larger percentage of revenue in 2007 attributable to furniture rentals, which has a higher margin than furniture sales.

Selling, general, administrative and interest expenses (operating expenses) for the segment were \$289.3 million for 2008, up 6.8% from the \$270.9 million incurred for 2007, following an increase of 6.0% from the \$255.4 million incurred for 2006. The increase in operating expenses for 2008 was due principally to the incremental costs associated with the business acquisitions in 2008 and the costs associated with the

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business growth initiatives in rental relocation services, the latter of which was the principal cause of the increase in operating expenses for 2007. In light of the weakening economic environment, management is aggressively seeking to reduce operating expenses.

Income before income taxes for the furniture rental segment amounted to \$22.8 million in 2008, versus \$33.9 million in 2007, and \$43.3 million in 2006. The 32.9% and 21.7% decreases in pre-tax operating results for 2008 and 2007, respectively, were principally attributable to the significant increases in year-to-year operating expenses.

Industrial Segment

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

	Year Ended December 31,		
	2008	2007	2006
Revenues, principally sales and services	\$ 60,872	\$ 61,361	\$ 63,053
Cost of sales and services	51,323	51,875	52,613
Selling, general and administrative expenses	7,948	7,968	8,522
	59,271	59,843	61,135
Income before income taxes	1,601	1,518	1,918
Income taxes	759	603	707
Segment net income	\$ 842	\$ 915	\$ 1,211

The operations of the industrial segment have suffered a variety of ongoing difficulties for a number of years, including periodic economic downturns, a shift of production by many customers from domestic to overseas facilities, resulting in a decline in the number of orders placed and a trend towards smaller-sized orders, unprecedented ability of the major steel producers in recent years to raise prices and establish minimum order quantities following consolidation in the industry, periods of intensified competitive pressures for product from suppliers, and intensifying competitive pressures among service centers for remaining domestic business.

The severity of the impact of the foregoing factors on Wesco's industrial segment is demonstrated by the significant decline in sales volume, in terms of pounds sold, from an average of 68 million pounds annually over the three-year period of 1998 through 2000, to an average of 39 million pounds annually over the most recent three-year period. Average industrial segment revenues have not declined as significantly, principally because customers have generally accepted higher-but-competitive prices as Wesco's industrial segment has struggled to maintain its margins.

Demand slowed during 2007 as customers became increasingly resistant to higher prices, especially for stainless steel products, whose prices had increased in one year by approximately 40% due to shortages and mill surcharges. Industrial segment revenues for 2007 decreased by \$1.7 million (2.7%) from those of 2006. Excluding from 2006 revenues \$0.8 million attributed to an extraordinarily large sale of toolroom supplies to a single customer, revenues for 2007 decreased by \$0.8 million (1.3%) as compared with those of 2006. Sales volume, in terms of pounds sold, decreased by approximately 14%.

The year 2008 started out well. Industrial segment revenues for the first six months were up \$0.9 million; volume, in terms of pounds sold, was up by 6.0%, as compared with figures for the first six months of 2007. In the third quarter of 2008, revenues continued to increase; however, volume, in terms of pounds sold, gave up approximately half of the improvement that had been reported one quarter earlier, possibly because of softening economic conditions. In the fourth quarter, revenues and pounds sold declined at an accelerating pace. For the calendar year 2008, sales revenues were down by \$0.5 million (0.6%), and volume, in terms of pounds sold in the fourth quarter of 2008, was down by 6.2% from sales volume of the corresponding 2007 quarter, to 6.2 million pounds for the fourth quarter.

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Segment income before income taxes and net income have remained relatively unchanged for each of the past three years, reflecting principally (1) the industrial segment's ongoing efforts to maintain the steadiness of its cost of sales, determined on the LIFO (last-in, first-out) basis, which, in terms of LIFO cost percentages relative to revenues, were 84.3%, 84.5% and 83.4%, for 2008, 2007 and 2006, and (2) the detrimental effect of an increase in the provision by \$0.5 million in 2006 and the beneficial effect of a decrease in the provision by \$0.3 million in 2008, for the ultimate cost of the ongoing environmental matter discussed in Note 10 to the accompanying consolidated financial statements. These adjustments increased (decreased) after-tax segment income by \$0.2 million for 2008 and by (\$0.3 million) for 2006.

Unrelated to Business Segment Operations

Realized gains and losses on Wesco's investments have fluctuated in amount from year to year, sometimes impacting net income significantly. Amounts and timing of these realizations have no predictive or practical analytical value. Wesco's investments are carried at fair value, and unrealized gains and losses are reflected, net of deferred income tax effect, in the unrealized appreciation component of other comprehensive income, in its shareholders' equity. When gains or losses are realized, due to sale of securities or other triggering events, they are credited or charged to the consolidated statement of income; generally, in Wesco's case, there has been little effect on total shareholders' equity essentially only a transfer from net unrealized appreciation to retained earnings. Wesco's consolidated earnings contained net realized investment gains, after taxes, of \$4.6 million for 2008 and \$15.8 million for 2007; no gains or losses were realized in 2006.

Management's principal goal is to maximize gain in Wesco's intrinsic business value per share over the long term. Accounting consequences do not influence business decisions. There is no particular strategy as to the timing of sales of investments. Investments may be sold for a variety of reasons, including (1) the belief that prospects for future appreciation of a particular investment are less attractive than the prospects for reinvestment of the after-tax proceeds from its sale, or (2) the desire to generate funds for an acquisition or repayment of debt. Investment gains may also derive from non-cash exchanges of securities for other investment securities as a result of merger activity involving the investees.

Other nonsegment items include mainly (1) rental income from owned commercial real estate and (2) dividend and interest income from marketable securities and cash equivalents owned outside the insurance subsidiaries, reduced by real estate and general and administrative expenses.

* * * *

Consolidated revenues, expenses and net income reported for any period are not necessarily indicative of future results in that they are subject to significant variations in amount and timing of (1) participations in reinsurance contracts with members of the Berkshire Insurance Group, such as the quota-share arrangement with NICO described in Item 1, Business, which is expected to significantly increase the business of the insurance segment for a five-year period beginning in 2008, (2) investment gains and losses, or (3) unusual nonoperating items. In addition, consolidated revenues, expenses and net income are subject to external conditions, such as terrorist activity, and changes in the economy.

Wesco is not presently suffering from inflation, but each of its business operations has potential exposure. Large unanticipated changes in the rate of inflation could adversely impact the insurance business, because premium rates are established well in advance of expenditures. Precision Steel's businesses are competitive and operate on tight gross profit margins, making their earnings susceptible to inflationary and deflationary cost changes; the impact, though not material in relation to Wesco's consolidated net income, may be significant to that of the industrial segment, due particularly to the segment's use of LIFO inventory accounting. As we head into a very difficult economic period,

management will continue to exercise judgment in all aspects of Wesco's operations, with the goal of maximizing shareholder value over the long term.

Table of Contents**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

Neither Wesco nor any of its subsidiaries has off-balance sheet arrangements other than the unrecorded contractual obligations discussed below. Nor do they have any insurance obligations for which estimated provisions have not been made in the accompanying consolidated financial statements.

Wesco and its subsidiaries have contractual obligations associated with ongoing business activities, which will result in cash payments in future periods. Certain obligations, such as notes payable, accrued interest, and unpaid insurance losses and loss adjustment expenses, are reflected in the accompanying consolidated financial statements. In addition, Wesco and its subsidiaries have entered into long-term contracts to acquire goods or services in the future, which are not currently reflected in the consolidated financial statements and will be reflected in future periods as the goods are delivered or services provided. A summary of contractual obligations as of December 31, 2008 follows. (Amounts are in thousands.)

	Total	2009	Payments Due		Thereafter
			2010-2011	2012-2013	
Notes payable, including interest	\$ 40,765	\$ 40,493	\$ 36	\$ 236	\$
Operating lease obligations	122,517	30,449	46,932	24,699	20,437
Payment of insurance losses and loss adjustment expenses*	215,268	55,396	76,241	51,138	32,493
Purchase obligations, other than for capital expenditures	13,095	12,244	851		
Purchase obligations for capital expenditures**	784	784			
Other, principally deferred compensation	5,797	866	78	176	4,677
Totals	\$ 398,226	\$ 140,232	\$ 124,138	\$ 76,249	\$ 57,607

* Amounts and timing of payments are significantly dependent on estimates. See Critical Accounting Policies and Practices below.

** Principally, construction costs of MS Property's luxury condominium development.

During 2008, credit markets became increasingly restricted as a consequence of the ongoing worldwide credit crisis. As a result, the availability of credit to corporations has declined significantly and interest rates for new issues increased relative to government obligations, even for companies with strong credit histories and capital to withstand these conditions. Management believes that Wesco currently maintains ample liquidity to cover its contractual obligations and provide for contingent liquidity needs.

CRITICAL ACCOUNTING POLICIES AND PRACTICES

Wesco's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP). The significant accounting policies and practices followed by Wesco are set forth in Note 1 to the accompanying consolidated financial statements. Following are the accounting policies and practices considered by Wesco's management to be critical to the determination of consolidated financial position and results of operations.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period reported upon. In particular, estimates of written and earned premiums and unpaid losses and loss adjustment expenses for property and casualty insurance are subject to considerable estimation error due both to the necessity of estimating information with respect to certain reinsurance

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contracts where reports from ceding companies for quarterly reporting periods are not contractually due until after the balance sheet date, as well as the inherent uncertainty in estimating ultimate claim amounts that will be reported and settled over a period of many years. The estimates and assumptions are based on management's evaluation of the relevant facts and circumstances using information available at the time such estimates and assumptions are made. The amounts of such assets, liabilities, revenues and expenses included in the consolidated financial statements may differ significantly from those that might result from use of estimates and assumptions based on facts and circumstances not yet available. Although Wesco's management does not believe such changes in estimates would have a materially adverse effect on shareholders' equity, they could produce a material effect on results of operations in a reporting period.

Investments

The appropriate classifications of investments in securities with fixed maturities and marketable equity securities are established at the time of purchase and reevaluated as of each balance sheet date. There are three permissible classifications: held-to-maturity, trading, and, when neither of those classifications is applicable, available-for-sale. In recent years, all equity and fixed-maturity investments have been classified as available-for-sale and carried at fair value, with unrealized gains and losses, net of applicable deferred income taxes, reported as a separate component of shareholders' equity.

Wesco carries its investments on its consolidated balance sheet at fair value. Fair value is defined under Statement of Financial Accounting Standards, promulgated by the Financial Accounting Standards Board (SFAS 157) as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard establishes a framework for measuring fair value based on observable, independent market inputs and unobservable market assumptions. Following is a description of the three levels of inputs that may be used to measure fair value:

Level 1 inputs represent unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 inputs represent observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are considered in fair value determinations of the assets or liabilities.

Level 3 inputs are unobservable inputs, based on management's assumptions, that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

See Notes 2 and 8 to Wesco's consolidated financial statements for additional information as to Wesco's investments.

Rental Furniture

Rental furniture consists principally of residential and office furniture which is available for rental or, if no longer up to rental standards or excessive in quantity, for sale. Rental furniture is carried at cost, less accumulated depreciation calculated primarily on a declining-balance basis over 3 to 5 years using estimated salvage values of 25 to 40 percent of original cost.

Revenue Recognition

Insurance premiums are stated net of amounts ceded to reinsurers and are recognized as earned revenues in proportion to the insurance protection provided, which in most cases is pro rata over the term of each contract. Premiums are

estimated with respect to certain reinsurance contracts written during the period where reports from ceding companies for the period are not contractually due until well after the balance sheet date. Unearned insurance premiums are deferred in the liability section of the consolidated balance sheet. Certain costs of acquiring insurance premiums commissions, premium taxes, and other are deferred and charged to income as the premiums are earned.

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Furniture rentals are recognized as revenue proportionately over the rental contract period; rentals received in advance are deferred in the liability section of the consolidated balance sheet. Related costs comprise the main element of cost of products and services sold on the consolidated income statement and include depreciation expense, repairs and maintenance and inventory losses.

Revenues from product sales are recognized upon passage of title to the customer, which coincides with customer pickup, product shipment, delivery or acceptance, depending on the sales arrangement. Revenues from services performed are recognized at the completion of the elements specified in the contract, which typically coincides with their being billed.

Interest income from investments in bonds and mortgage-backed securities is earned under the constant yield method and includes accrual of interest due as well as amortization of acquisition premiums and accruable discounts. In determining the constant yield for mortgage-backed securities, anticipated counterparty prepayments are estimated and evaluated periodically. Dividends from equity securities are earned on the ex-dividend date.

Losses and Loss Adjustment Expenses

Liabilities for unpaid insurance losses and loss adjustment expenses represent estimates of the ultimate amounts payable under property and casualty reinsurance and insurance contracts related to losses occurring on or before the balance sheet date. Liabilities for insurance losses are comprised of estimates for reported claims (case reserves); and reserve development on reported claims as well as estimates for claims that have not yet been reported (some of which may not be reported for many years), which together are also referred to as incurred-but-not-reported reserves (IBNR reserves). The liability for unpaid losses includes significant estimates for these claims and includes estimates reported by ceding insurers. Loss reserve estimates reflect past loss experience, adjusted as appropriate when losses are reasonably expected to deviate from experience.

Considerable judgment is required to evaluate claims and estimate claims liabilities in connection with reinsurance contracts. As further data become available, the liabilities are reevaluated and adjusted as appropriate. Additionally, claims, at each balance sheet date, are in various stages of the settlement process. Each claim is settled individually based upon its merits, and some take years to settle, especially if legal action is involved. Actual ultimate claims amounts are likely to differ from amounts recorded at the balance sheet date.

Depending on the type of loss being estimated, the timing and amount of loss payments are subject to a great degree of variability and are contingent, among other factors, upon the timing of the claim reporting by cedants and insureds, and the determination and payment of the ultimate loss amounts through the loss adjustment process. Judgments and assumptions are necessary in projecting the ultimate amounts payable in the future with respect to loss events that have occurred.

Provisions for losses and loss adjustment expenses are reported in the consolidated statement of income after deducting estimates of amounts that will be recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding companies of their obligations to indemnify policyholders with respect to the underlying insurance contracts. Ceded reinsurance losses recoverable (ceded reserves) are reflected in the accompanying consolidated balance sheet as a component of accounts receivable.

The time period between the claim occurrence date and payment date of the loss is referred to as the claim tail. Property claims usually have fairly short claim tails, and, absent litigation, are reported and settled within a few months or years after occurrence. Casualty losses usually have very long claim tails. Casualty claims can be more susceptible to litigation and can be more significantly affected by changing contract interpretations and the legal environment, which contributes to extended claim tails. Claim tails for reinsurers may be further extended due to

delayed reporting by ceding insurers or reinsurers due to contractual provisions or reporting practices. Actual ultimate loss settlement amounts are likely to differ from amounts recorded at the balance sheet date. Changes in estimates, referred to as loss development,

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are recorded as a component of losses incurred in the period of change. Wes-FIC and KBS do not use consultants to assist in reserving activities.

Following are summaries of Wesco's consolidated liabilities for unpaid insurance losses and loss adjustment expenses and related reinsurance recoverables reflected in the Consolidated Balance Sheet. Wesco does not discount the amounts for time value, regardless of the length of the estimated claim tail. Amounts are in thousands.

	December 31, 2008	December 31, 2007
Case reserves	\$ 61,757	\$ 58,160
IBNR reserves	153,511	35,685
Gross liability before ceded reinsurance	215,268	93,845
Ceded reserves	(17,914)*	(23,502)*
Net reserves	\$ 197,354	\$ 70,343

* Represents principally, Wes-FIC's proportionate share of reinsurance purchased by the aviation pools.

Following is a breakdown of Wesco's consolidated liabilities for unpaid insurance losses and loss adjustment expenses and related reinsurance recoverables reflected in the Consolidated Balance Sheet. Amounts are in thousands.

	Gross Unpaid Losses		Net Unpaid Losses*	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Swiss Re contract	\$ 127,215	\$	\$ 127,215	\$
Other reinsurance, principally aviation-related	73,356	74,925	55,442	51,823
KBS primary	14,697	18,920	14,697	18,520
Total	\$ 215,268	\$ 93,845	\$ 197,354	\$ 70,343

* Net of reinsurance recoverable, and before foreign currency translation effects.

Included in other reinsurance losses in the foregoing table are \$5.1 million at yearend 2008 and \$5.3 million at yearend 2007, representing non-aviation reinsurance reserve amounts at those dates, consisting mainly of IBNR reserves relating to a quota-share contract that has been in runoff for more than 10 years, under which Wes-FIC continues to make loss payments. Such amounts reflected loss estimates reported by the ceding companies and additional IBNR reserves estimates by Wes-FIC management, which were mainly a function of reported losses from ceding companies, anticipated loss ratios for the contract period, and management's judgment as to the loss reserving adequacy of the ceding companies. There is no reinsurance recoverable with respect to these reserves.

The techniques and processes employed in estimating loss reserves are differentiated between reinsurance and primary insurance.

Reinsurance Historically, Wes-FIC's property and casualty loss reserves derive from individual risk, multi-line and catastrophe reinsurance policies. In 2008, Wes-FIC entered into a retrocession agreement with National Indemnity Company, (NICO), a wholly owned insurance subsidiary of its parent company, Berkshire Hathaway Inc., to assume 10% of NICO's quota share reinsurance of Swiss Reinsurance Company and its property-casualty affiliates (Swiss Re). Under this retrocession agreement, Wes-FIC has assumed 2% part of NICO's 20% quota share reinsurance of all Swiss Re property-casualty risks incepting over a five-year period beginning in 2008, on the same terms as NICO's agreement with Swiss Re. Other Wes-FIC reinsurance activities in recent years have consisted almost exclusively of participations in aviation-related pools that are underwritten and managed by a wholly owned indirect subsidiary of Berkshire Hathaway.

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Losses from aviation coverages generally have reasonably short tails with respect to the property components. The claim tail for the liability coverage can be somewhat longer, especially when litigation results. The case reserving process for aviation risks is believed to involve less uncertainty than for many other types of insurance, because loss events tend to become known and reported relatively soon after the events occur. The material judgments underlying the loss reserving by the aviation pools' manager assume that future loss patterns (incurred and paid) will be similar to those of the past. The aviation pools' manager establishes case and IBNR reserves and manages the claims settlement process, including payment of the related claims. Wes-FIC is allocated its share of these amounts, monthly. The pools manager has considerable experience with aviation insurance and claims. Wes-FIC management reviews reported claim amounts for reasonableness and has historically accepted the amounts without further adjustment, except for adjustments made for minor reporting delays.

Wes-FIC management is represented at regular meetings and presentations held by the aviation pools' manager, and Wesco believes that Wes-FIC is able to closely monitor and assess the pools' manager's judgments concerning reserves.

Wes-FIC's estimates of losses and loss adjustment expenses under the Swiss Re contract are derived from Swiss Re's quarterly reports to NICO on a quarterly-lag basis, plus NICO's and Wes-FIC's managements' estimates of underwriting results for the current quarter, which reflect their assessments of publicly available information and prevailing market conditions. As Swiss Re's business underlying the contract is predominately reinsurance, Swiss Re's quarterly reports are affected by the estimation processes of its management, which are believed to be similar to those underlying Wes-FIC's other reinsurance contracts. In addition, inasmuch as more than half of the business assumed under the Swiss Re contract is denominated with NICO in currencies other than United States dollars, significant portions of assumed losses are also subject to foreign exchange risks relative to United States dollars. Thus, the foreign exchange risk adds greater uncertainty to the underwriting results estimated by management than the uncertainty relating to the other property-casualty insurance and reinsurance contracts in which Wes-FIC participates. Wesco and Wes-FIC managements understand and accept the greater uncertainty under the Swiss Re contract as a business risk compensated by management's judgment of the expected profitability of the assumed business.

Primary insurance Loss reserves from Wesco's primary insurance activities derive from individual risk policies written by KBS, which primarily provides specialty coverages for financial institutions. Reserve amounts are comprised of case estimates and estimates of IBNR reserves, which approximated \$7 million at both yearends of 2008 and 2007. Because of the relatively low number (or frequency) of losses and potential for higher severity (or amount per claim), KBS management is familiar with and closely monitors each claim. Losses generally are expected to have a relatively short reporting and claim tail due to the nature of the claims. KBS provides crime insurance, check kiting fraud indemnification, Internet banking catastrophe theft insurance, Internet banking privacy liability insurance, directors and officers liability, bank employment practices, and bank insurance agents professional errors and omissions indemnity. KBS has also offered deposit guarantee bonds which insure bank deposits in excess of federally insured limits (bonds), and, until recently, accounted for approximately half of its \$20 million of annual premium volume. Because of recent events in the banking industry, including a number of bank failures, management is less confident in the long-term profitability of this line of insurance than previously. KBS's customer base consists principally of small Midwestern banks, few of which are believed to be subject to significant risk of failure. However, in the third quarter of 2008 one of its customer banks failed, resulting in a loss to KBS, and thus, to Wesco, of \$4.5 million, after taxes. In September 2008, KBS notified customers of its decision to exit this line of insurance as rapidly as feasible.

As a result of KBS management's intimate knowledge as to its claims, reserves are developed primarily from case estimates, reducing the need for extended actuarial studies and broad estimates of IBNR of the nature typically performed by large primary insurers whose business volume requires such procedures for the development of their loss data. A range of reserve amounts as a result of changes in underlying assumptions is not prepared.

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Goodwill of Acquired Businesses

Goodwill of acquired businesses represents the excess of the cost of acquired entities (principally CORT) over the fair values assigned to assets acquired and liabilities assumed. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, which requires the Company to test goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. Annual impairment tests are performed in the fourth quarter of each year using a variety of methods that require that certain assumptions and estimates be made regarding economic factors and future profitability. Impairments, if any, are charged to earnings.

Realized Investment Gains and Losses

Realized investment gains and losses, determined on a specific-identification basis, are included in the consolidated statement of income, as are provisions for other-than-temporary declines in market or estimated fair value, when applicable. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects and creditworthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and Wesco's ability and intent to hold the investment until the fair value recovers.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Wesco's consolidated balance sheet contains substantial liquidity as well as substantial amounts of investments whose estimated fair (carrying) values are subject to market risks. Its fixed-maturity investments are backed by the U.S. Government and its agencies. Values of marketable equity securities are subject to fluctuations in their stock market prices, and values of securities with fixed maturities are subject to changes in interest rate levels. Apart from investments, the consolidated balance sheet at December 31, 2008 did not contain significant assets or liabilities with values subject to these or other potential market exposures such as changes in commodity prices or foreign exchange rates. Wesco does not utilize derivatives to manage market risks.

EQUITY PRICE RISK

Strategically, Wesco strives to invest in businesses that possess excellent economics, with able and honest management, at sensible prices. Wesco's management prefers to invest a meaningful amount in each investee, resulting in concentration. Most equity investments are expected to be held for long periods of time; thus, Wesco's management is not ordinarily troubled by short-term price volatility with respect to its investments provided that the underlying business, economic and management characteristics of the investees remain favorable. Wesco strives to maintain above-average levels of shareholders' equity as well as much liquidity to provide a margin of safety against short-term equity price volatility.

The carrying values of investments subject to equity price risks are based on quoted market prices. During 2008, several crises affecting the financial system and capital markets of the U.S. resulted in very large price declines in the general stock market and in Wesco's equity securities, particularly in the fourth quarter. Fluctuation in the market price of a security may also result from actual or perceived changes in the underlying economic characteristics of the investee and the relative prices of alternative investments. Furthermore, amounts realized upon the sale of a particular security may be adversely affected if a relatively large quantity of the security is being sold.

Wesco's consolidated balance sheet at December 31, 2008 contained \$1.868 billion of marketable equity securities stated at market value, down from \$1.919 billion one year earlier. The \$51 million decrease occurred in spite of Wesco's investment of \$289 million net, in equity securities during the year. The concentration existing in Wesco's

equity securities portfolio exposes it to more significant market price fluctuations than might be the case were Wesco's investments more diversified. This exposure to fluctuations is further exacerbated by the large amount invested in companies engaged in the banking industry, inasmuch as trading prices of financial institutions' shares have been more severely impacted in recent months than

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have general trading prices, due significantly to the ongoing liquidity crisis as well as the deterioration of assets and earnings reported by the industry. (At December 31, 2008, five investments, whose carrying value aggregated \$1.6 billion, comprised 86% of the carrying value of the Company's equity securities portfolio. These five were common stocks of Wells Fargo & Company, USBancorp, The Procter & Gamble Company, The Coca-Cola Company and Kraft Foods Incorporated, of which the first two are in the banking industry and the latter three have significant global operations and thus are subject to changes in foreign currency exchange rates.)

The following table summarizes Wesco's equity price risks as of December 31, 2008 and 2007. It shows the effects of a hypothetical 50% overall increase or decrease in market prices of marketable equity securities owned by the Wesco group on total recorded market value and, after tax effect, on Wesco's shareholders' equity at each of those dates. (Amounts are in thousands.)

	December 31, 2008		December 31, 2007	
	Increase	Decrease	Increase	Decrease
Market value of marketable equity securities				
As recorded	\$ 1,868,293	\$ 1,868,293	\$ 1,919,425	\$ 1,919,425
Hypothetical	2,802,440	934,147	2,879,137	959,712
Shareholders' equity				
As recorded	2,377,756	2,377,756	2,534,859	2,534,859
Hypothetical	2,984,951	1,770,561	3,158,672	1,911,046

The 50% hypothetical changes in market values assumed in preparing the tables do not reflect what could be considered best- or worst-case scenarios. Actual results could be much worse or better due both to the nature of equity markets and the aforementioned concentration existing in Wesco's equity investment portfolio.

After yearend 2008, through February 24, 2009, the market values of Wesco's marketable equity securities declined, by \$303 million, after deferred taxes, resulting in an after-tax decrease in Wesco's shareholders' equity by \$43 per share. In addition, market price volatility, which increased significantly throughout 2008, could continue into the future.

INTEREST RATE RISK

Wesco's consolidated balance sheet at December 31, 2008 contained \$298 million of cash and cash equivalents and \$29 million of securities with fixed maturities stated at fair value, versus \$527 million of cash and cash equivalents and \$39 million of securities with fixed maturities one year earlier. Consequently, market value risks with respect to interest-rate movements or other factors as of December 31, 2008 are not considered significant.

The fair values of Wesco's fixed-maturity investments fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values. Fair values of Wesco's investments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. Wesco, as a matter of practice, invests only in fixed-maturity securities of the highest quality. As of yearend 2008, its fixed-maturity investments consisted of securities of the U.S. Treasury and of agencies of the U.S. Government.

FOREIGN CURRENCY RISK

In years prior to 2008 Wesco's foreign currency risk was limited essentially to that of its investees, as it had and continues to have significant amounts invested in major international companies, such as the Coca-Cola Company, that have significant foreign business and foreign currency risks of their own. Wesco's participation in the Swiss Re contract beginning in 2008 has subjected Wesco to an increasing amount of

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