

KFORCE INC
Form DEF 14A
March 17, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

KFORCE INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

Title of each class of securities to which transaction applies:

(1)

Aggregate number of securities to which transaction applies:

(2)

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(4)

Total fee paid:

(5)

- Fee paid previously with preliminary materials.

- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:

(1)

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Filing Party:

(3)

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(4)

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 2017 Annual Meeting of Kforce Inc. Shareholders (the Annual Meeting) that will be held on Tuesday, April 18, 2017 at 1001 East Palm Avenue, Tampa, Florida 33605, commencing at 8:00 a.m., eastern time.

We are holding this meeting to:

1. Elect four Class II directors to hold office for a three-year term expiring in 2020 and one Class III director to hold office for a one-year term expiring in 2018;
2. Ratify the appointment of Deloitte & Touche LLP as Kforce's independent registered public accountants for 2017;
3. Conduct an advisory vote on executive compensation;
4. Conduct an advisory vote on the frequency of future advisory votes on executive compensation;
5. Approve the Kforce Inc. 2017 Stock Incentive Plan; and
6. Attend to other business properly presented at the meeting.

Kforce's Board of Directors (the Board) has selected February 24, 2017 as the record date (the Record Date) for determining shareholders entitled to vote at the meeting.

The proxy statement, proxy card and Kforce's 2016 Annual Report to Shareholders are being mailed on or about March 17, 2017. Whether or not you plan to attend the annual meeting, we encourage you to vote your shares by using the Internet, telephone, or by signing, dating and returning the enclosed proxy card.

If you need further assistance, please contact Kforce Investor Relations at (813) 552-5000. Thank you for your continuing support.

BY ORDER OF THE BOARD OF DIRECTORS

David M. Kelly
Corporate Secretary

Tampa, Florida
March 17, 2017

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on April 18, 2017.

This proxy statement and our 2016 Annual Report to Shareholders are available at <http://investor.kforce.com/annuals.cfm>.

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LETTER TO OUR SHAREHOLDERS

At Kforce we believe that the selection, development and retention of Great People leads to Great Results and we are firmly committed to being the Firm most respected by those we serve, which includes our clients, employees, consultants and you, our shareholders.

2016 was a year of a considerable transformation for our Firm and we are pleased to share a few of the governance initiatives we undertook for the benefit of our shareholders during the past year.

BOARD DIVERSIFICATION AND SUCCESSION PLANNING

We believe our directors contribute a depth and variety of experiences and backgrounds in a way that provides significant value to the Board, management and our shareholders. We also believe periodic Board evaluation, refreshment and succession planning processes are good corporate governance and are essential to ensuring our board leadership includes the right mix of tenure, experience and independence. We are committed to advancing the refreshment and diversity of our Board in a thoughtful, orderly manner that best serves the long-term interest of our shareholders. Since 2014 we have added three new independent board members, including two this past year, and as we enter 2017 we remain dedicated to the continued evaluation and pursuit of Board refreshment and succession opportunities.

SHAREHOLDER ENGAGEMENT

Continuous and transparent communication with our shareholders helps our Board and senior management team by providing direct feedback on a wide range of topics of importance to our stakeholders. In 2016, we conducted a shareholder outreach effort and spent time talking with a number of our shareholders about a variety of topics, including general corporate governance matters and executive compensation. The information and feedback we received will inform our policies, practices and strategies going forward. We thank all those who participated and remain open to and invite your feedback during 2017.

PROXY STATEMENT ENHANCEMENT

Finally, as you soon will see, during 2016 we worked to enhance the format and content of our proxy statement in order to improve the effectiveness of our disclosures. For example, our Corporate Governance section has been reordered and rewritten to provide you with a concise summary of key information concerning our Board of Directors, as well as enhanced discussion of our corporate governance practices. Our Compensation Discussion and Analysis, beginning on page 17, now incorporates the use of additional charts, graphs and tables in order to more clearly depict how our executive compensation program manifests our executive compensation philosophy of attracting, motivating and retaining highly qualified executives who are able to maximize shareholder value. We hope that you will find these changes beneficial as you review this proxy statement and vote your shares.

Thank you for your continued interest and support of Kforce and for allowing us the privilege of serving you.

David L. Dunkel Ralph Struzziero
Chairman and Chief Executive Officer Lead Independent Director

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CORPORATE GOVERNANCE

OUR BOARD OF DIRECTORS

The Board currently consists of eleven directors who are divided into three classes serving staggered three-year terms. The following table sets forth the names, ages (as of February 24, 2017), and certain other information for each of our directors (including those who are nominees for election at the Annual Meeting).

| | Class | Age | Position | Director Since | Current Term Expires | Expiration of Term for Which Nominated | Independent | Audit Comm | Comp. Comm | Nomin. Comm | Corp. Gov. Comm | Exec. Comm |
|--|-------|-----|------------------------------|----------------|----------------------|--|-------------|------------|------------|-------------|-----------------|------------|
| Directors with Terms Expiring at the Annual Meeting/Nominees | | | | | | | | | | | | |
| John N. Allred | II | 70 | Director | 1998 | 2017 | 2020 | ü | | | | | |
| Richard M. Cocchiaro | II | 62 | Director | 1994 | 2017 | 2020 | | | | | | |
| Ann E. Dunwoody | II | 64 | Director | 2016 | 2017 | 2020 | ü | | | | | |
| A. Gordon Tunstall | II | 73 | Director | 1995 | 2017 | 2020 | ü | | | | | |
| Randall A. Mehl | III | 49 | Director | 2017 | 2017 | 2018 | ü | | | | | |
| Continuing Directors | | | | | | | | | | | | |
| David L. Dunkel | III | 63 | Chairman, CEO Director | 1994 | 2018 | N/A | | | | | | |
| Mark F. Furlong | III | 59 | Director | 2001 | 2018 | N/A | ü | | | | | |
| N. John Simmons | III | 61 | Director | 2014 | 2018 | N/A | ü | | | | | |
| Elaine D. Rosen | I | 64 | Director | 2003 | 2019 | N/A | ü | | | | | |
| Ralph E. Struzziero | I | 72 | Director | 2000 | 2019 | N/A | þ | | | | | |
| (1) | | | | | | | | | | | | |
| Howard W. Sutter | I | 68 | Director | 1994 | 2019 | N/A | | | | | | |

(1) In the course of determining Mr. Struzziero's independence, the Board specifically considered the employment of Mr. Struzziero's son described below in the "Related Party Transactions" section and determined that it did not impair Mr. Struzziero's independence.

Legend: þLead Independent Director ChairMemberFinancial Expert

The Class II nominees identified above have been nominated to serve as directors for a three-year term expiring at the 2020 annual meeting of shareholders, and the Class III nominee identified above has been nominated to serve as a director for a one-year term expiring at the 2018 annual meeting of shareholders. All of the nominees are currently directors of Kforce, previously elected by the shareholders or appointed by the Board.

BIOGRAPHICAL INFORMATION FOR OUR DIRECTOR NOMINEES

The biographies for each of our director nominees is set forth below along with a description of the experiences, qualifications, attributes or skills that caused the Nomination Committee and the Board to determine that they should serve as a director of Kforce.

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NOMINEES FOR ELECTION, CLASS II DIRECTORS - TERMS EXPIRE IN 2020

| | | | | | |
|--|---|---|---------------------|---------------------|--|
| <p>John N. Allred (Independent)</p> | <p>Director Since: 1998 Kforce Committees:</p> | <p>Age: 70 Audit; Nomination (Chair); Corporate Governance None</p> | | | |
| | <p>Other Current Public Boards: Mr. Allred has served as President of A.R.G., Inc., a provider of temporary and permanent physicians located in the Kansas City area since January 1994. He was a director at Source Services Corporation (Source) prior to its merger with Kforce in 1998 and served in various capacities with Source from 1976 to 1993 including Vice President (1987-1993), Regional Vice President (1983-1987) and Kansas City Branch Manager (1976-1983). Mr. Allred has extensive experience in the staffing industry. He is particularly knowledgeable in the area of healthcare, which is an important part of Kforce's business. His staffing industry experience (other than his directorship in Kforce) is with companies other than Kforce, which allows him to address operational issues with a different perspective.</p> | | | | |
| <p>Richard M. Cocchiaro</p> | <p>Director Since: 1994 Kforce Committees: Other Current Public Boards:</p> | <p>Age: 62 Executive None</p> | | | |
| | <p>Mr. Cocchiaro served as a Vice Chairman of Kforce from 2004 through his retirement in January 2016, during which time he oversaw our Customer First Customer Loyalty Program and served on both Kforce's internal executive committee and innovation council. Previously, Mr. Cocchiaro served as Vice President of Strategic Accounts for Kforce (2000–2004), Vice President of Strategic Alliances for Kforce.com Interactive (1999) and National Director of Strategic Solutions within Kforce's emerging technologies group (1994-1999). Mr. Cocchiaro has extensive experience with Kforce's field operations on a national basis, bringing an important perspective to the Board. He has served in numerous leadership roles within Kforce including, among others, the financial services group, leading the Chicago market, the emerging technologies group, strategic alliances, national accounts and most recently leading the Customer First Customer Loyalty Program.</p> | | | | |
| <p>Ann E. Dunwoody</p> | | <p>102,321</p> | <p>171,143</p> | | |
| | <p>Total Assets</p> | <p>\$ 10,072,397</p> | <p>\$ 7,867,910</p> | <p>\$ 4,498,774</p> | |
| <p>Liabilities:</p> | <p>Deposits</p> | <p>\$ 2,329,326</p> | <p>\$ 2,478,487</p> | <p>\$ 2,212,309</p> | |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Notes payable on automobile secured financings | 5,886,227 | 3,473,377 | |
| FHLB advances and other borrowings | 723,675 | 616,193 | 498,901 |
| Amounts held on behalf of trustee | 280,496 | 494,858 | 687,274 |
| Subordinated debt | 147,714 | 189,962 | 199,298 |
| Other liabilities | 85,994 | 71,221 | 59,140 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | 9,453,432 | 7,324,098 | 4,118,026 |
| Minority interest in equity of subsidiaries | 78,261 | 56,644 | 28,030 |
| Shareholders' equity | 540,704 | 487,168 | 352,718 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities and Shareholders' Equity | \$ 10,072,397 | \$ 7,867,910 | \$ 4,498,774 |
| | <u> </u> | <u> </u> | <u> </u> |

Other Selected Financial Data

| | | | |
|--|-------------------|-------------------|-------------------|
| Average assets | \$ 9,280,377 | \$ 6,242,668 | \$ 3,952,360 |
| Return on average assets | 0.60% | 1.20% | 1.33% |
| Average shareholders' equity | \$ 554,604 | \$ 431,486 | \$ 337,886 |
| Return on average shareholders' equity | 10.04% | 17.32% | 15.58% |
| Equity to assets ratio | 5.37% | 6.19% | 7.84% |
| Originations: | | | |
| Consumer loans | \$ 4,869,970 | \$ 4,232,115 | \$ 3,355,732 |
| Mortgage loans | 23,001 | 33,124 | 276,936 |
| Commercial loans | 291,944 | 266,342 | 237,316 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total originations | \$ 5,184,915 | \$ 4,531,581 | \$ 3,869,984 |
| | <u> </u> | <u> </u> | <u> </u> |
| Interest rate spread | 4.99% | 4.37% | 3.59% |

(1) Net of unearned discounts.

(2) Net of undisbursed loan proceeds.

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before deciding to invest in shares of our common stock. Our business, operating results and financial condition could be adversely affected by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you could lose all or part of your investment. You should also refer to the other information set forth in this prospectus, including our consolidated financial statements and the related notes incorporated herein by reference.

*This prospectus also contains forward-looking statements that involve risks and uncertainties. These statements relate to our future plans, objectives, expectations and intentions, and the assumptions underlying or relating to any of these statements. These statements may be identified by the use of words such as *expects, anticipates, intends, and plans* and similar expressions. Our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus.*

RISK RELATED TO THE OFFERING

If you do not exercise your full basic subscription right, your percentage ownership and voting rights of Westcorp will decrease.

If you choose not to exercise your basic subscription right in full, your relative ownership interest in Westcorp will be diluted to the extent others exercise their subscription rights. Your voting rights and percentage interest in any of Westcorp's net earnings will also be diluted if you do not exercise your rights in full. We are unable to determine the total number of shares that will be actually sold in the offering, but, if all of the shares of common stock which we are offering are purchased upon the exercise of basic subscription rights and oversubscription rights, our total outstanding shares of common stock will be increased by 9%. If you do not exercise any of the rights distributed to you, your percentage interest as a shareholder will be diluted by approximately 8.3%.

The offering price was determined by our Board of Directors and bears no relationship to the value of our assets, financial condition or other established criteria for value. Our common stock may trade at prices above or below this price.

Our Board of Directors determined the offering price after considering a number of factors including:

current market price of our stock;

book value of our stock;

past operations;

cash flows;

earnings;

our overall financial condition; and

our future prospects, including specifically the prospects of WFS and the Bank.

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The Board of Directors did not assign weighting to any one factor in setting the offering price or determine the offering price through the application of an objective formula. Rather, our board of directors determined the offering price subjectively after considering these and other factors. After the date of this prospectus, our common stock may trade at prices above or below the offering price.

You may not revoke your subscription exercise and could be committed to buying shares above the prevailing market price.

The public trading market price of our common stock may decline before the subscription rights expire. If you exercise your subscription rights and, afterwards, the public trading market price of our common stock decreases below \$15.75, you will have committed to buying shares of common stock at a price above the prevailing market price. Our common stock is traded on the New York Stock Exchange under the symbol WES and the last reported sales price of our common stock on the New York Stock Exchange on February 8, 2002 was \$17.35 per share. Once you have exercised your subscription rights, you may not revoke your exercise unless we amend the offering, in which event you will have the right to cancel your subscription and promptly receive back any funds you have delivered, without interest, or to reaffirm your exercise of your subscription rights under the terms of the offering, as so amended. Moreover, you may be unable to sell your shares of common stock at a price equal to or greater than the offering price.

Because we may terminate the offering at any time, your participation in the offering is not assured.

Once you exercise your subscription rights, you may not revoke the exercise for any reason unless we amend the offering. We may terminate the offering at any time. If we decide to terminate the offering, we will not have any obligation with respect to the subscription rights except to return any subscription payments, with interest if you subscribed using immediately available funds. See The Offering Interest on Subscription Funds .

We have broad discretion in how we use the proceeds from this offering and may use them in ways with which you disagree.

We have not allocated specific amounts of the net proceeds to any particular growth plans. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. The failure of management to use such funds effectively could have a material adverse effect on our financial position, liquidity and results of operations by reducing or eliminating our net income from operations.

RISKS RELATED TO US

The ownership of our common stock is concentrated, which may result in conflicts of interest and actions that are not in the best interests of other stockholders.

Ernest S. Rady is the founder, the Chairman of the Board of Directors and the Chief Executive Officer of Westcorp. Mr. Rady is also the Chairman of the Board of Directors of the Bank and WFS. Mr. Rady is the beneficial owner of approximately 68% of the outstanding shares of common stock of Westcorp and will be able to exercise significant control over our company. In addition, Mr. Rady has advised us that he intends to exercise the basic subscription rights controlled by him in full and also expects to oversubscribe. The exact number of shares he and the entities he controls will be able to purchase pursuant to oversubscription rights cannot be determined at this time.

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Accordingly, the common stock ownership of Mr. Rady will enable him to elect all of our directors and effectively control the vote on all matters submitted to a vote of our stockholders, including mergers, sales of all or substantially all of our assets and going private transactions. Because of the significant block of common stock controlled by Mr. Rady, decisions may be made that, while in the best interest of Mr. Rady, may not be in the best interest of other stockholders.

RISKS RELATED TO US ARISING FROM OUR CONSOLIDATED OPERATIONS

As a holding company, the results of our operations and our financial condition are dependent upon the business activities of our two principal consolidated subsidiaries, the Bank and WFS. In this section of this prospectus we provide information about risks with respect to an investment in our common stock due to the material affect our subsidiaries activities have on our consolidated operations and financial condition. While a specific risk may relate to one or both of the Bank or WFS, the effect of that risk is its impact on our consolidated operations and financial condition. As a result, the following are risks of investing in our common stock.

The availability of our financing sources may depend on factors outside of our control.

We depend on a significant amount of financing to operate our business. We employ a business strategy to utilize diverse funding sources to fund our operations. These sources include raising both short-term and long-term deposits from the general public, commercial enterprise and institution by offering a variety of accounts and rates through our retail and commercial banking operations. In addition, we raise funds though the collection of principal and interest from loans, automobile asset-backed securities, commercial paper, advances from the FHLB, repurchase agreements, subordinated debentures and other borrowings. The sources used vary depending on such factors as rates paid, maturities, and the impact on capital.

The availability of these financing sources may depend on factors outside of our control, including regulatory issues such as the capital requirements of the Bank, debt ratings, competition, a market for automobile asset-backed securities and our ability to receive financings from other financial institutions. If we were unable to raise the necessary financing to run our business, we would have to curtail our loan origination activities, which would have a material adverse effect on our financial position, liquidity and results of operations by increasing our interest expense, reducing our interest income and our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts.

We may not be able to generate sufficient operating cash flows to run our business.

Our business requires substantial operating cash flows. Operating cash requirements include amounts paid to dealers for acquisition of automobile contracts, expenses incurred in connection with the securitization of automobile contracts, capital expenditures for new technologies and ongoing operating costs. Our primary source of operating cash comes from the excess cash flows received from securitization trusts and loans held on the balance sheet. The timing and amount of excess cash flow from loans varies based on a number of factors, including but not limited to:

the rates of loan delinquencies, defaults and net losses;

how quickly and at what price repossessed vehicles can be resold;

ages of the loans in the portfolio; and

levels of voluntary prepayments.

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Any adverse change in these factors could reduce or eliminate excess cash flows to us. Although we currently have positive operating cash flows, we cannot assure you that we will continue to generate positive cash flows in the future, which could have a material adverse effect on our financial position, liquidity and results of operations by reducing or eliminating our net income from operations.

Changes in our securitization program could adversely affect our liquidity and earnings.

Our business depends on our ability to aggregate and sell automobile contracts in the form of publicly offered asset-backed securities. These sales generate cash proceeds that allow us to repay amounts borrowed and to purchase additional contracts. Changes in our asset-backed securities program could materially adversely affect our earnings or ability to purchase and resell automobile contracts on a timely basis. Such changes could include a:

delay in the completion of a planned securitization;

negative market perception of us; and

failure of the contracts we intend to sell to conform to insurance company and rating agency requirements.

If we are unable to use a securitization program, we may have to curtail our automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations as a material element of our operations depends upon our remaining a preferred source of financing for the dealers from whom we purchase automobile contracts. If we are not considered to be a preferred source of financing by a dealer, that dealer will sell the automobile contracts of the quality we seek to purchase to our competitors.

We depend on our credit enhancements to maintain favorable interest rates and cash requirements for our automobile asset-backed securitization transactions.

To date, all but one of our automobile asset-backed securitization transactions have used credit enhancement in the form of financial guaranty insurance policies issued by Financial Security Assurance Inc., or FSA. These insurance policies are currently one of the most effective and least capital intensive forms of credit enhancement. We use this credit enhancement to achieve AAA/ Aaa ratings on our securitizations for those securities sold to the public, which reduces the overall costs of a transaction relative to alternative forms of financing available to us. FSA is not required to insure our securitizations and we cannot assure you that it will continue to do so or that our future securitizations will be similarly rated. Likewise, we are not required to use financial guaranty insurance policies issued by FSA or any other form of credit enhancement in connection with our securitizations. A downgrading of FSA's credit rating, FSA's withdrawal of credit enhancement or the lack of availability of reinsurance or other alternative credit enhancements could result in higher interest costs for our future securitizations and/or larger initial spread account deposit requirements if we are unable to obtain similar policies on similar terms. These events could have a material adverse effect on our financial position, liquidity and results of operations by increasing the total costs of our securitization activities and thereby reducing our net income.

If we lose our reinvestment contract relationship or if our reinvestment contracts are no longer deemed eligible investments, we may not be able to obtain comparable financing.

We have access to the cash flows of the automobile contracts sold to the securitization trust in each of the outstanding securitization transactions, including the cash held in each spread account, through a series of agreements into which, the Bank, WFS, and WFAL2, and other parties have

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entered. We are permitted to use that cash as we determine, including in the ordinary business activities of originating contracts.

In each securitization transaction, the securitization agreements require that all cash flows of the relevant trust and the associated spread accounts be invested in an eligible investment. The Bank and WFAL2 have entered into a reinvestment contract in connection with each securitization transaction, which is deemed to be an eligible investment under the relevant securitization agreements.

A limited portion of the funds invested in reinvestment contracts may be used by WFAL2 and the balance may be used by the Bank. The Bank makes its portion of the invested funds available to WFS through a reinvestment contract. Under the reinvestment contract with WFS and the Bank, WFS receives access to all of the cash available to the Bank under each trust reinvestment contract. WFS is obligated to repay to the Bank an amount equal to the cash it used when needed by the Bank to meet its obligations under the individual trust reinvestment contracts. With the portion of the cash available to WFAL2 under the individual trust reinvestment contracts, WFAL2 purchases contracts from WFS according to the terms of sale and servicing agreements entered into with WFS. If the reinvestment contracts were no longer deemed an eligible investment, which determination could be made by either of the securitization rating agencies or FSA in their sole discretion, we would no longer have the ability to use this cash in the ordinary course of business and would need to obtain alternative financing, which may only be available on less attractive terms. If we were unable to obtain additional financing, we may have to curtail our contract purchasing activities, which would also have a material adverse effect on our financial position, liquidity and results of operations by reducing our interest income and our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts.

A loss of contractual servicing rights could have a material effect on our business.

As servicer of all our securitized automobile contracts, we are entitled to receive contractual servicing fees. Contractual servicing fees are earned at rates ranging from 1.0% to 1.25% per annum on the outstanding balance of contracts securitized. FSA, as guarantor, can terminate our right to act as servicer upon the occurrence of events defined in the sale and servicing agreements for securitized contracts, such as our bankruptcy or material breach of warranties or covenants. Any loss of such servicing rights could have a material adverse effect on our financial position, liquidity and results of operations by reducing our net income upon the elimination of that contractual servicing income.

We expect our operating results to continue to fluctuate, which may adversely impact our business and our stockholders.

Our results of operations have fluctuated in the past and are expected to fluctuate in the future. Factors that could affect our quarterly earnings include but are not limited to:

variations in the volume of loans originated, which historically tends to be lower in the first and fourth quarters of the year;

interest rate spreads;

the effectiveness of our hedging strategies;

credit losses, which historically tend to be higher in the first and fourth quarters of the year; and

operating costs.

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Failure to implement our business strategy could adversely affect our operations.

Our financial position and results of operations depend on our ability to execute our business strategy, which includes the following key elements:

producing measured growth in contract originations;

leveraging technology to improve our business;

effectively pricing contracts relative to risk; and

utilizing the diverse funding sources of the Bank.

Our failure or inability to execute any element of our business strategy could materially adversely affect our financial position, liquidity and results of operations.

We have broad discretion in how we use the proceeds from this offering and may use them in ways with which you disagree.

We have not allocated specific amounts of the net proceeds to any particular growth plans. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering. The failure of management to use such funds effectively could have a material adverse effect on our financial position, liquidity and results of operations.

RISKS RELATED TO FACTORS OUTSIDE OUR CONTROL

We may be unable to successfully compete in our industry.

The auto finance business is highly competitive. We compete with captive auto finance companies owned by major automobile manufacturers, banks, credit unions, savings associations and independent consumer finance companies that conduct business in the geographic regions in which we operate. Many of these competitors have greater financial and marketing resources than we have. Additionally, on occasion the captive finance companies provide financing on terms significantly more favorable to auto purchasers than we can offer. For example, the captive finance companies can offer special low interest loan programs as incentives to purchasers of selected models of automobiles manufactured by their respective parent manufacturers.

Many of our competitors also have long standing relationships with automobile dealers and may offer dealers or their customers other forms of financing, including dealer floor plan financing and leasing, which we do not provide. Providers of automobile financing have traditionally competed on the basis of interest rates charged, the quality of credit accepted, the flexibility of loan terms offered and the quality of service provided to dealers and customers. In seeking to establish ourself as one of the principal financing sources of the dealers we serve, we compete predominately on the basis of our high level of dealer service and strong dealer relationships and by offering flexible loan terms.

Competition in the retail banking business comes primarily from commercial banks, credit unions, savings and loan associations, mutual funds, and issuers of securities. Many of the nation's largest savings and loan associations and other depository institutions are headquartered or have branches in California. We compete for deposits primarily on the basis of interest rates paid and the quality of service provided to our customers. We do not rely on any individual, group or entity for a material portion of our deposits.

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Competition in the commercial banking business comes primarily from other commercial banks that maintain a presence in southern California. In general, many commercial banks are more sizable institutions with larger lending capacities and depository services. We have differentiated ourselves by providing high quality service, local relationship management, prompt credit decisions, and competitive rates on both loans and depository products. We cannot assure you that we will be able to compete successfully in these markets or against these competitors.

Legal and regulatory requirements may restrict our ability to do business.

The Bank is subject to inspection and regulation by the OTS, the primary federal banking agency responsible for the supervision and regulation of the Bank. The most significant impact of such regulation and supervision is that absent approval by the OTS, we are precluded from holding consumer loans, including contracts, on the consolidated balance sheet of the Bank, in an aggregate principal balance in excess of 30% of the total consolidated assets of the Bank. The limitation is increased to 35% of the Bank's consolidated assets if all of the consumer loans in excess of the 30% limit are obtained by the Bank and its subsidiaries directly from consumers. Our securitization activities, however, enable us to remove securitized contracts from the Bank's balance sheet for regulatory purposes. As a result, those securitized contracts are not included in the calculation of the percentage of the Bank's consolidated assets subject to either the 30% or 35% limitation on consumer loans.

If we are unable to continue to securitize the automobile contracts we purchase this regulatory limitation may force us to limit our acquisition of new automobile contracts, thereby adversely affecting our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts.

The adoption of regulations proposed by the OTS and the recent publication of guidance may affect capital requirements for the Bank.

The OTS, with the other federal banking agencies, has adopted new regulations relating to the amount of capital that the Bank must hold with respect to residual interests arising from the sale or other transfer of financial assets. These regulations will require institutions to hold capital against the full value of the residual interests retained and will also require that residual interests which are credit-enhancing interest-only strips in excess of certain specified limits be deducted from capital. As a result, the regulation may require that the Bank hold higher levels of capital as a result of the Bank's consolidated ownership of these residual interests.

The new regulation became effective on January 1, 2002 for any transaction that closes on or after that date. For transactions closed before that date, an institution can elect to have the regulation apply to those earlier transactions if it will result in a reduced capital requirement for the institution. Conversely, if application of the new regulation to transactions closed before January 1, 2002 will result in increased capital requirements, the affected institution may defer application of the regulation to those transactions until December 31, 2002. As the effect of the regulation will be to increase the Bank's capital requirements, the regulation will not become applicable to the Bank's pre-January 1, 2002 transactions until December 31, 2002. As a result of maintaining higher levels of capital to the extent required by this new regulation, our earnings may be affected by our inability to invest our assets to a greater extent in higher income producing assets.

In addition, the OTS proposed and withdrew in 2000 a proposed regulation that, if adopted, would have required the Bank to give the OTS notice of certain transactions between the Bank and us or our non-bank subsidiaries. If the transaction is one that would have fallen within this proposed regulation, the OTS sought to reserve the right to either limit or preclude the transaction or to permit

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it only upon conditions, including that additional capital be held by the Bank or by us as a savings and loan holding company. Although the OTS has withdrawn such proposal, agency officials have indicated that it may be reissued in a revised form in the future.

The OTS, along with other federal banking regulatory agencies, has adopted guidance pertaining to subprime lending programs. Pursuant to the guidance, lending programs which provide credit to borrowers whose credit histories reflect specified negative characteristics, such as bankruptcies or payment delinquencies, are deemed to be subprime lending programs. Many of the loans that the Bank originates possess one or more of the factors identified in the guidance as indicative of a subprime loan. Pursuant to the guidance, examiners may require that an institution with a subprime lending program hold additional capital which ranges from one and one-half to three times the normal capital required for similar loans made to borrowers who are not subprime borrowers, although institutions whose subprime loans are well secured and well managed may not be required to hold additional capital. The Bank has not been instructed by the OTS to hold additional capital pursuant to the guidance, nor has it been advised by the OTS that it has been engaged in a subprime lending program.

We cannot predict whether the Bank will be required, following its next examination, to hold additional capital with respect to those automobile contracts it holds as to which the borrowers are deemed by the OTS to be subprime borrowers. To the extent that the guidance, as implemented, requires the Bank to raise and continue to maintain higher levels of capital, our earnings may be affected by our inability to invest our assets to a greater extent in higher income producing assets.

USE OF PROCEEDS

We expect to receive net proceeds from the sale of 3,254,732 shares of common stock offered by us pursuant to this rights offering of approximately \$51 million, assuming that all shares offered are purchased. The purpose of the offering is to provide us with additional capital for general corporate purposes and in particular to fund our growth, including increasing the amount of automobile contracts we can acquire and hold prior to a sale or financing transaction in the asset-backed securities market.

DIVIDEND POLICY

We paid cash dividends of \$0.43, \$0.30, and \$0.20 per share for the years ended December 31, 2001, 2000 and 1999, respectively. On December 18, 2001, we declared a cash dividend of \$0.11 per share for shareholders of record as of February 6, 2002 with a payable date of February 20, 2002. We cannot assure you that our dividend policy will not change in the future.

THE OFFERING

The Rights

We are offering our shareholders the right to subscribe for and purchase 3,254,732 shares of common stock at \$15.75 per share. Only those shareholders of record who own common stock at the close of business on February 12, 2002 will receive subscription rights directly from us to purchase stock in the rights offering. The subscription rights are transferable and any person who acquires subscription rights before the March 4, 2002 expiration date may exercise these subscription rights. You are a record holder for this purpose only if your name is registered as a shareholder with our transfer agent, Mellon Investor Services LLC, as of the February 12, 2002 record date. We are distributing a subscription warrant with this prospectus. The subscription warrant will evidence your

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subscription rights and will indicate how many rights you are receiving from us. If you execute a subscription warrant you are agreeing that your exercise of rights is on the terms and subject to the conditions specified in this prospectus.

When determining the maximum number of shares which you may purchase, divide the number of subscription rights you own, whether distributed to you by us or otherwise acquired by you, by 11 and round down to the next whole number. For example, if you own 100 subscription rights, you may subscribe for 9 shares ($100 \text{ subscription rights} \div 11 = 9.09$, rounded down to 9 shares, the next whole number). We will not pay cash for or issue fractional rights. You may not divide a subscription warrant in such a way as to permit you to receive a greater number of rights than you are otherwise entitled to receive. However, a depository, bank, trust company or securities broker or dealer holding shares of our common stock for more than one beneficial owner, may, upon proper showing to the Subscription Agent, exchange its subscription warrant to obtain several subscription warrants for the number of rights to which all such beneficial owners in the aggregate would have been entitled had each beneficial owner been a holder of record.

Basic Subscription Right

We are distributing to each record holder one right for each share of common stock held as of the close of business on the February 12, 2002 record date. If you hold rights, you may purchase one share of common stock for each 11 rights that you hold. You may combine rights you have received from us with rights that you have purchased from other shareholders. There is no minimum number of shares you must purchase upon the exercise of your rights, but you may not purchase fractional shares. This is your Basic Subscription Right. If you subscribe for shares by tendering immediately available funds, you will receive interest on your subscription funds as described below under "The Offering Interest on Subscription Funds".

Oversubscription Right

If you fully exercise your Basic Subscription Right with respect to all the rights you hold, you may subscribe for additional shares of our common stock. This Oversubscription Right will be available to the extent that other rights holders do not exercise their Basic Subscription Right in full. If you wish to exercise your Oversubscription Right, you must specify the maximum number of additional shares you want to purchase, and you must submit the full subscription price for those shares to the Subscription Agent. If you wish to exercise your Oversubscription Right, you must do so at the same time you fully exercise your Basic Subscription Right.

If we receive subscriptions, including oversubscriptions, for more than the 3,254,732 shares offered hereby, then we will allocate the available shares as follows:

first, subscribing rights holders who exercise their Basic Subscription Rights, in whole or in part, will receive the shares to which they have subscribed, and

second, subscribing rights holders who exercise their Oversubscription Rights, will receive shares in proportion to the number of shares each such holder has purchased pursuant to their Basic Subscription Rights, subject to the elimination of fractional shares. If you are not allocated the full amount of shares that you subscribed for pursuant to your Oversubscription Right, you will receive a refund (without interest) of the subscription price that you delivered for those shares of our common stock that are not allocated to you. The Subscription Agent will mail refunds after the expiration of the offering.

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For purposes of determining whether you have exercised your Basic Subscription Right in full, only Basic Subscription Rights held by you in the same capacity will be considered. For example, if you hold shares of our common stock as an individual and you exercise your Basic Subscription Right in full with respect to those shares, you may exercise your Oversubscription Right with respect to those shares, even if you do not exercise your Basic Subscription Right with respect to shares held jointly with your spouse or shares in a retirement account.

In order to exercise the Oversubscription Right, banks, brokers and other nominee rights holders who exercise the Oversubscription Right on behalf of beneficial owners must certify to the Subscription Agent and to us with respect to each beneficial owner:

- (1) the number of shares held on the February 12, 2002 record date;
- (2) the number of rights exercised pursuant to the Basic Subscription Right;
- (3) that the holder has exercised its Basic Subscription Right in full; and
- (4) the number of shares subscribed for pursuant to the Oversubscription Right.

Subscription Price

The subscription price is \$15.75 per share, payable in cash. If this offering is terminated or if you oversubscribe for more shares than are available, your funds will be returned to you promptly, with interest if you subscribed using immediately available funds.

Determination of the Subscription Price

Our Board of Directors determined the subscription price on February 8, 2002. The subscription price represents a discount of \$1.60 from the closing market price of a share of the common stock on the date the price was determined. The last reported sales price of the common stock on the NYSE on February 8, 2002 was \$17.35 per share. In setting the subscription price, the board of directors considered, among other things, the factors set forth above under "Risks Related to the Offering." The offering price was determined by our Board of Directors and bears no relationship to the value of our assets, financial condition, or other established criteria for value. Our common stock may trade at prices above or below this price.

Expiration Time and Date

This offering will expire at 5:00 p.m., Eastern Standard Time, on March 4, 2002, unless we extend the offering. We will not extend the expiration date, in any event, beyond March 31, 2002. If we extend the expiration date, we will issue a press release on the first day the New York Stock Exchange is open for trading after the most recent expiration date. We will also file a copy of the press release with the SEC under cover of a Form 8-K. The Form 8-K and the press release as an exhibit to that Form 8-K will be available on the SEC's web site, www.sec.gov. After the expiration of the offering, all unexercised rights will be null and void. We will notify you of any extension of the expiration by issuing a press release. We will not be obligated to honor any purported exercise of rights which the Subscription Agent received after the expiration of the offering, regardless of when you sent the documents relating to that exercise, unless you used the guaranteed delivery procedures described below.

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Plan of Distribution

The rights will be distributed to our holders of record as of the February 12, 2002 record date, by mail, on or about February 13, 2002. It is our expectation that holders of record which hold shares of our common stock for beneficial owners will forward a copy of this prospectus and the related subscription information and forms to those beneficial holders in adequate time to permit beneficial holders to complete and deliver the Form of Instructions by Beneficial Owners to Brokers or Other Nominees as to their investment decisions. We have engaged Mellon Investor Services LLC as our Information Agent to assist in the distribution of the rights and of this prospectus and the related subscription information and forms. Mellon Bank, N.A., as our Subscription Agent, will process all subscription warrants from our holders of record and will distribute certificates for the shares of our common stock purchased by each holder of record upon the expiration of this offering. See *The Offering Issuance of the Common Stock*.

We have not engaged an underwriter to conduct a distribution of shares not purchased upon the exercise of the rights we are distributing, as we anticipate that our shareholders will purchase all of the shares offered hereby, although we cannot give you any assurance that will be the case.

Principal Stockholders

As of April 5, 2001, Ernest S. Rady, our Chairman, beneficially owned approximately 68% of the outstanding common stock, and will thus receive rights to subscribe for approximately 2.7 million shares in this offering. Mr. Rady has informed us that he intends to exercise his Basic Subscription Right and that he expects to also exercise his Oversubscription Right, although Mr. Rady has not committed to oversubscribe for all shares not otherwise subscribed for by other shareholders. Depending upon the number of shares purchased by others, upon the completion of this offering Mr. Rady will beneficially own not less than 68% of our outstanding common stock and that percentage may increase if other shareholders elect not to exercise as large a percentage of their Oversubscription Right as Mr. Rady. Neither we nor Mr. Rady have any plans to market Westcorp or any major assets or subsidiary of Westcorp.

As of December 31, 2001, our Employee Stock Ownership and Salary Savings Plan was the owner of 1.6 million shares of our common stock. Our Board of Directors has determined to make a contribution to the plan of up to \$2.4 million to enable the plan and its participants to exercise their subscription rights.

Subscription Procedures

In order to exercise rights, you must:

(1) complete and sign your subscription warrant (with any signatures guaranteed if required, as described below); and

(2) deliver the completed and signed subscription warrant, together with payment in full of the subscription price for each share for which you subscribe (See *The Offering Subscription Payments*) to the Subscription Agent before the expiration of the offering, unless delivery of the subscription warrant is effected pursuant to the guaranteed delivery procedures described below.

If you do not indicate the number of shares to be subscribed for on your subscription warrant or guarantee notice (as applicable), or if you indicate a number of shares that does not agree with the aggregate subscription price payment you delivered, you will be deemed to have subscribed for the maximum number of whole shares that may be subscribed for, under both the Basic Subscription Right and the Oversubscription Right for the aggregate purchase price you delivered.

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If you subscribe for fewer than all of the shares represented by your subscription warrant you will generally be able to:

(1) direct the Subscription Agent to attempt to sell your remaining rights; or

(2) receive from the Subscription Agent a new subscription warrant representing your unused rights. See *The Offering Method of Transferring Rights* below.

Your signature on each subscription warrant you deliver must be guaranteed by a bank, broker, dealer, credit union, national securities exchange, registered securities association, clearing agency or savings association, unless:

(1) the shares to be issued are to be issued to the registered holder of the rights, as indicated on the subscription warrant; or

(2) the subscription warrant is submitted for the account of a member firm of a registered national securities exchange, a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States exercising for your account.

If you hold shares of our common stock for the account of others, you should contact the respective beneficial owners of those shares as soon as possible to receive their investment decision and to obtain instructions and certifications with respect to their rights. If you are so instructed by a beneficial owner, you should complete the appropriate subscription warrant and, should the beneficial holder wish to exercise the Oversubscription Right, the related nominee holder certification, a form of which is included in the instructions distributed with the subscription warrants. You should submit these to the Subscription Agent with the proper payment.

If you are a beneficial owner whose shares of our common stock are held for your account by another, you should give your instructions regarding your investment decision as to the rights attached to those shares to that holder.

You should carefully read the instructions accompanying the subscription warrant and follow them closely. You should send your subscription warrant, with any payment, to the Subscription Agent. Do not send your subscription warrants to us.

The method of delivery of the subscription warrant and the payment of the subscription price to the Subscription Agent is at your election and risk. If you send your subscription warrant and payments by mail, they should be sent by registered mail, properly insured. You should also allow sufficient time to ensure delivery to the Subscription Agent and clearance of payment prior to the expiration time.

We will determine all questions concerning the timeliness, validity, form and eligibility of any exercise of rights, which determinations will be final and binding. In our sole discretion, we may waive any defect or irregularity, or permit a defect or irregularity to be corrected, or reject the purported exercise of any right because of any defect or irregularity. Neither the Subscription Agent nor we are under any duty to notify you of any such defect or irregularity, and will not be held liable for any failure to notify you of any such defect or irregularity. We also reserve the right to reject any exercise if it is not in accordance with the terms of this offering, not in proper form or if it could be deemed unlawful or materially burdensome. See *The Offering Regulatory Limitation* below.

You should direct any questions or requests for assistance concerning the method of exercising rights, or requests for additional copies of this prospectus supplement and the accompanying prospectus, the instructions or the notice of guaranteed delivery, to the Information Agent, Mellon

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Investor Services LLC, 44 Wall Street, 7th Floor, New York, New York 10005 (telephone: (866) 825-8874).

If you do not exercise your rights prior to 5:00 p.m. Eastern Standard Time on the March 4, 2002, expiration date, as that date may be extended, they will expire and be null and void. See The Offering Expiration Date above.

Subscription Payments

You must pay for all shares you subscribe for by:

(1) check or bank draft drawn upon a United States bank, or postal, telegraphic or express money order, payable to Mellon Investor Services LLC as Subscription Agent; or

(2) by wire transfer of funds to the account which the Subscription Agent maintains for this purpose at the Chase Manhattan Bank, New York, NY, ABA No. 021-000-021, Mellon Investor Services, LLC, MISC Reorg. Control A/C 323-885489 WESTCORP, Attn: Evelyn O Connor, telephone number (201) 296-4515.

The subscription price will be considered received by the Subscription Agent only upon:

(1) clearance of an uncertified check;

(2) receipt by the Subscription Agent of a certified or cashier's check or bank draft drawn upon a United States bank or of a postal, telegraphic or express money order; or

(3) receipt of funds wired to the Subscription Agent's account designated above.

Funds paid by uncertified personal check may take several business days to clear. Accordingly, if you wish to pay the subscription price by uncertified personal check, you should make payment sufficiently in advance of the expiration date to ensure its receipt and clearance by that time. To avoid disappointment caused by a failure of your subscription due to your payment not clearing prior to the March 4, 2002 expiration date, we urge you to consider payment by means of certified or cashier's check, money order or wire transfer of funds. We highly recommend that if you intend on paying the subscription price by personal check, your subscription payment must be received by the Subscription Agent no later than seven (7) business days prior to the expiration date, as extended. If your check does not clear before the expiration date, as extended, you will not receive any shares, and our only obligation will be to return your subscription payment, without interest.

Interest on Subscription Funds

We have entered into an agreement with the Subscription Agent that will permit interest to be paid to subscribing holders of the rights, subject to the limitations described in this section of the prospectus. The Subscription Agent will pay interest on immediately available funds tendered in connection with the exercise of Basic Subscription Rights and Oversubscription Rights. Immediately available funds for this purpose are funds tendered by you in the form of

certified or cashier's check or bank draft drawn upon a United States bank,

United States postal, telegraphic or express money order, or

wire transfer to the Subscription Agent's account designated above.

Subscription funds tendered by uncertified personal check will not accrue interest and no interest will be paid on those funds.

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Interest will accrue on immediately available funds beginning upon the date of their receipt by the Subscription Agent, through the day prior to the day on which funds are delivered to us following the expiration date of this offering, or the termination date if we terminate the offering. Interest accrued, less a service fee charged pro rata to all immediately available funds tendered, will be disbursed by the Subscription Agent promptly after the expiration date. No assurance can be given as to the effective interest rate which will be earned on subscription funds which are immediately available funds, as the effective interest rate will be affected by the amount of the service fee and the service fee will be the sum of a fixed amount and a percentage of all interest earned.

Notice of Guaranteed Delivery

If you wish to exercise your rights, but you will not be able to deliver your subscription warrant to the Subscription Agent prior to the expiration of the offering, you may nevertheless exercise the rights if:

(1) before the expiration of the offering, the Subscription Agent receives:

(a) payment for each share you subscribe for pursuant to your Basic Subscription Right and, if applicable, your Oversubscription Right and

(b) a guarantee notice from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or from a commercial bank or trust company having an office or correspondent in the United States, guaranteeing the delivery to the Subscription Agent of the subscription warrant evidencing the rights to be exercised within three (3) NYSE trading days following the date of that notice; and

(2) within this three (3) NYSE trading day period, the Subscription Agent receives the properly completed subscription warrant with any signatures guaranteed as required.

You may deliver the guarantee notice referred to above to the Subscription Agent in the same manner as you would deliver the subscription warrant. Eligible institutions may deliver the notice of guaranteed delivery by telegram or facsimile transmission (telecopier no. (201) 296-4293). To confirm facsimile deliveries, please call (201) 496-4860. You should refer to the form titled Notice of Guaranteed Delivery, which is provided with the Instructions as to Use of Subscription Warrants distributed with the subscription warrant for the information and representations required in the guarantee notice.

No Revocation

Once you have exercised your Basic Subscription Right and, if you so elect, your Oversubscription Right, you may not revoke that exercise unless we elect to amend the offering. If we elect to amend the offering, you will have the right to cancel your subscription and promptly receive back any funds you have delivered, with interest if you subscribed using immediately available funds, or to reaffirm your exercise of your subscription rights under the terms of the offering as so amended.

Method of Transferring Rights

We anticipate that the rights will trade on the NYSE under the symbol WES Rt and may be purchased and sold through usual investment channels until the close of business on the last trading day prior to the March 4, 2002 expiration date, as that date may be extended.

You may transfer all of the rights evidenced by a single subscription warrant by endorsing the subscription warrant for transfer in accordance with the accompanying instructions. You may transfer

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a portion of the rights evidenced by a single subscription warrant, but not fractional rights, by delivering to the Subscription Agent a subscription warrant properly endorsed for transfer, with instructions to register that portion of the rights indicated in the name of the transferee and to issue to it a new subscription warrant evidencing the transferred rights. In that event, a new subscription warrant evidencing the balance of the rights will be issued to you or, if you so instruct, to an additional transferee, or will be sold by the Subscription Agent in the manner described below upon your instructions.

You may also sell any of the rights evidenced by a subscription warrant through the Subscription Agent by delivering to it the subscription warrant properly executed for sale by the Subscription Agent. If you wish to have the Subscription Agent sell only a portion of the rights evidenced by a single subscription warrant, you should instruct the Subscription Agent regarding the action to be taken with respect to the rights that you do not want to be sold. The Subscription Agent must receive your order to sell rights at or prior to 11:00 a.m., Eastern Standard time, on the third trading day before the March 4, 2002 expiration date. Promptly following the expiration date, the Subscription Agent will send you a check for the net proceeds from the sale of any rights sold on your behalf. If the Subscription Agent is able to sell any rights, the sale price will be the weighted average sale price of all rights sold by the Subscription Agent, less expenses. The Subscription Agent's obligation to execute orders is subject to its ability to find buyers, and if it cannot fill all sale orders, sale proceeds will be prorated based on the number of rights each holder has asked the Subscription Agent to sell. If any of your rights cannot be sold by the Subscription Agent by 5:00 p.m., Eastern Standard time, on the third trading day before the expiration date, they will be returned to you promptly by mail.

You should take into account that transfers, particularly those requiring the issuance of a new subscription warrant, can take several business days. Neither we nor the Subscription Agent will have any liability if a subscription warrant or any other required document is not received in time for exercise or sale prior to the expiration date.

You will be issued a new subscription warrant upon the partial exercise or sale of rights only if the Subscription Agent receives a properly endorsed subscription warrant before 5:00 p.m., Eastern Standard time, on the third trading day before the expiration date. Unless you make other arrangements with the Subscription Agent, a new Subscription Warrant issued after 5:00 p.m., Eastern Standard time, on the fifth business day before the expiration of the offering will be held for pick-up at the Subscription Agent's hand delivery address. You assume all risk associated with the delivery of a newly issued subscription warrant.

You are responsible for all commissions, fees and other expenses, including brokerage commissions and transfer taxes, incurred in connection with the purchase, sale or exercise of rights.

Procedures for DTC Participants

We anticipate that the rights will be eligible for transfer, and the exercise of the Basic Subscription Right and the Oversubscription Right may be effected through the facilities of The Depository Trust Company, or DTC.

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Subscription Agent

The Subscription Agent is Mellon Bank, N.A. The Subscription Agent's address, to which you must make any required deliveries, is:

If by mail:
Mellon Bank, N.A.
c/o Mellon Investor Services LLC
Post Office Box 3301
South Hackensack, NJ 07606
Attn: Reorganization
Department

If by hand:
Mellon Bank, N.A.
c/o Mellon Investor Services LLC
120 Broadway, 13th Floor
New York, NY 10271
Attn: Reorganization
Department

If by overnight courier:
Mellon Bank, N.A.
c/o Mellon Investor Services LLC
85 Challenger Road
Mail Drop-Reorg
Ridgefield Park, NJ 07660
Attn: Reorganization Department

Facsimiles to the Subscription Agent should be sent to (201) 296-4293. If you send a facsimile to the Subscription Agent, you should confirm that your facsimile has been received by contacting the Subscription Agent. The telephone number to confirm receipt of facsimiles is (201) 496-4860.

We will pay the fees and expense of the Subscription Agent (except for fees and expenses relating to the sale of rights by the Subscription Agent and the calculation, allocation and delivery of interest on immediately available funds), and have agreed to indemnify the Subscription Agent against certain liabilities that it may incur in connection with this offering.

Foreign Stockholders; Stockholders with APO or FPO Addresses

If you are a holder of record and your address is outside the United States, or if you have an APO or FPO address, a subscription warrant will not be mailed to you, but rather will be held by the Subscription Agent for your account. To exercise the rights, you must notify the Subscription Agent prior to 11:00 a.m., Eastern Standard time, on the second trading day before the March 4, 2002 expiration date, at which time, if no contrary instructions have been received, the Subscription Agent will try to sell the rights. If your rights can be sold, the Subscription Agent will send you a check for the proceeds (based on the weighted average price of all rights sold by the Subscription Agent and less expenses) by mail. If the Subscription Agent does not know your address or cannot contact you, it will hold the proceeds from sale of your rights in a non-interest bearing account. Any amount remaining unclaimed on the second anniversary of the date of this prospectus will be turned over to us.

Regulatory Limitation

We will not be required to issue shares pursuant to this offering to anyone who, in our opinion, would be required to obtain prior clearance or approval from any state or federal regulatory authorities to own or control such shares if such clearance or approval has not been obtained at the expiration of this offering.

Withdrawal of this Offering

We reserve the right to withdraw this offering for any reason and at any time prior to 5:00 p.m. Pacific Standard Time on the March 4, 2002 expiration date, in which event we will cause all funds received to be promptly returned, with interest if you subscribed using immediately available funds.

Issuance of the Common Stock

The Subscription Agent will issue to you certificates representing shares purchased in this offering as soon as practicable after the expiration date. The Subscription Agent will retain all funds delivered to it in payment of the subscription price until such certificates are issued. If you are

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allocated less than all the shares for which you subscribed, the Subscription Agent will return excess funds to you, with interest if you subscribed using immediately available funds, as soon as practicable after the Expiration Date. You will have no rights as a shareholder with respect to shares subscribed for until the certificates are issued.

No Board Recommendation

In making any investment decision to exercise or transfer rights, you must consider your own best interests. None of the members of the Board of Directors makes any recommendation as to whether you should exercise or transfer your rights.

No Effect on Stock Options or Bonus Interests

No adjustments will be made in connection with the rights offering to any options or bonus interests issued by us under our stock incentive plans or our senior management bonus plan or to the number of shares reserved for issuance under any of our stock incentive plans.

SHARES OF COMMON STOCK OUTSTANDING AFTER THE OFFERING

Assuming we issue all of the 3,254,732 shares of common stock being offered by this prospectus, we will then have approximately 39,056,788 shares of common stock issued and outstanding. This would represent a 9% increase in the number of outstanding shares of our common stock. If you are an existing stockholder and you do not exercise your subscription rights, the percentage of our common stock outstanding that you hold will be decreased by approximately 8.3% after the offering.

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

This section discusses material federal income tax consequences of the rights offering to:

beneficial owners of common stock upon distribution of the rights,

holders of rights upon the exercise of rights, and

holders of rights upon the disposition of the rights.

The law firm of Mitchell, Silberberg & Knupp LLP is our tax counsel. The opinions of that firm expressed in this section have been prepared by that firm based on the Internal Revenue Code of 1986, as amended, the Treasury regulations thereunder, judicial authority, and current administrative rulings and practice, all of which are subject to change. Their opinions are limited to U.S. taxpayers who hold our common stock and will hold the rights and any shares acquired upon the exercise of rights as capital assets. Their opinions do not include any tax consequences under state, local and foreign law. You should consult with your own tax advisor concerning your own tax situation or special tax considerations that may apply to you, including without limitation foreign, state and local laws that may apply. Subject to the limitations set forth in this paragraph, Mitchell, Silberberg & Knupp LLP is of the opinion that the material federal income tax consequences to a shareholder of the receipt, exercise or disposition of the rights distributed with this prospectus are as follows:

No Gain on Receipt of Rights. As an owner of common stock, you will not recognize taxable income as a result of our distribution of the rights to you.

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Exercise of Rights. You will not recognize any gain or loss upon the exercise of rights. Your basis in the shares you acquire through your exercise of the rights will be equal to the sum of the subscription price you pay for such shares and your basis in those rights, if any. The holding period for the shares you acquire through your exercise of the rights will begin on the day following the date of acquisition.

Sale of Rights. If you sell the rights you will recognize capital gain or loss equal to the difference between the sale proceeds and the basis, if any, in the rights sold. The capital gain or loss you recognize will be long-term or short-term depending on whether your holding period for the rights is more than one year.

Basis and Holding Period of Rights. Your tax basis in the rights distributed to you by us will be zero, unless (1) you sell or exercise the rights, and (2) either:

the fair market value of the rights on the date of distribution is 15% or more of the fair market value on that date of our common stock you already own, in which case you will be required to allocate a portion of your basis in the shares of our common stock you already own to the rights we are distributing to you, based upon the relative fair market value of the rights and common stock on the date of distribution, or

you elect under Section 307 of the Internal Revenue Code of 1986, as amended, to allocate a portion of your basis in the shares of our common stock you already own to the rights we are distributing to you, based upon the relative fair market value of the rights and common stock on the date of distribution.

Your holding period with respect to the rights we are distributing to you will include your holding period for the common stock with respect to which the rights were distributed.

Expiration of Rights. If the rights we are distributing to you as a holder of our common stock expire unexercised, you will not recognize any gain or loss, and no adjustment will be made to the basis of the common stock you own.

Purchasers of Rights. If you acquire rights by purchase, your tax basis in such rights will be equal to the purchase price paid for those rights, and your holding period for such rights will commence on the day following the date of their purchase. If you purchased rights and they expire unexercised, you will recognize a loss equal to your tax basis in the rights. Any loss recognized on the expiration of the rights acquired by purchase will be a capital loss if the common stock would be a capital asset in your hands.

Backup Withholding. If you sell rights and receive payments, you may be subject to backup withholding at the rate of 31% on the payments received, unless (1) you are a corporation or are otherwise exempt and demonstrate the basis for the exemption if so required, or (2) provide a correct taxpayer identification number and certify under penalties of perjury that your taxpayer identification number is correct and that you are not subject to backup withholding. Any amount withheld under these rules will be credited against your federal income tax liability.

LEGAL MATTERS

Certain legal matters with respect to the authorization and issuance of the common stock offered hereby will be passed upon for us by Mitchell, Silberberg & Knupp LLP, Los Angeles, California.

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EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements at December 31, 2001 and 2000 and each of the three years in the period ending December 31, 2001. These statements are included in a Form 8-K, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our consolidated financial statements are incorporated by reference in reliance on Ernst & Young LLP's report, given their authority as experts in accounting and auditing.

FORWARD-LOOKING STATEMENTS

Included in the Prospectus Summary and elsewhere in this prospectus are several forward-looking statements. Forward-looking statements are those which use words such as believe, expect, anticipate, intend, plan, may, will, should, estimate, continue, or other comparable expressions. These words indicate future events and trends. Forward-looking statements are our current views with respect to future events and financial performance. These forward-looking statements are subject to many risks and uncertainties that could cause actual results to differ significantly from historical results or from those anticipated by us. The most significant risks and uncertainties we face are:

the level of chargeoffs, as an increase in the level of chargeoffs will decrease our earnings;

the ability to originate new loans in a sufficient amount to reach our needs, as a decrease in the amount of loans we originate will decrease our earnings;

a decrease in the difference between the average interest rate we receive on the loans we originate and the rate of interest we must pay to fund our cost of originating those loans, as a decrease will reduce our earnings;

the continued availability of sources of funding for our operations, as a reduction in the availability of funding will reduce our ability to originate loans;

the level of operating costs, as an increase in those costs will reduce our net earnings;

a change in general economic conditions; and

while we will perform the acts necessary to cause certain events to occur, final performance is subject to the affirmative acts of independent third parties over whom we have no control.

There are other risks and uncertainties we face, including the effect of changes in general economic conditions and the effect of new laws, regulations and court decisions and those described under the caption Risk Factors. You are cautioned not to place undue reliance on our forward-looking statements. You should carefully review the factors referred to in this prospectus and other documents we file from time to time with the SEC, including the quarterly reports on Form 10-Q and any reports on Form 8-K.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933 with respect to the common stock offered hereby. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules relating to the registration statement. You may read and copy any

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document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's Web site at <http://www.sec.gov>.

INCORPORATION BY REFERENCE

The following documents, all of which were previously filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, are hereby incorporated by reference in this prospectus:

our Annual Report on Form 10-K for the year ended December 31, 2000, as amended on April 24, 2001;

our definitive Proxy Statement for our annual meeting held on May 3, 2001;

our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001;

our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and

our Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

our Report on Form 8-K for February 11, 2002;

All other reports and documents filed by us after the date of this prospectus pursuant to Sections 13(a), 14 and 15(d) of the Securities Exchange Act of 1934 prior to the termination of the offering of the common stock covered by this prospectus are also incorporated by reference in this prospectus and are considered to be part of this prospectus from the date those documents are filed.

If any statement contained in a document incorporated by reference herein conflicts with or is modified by a statement contained in this prospectus or in any other subsequently filed document that is incorporated by reference into this prospectus, the statement made at the latest point in time should control. Any previous statements that have been subsequently altered should therefore not be considered to be a part of this prospectus. We will provide a copy of any or all of the documents referred to above that have been or may be incorporated by reference in this prospectus to any person to whom a copy of this prospectus has been delivered free of charge upon request. Exhibits to such documents will not be provided unless the exhibits are specifically incorporated by reference into the information that the prospectus incorporates. Written requests for copies of any documents incorporated by reference should be directed to Guy Du Bose, Esq., General Counsel, Westcorp, 23 Pasteur, Irvine, California 92618 (telephone 949-727-1002).

MATERIAL CHANGES

There have been no material changes in our affairs which have occurred since the filing of our year 2000 Form 10-K which have not been fully disclosed in a subsequently filed Form 10-Q or Form 8-K.

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3,254,732 Shares

Common Stock

PROSPECTUS

February 12, 2002

You may rely on the information contained in this prospectus. Westcorp has not authorized anyone to provide prospective investors with different or additional information. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of the delivery of this prospectus or any sale of these securities.
