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DISCLOSURE INC.

WESCO FINANCIAL CORPORATION

Annual Report 1995

Form 10-K Annual Report 1995

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated "normal" net operating income (i.e., before irregularly occurring items shown in the table below) for the calendar year 1995 increased to $30,208,000 ($4.24 per share) from $24,659,000 ($3.46 per share) in the previous year.

Consolidated net income (i.e., after irregularly occurring items shown in the table below) increased to $34,541,000 ($4.85 per share) from $18,972,000 ($2.66 per share) in the previous year.

Wesco has two major subsidiaries: Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, and Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 1995		December 31, 1994	
	Amount	Per Wesco Share	Amount	Per Wesco Share
"Normal" net operating income of:				
Wesco-Financial Insurance business	$26,496	$3.72	$21,582	$3.03
Precision Steel businesses	2,386	.33	2,900	.40
All other "normal" net operating income[2]	1,326	.19	177	.03
	30,208	4.24	24,659	3.46
Net gain on sales of marketable securities	4,333	.61	163	.02
Decline in value of USAir preferred stock	—	—	(5,850)[3]	(.82)
Wesco consolidated net income	$34,541	$4.85	$18,972	$2.66

(1) All figures are net of income taxes.

(2) After deduction of interest and other corporate expenses and costs and expenses associated with delinquent loans and foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiary.

(3) Represents writedown of investment in preferred stock of USAir Group, Inc., explained in section "Convertible Preferred Stockholdings" below.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company ("Wes-FIC")

Wes-FIC's normal net income for 1995 was $26,496,000, versus $21,582,000 for 1994. The profitability to date on its super-catastrophe ("super-cat") reinsurance business, which it entered in 1994, was responsible for this increase.

At the end of 1995 Wes-FIC retained about $33 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing "float."

We previously informed shareholders that Wes-FIC had entered into the business of super-cat reinsurance through retrocessions from National Indemnity Company ("NICO"), a wholly owned insurance company subsidiary of Berkshire Hathaway, Wesco's ultimate parent. Wes-FIC's entry into the super-cat reinsurance business early in 1994 followed the large augmentation of its claims-paying capacity caused by its merger with Mutual Savings, the former savings and loan subsidiary of Wesco. In 1994, in recognition of Wes-FIC's sound financial condition, Standard and Poor's Corporation assigned to Wes-FIC the highest possible claims-paying-ability rating: AAA.

The super-cat reinsurance business, in which Wes-FIC is engaged, continues to be a very logical business for Wes-FIC. After all, Wes-FIC has a large net worth in relation to annual premiums being earned. And this is exactly the condition rationally required for any insurance company planning to be a "stand alone" reinsurer covering super-catastrophe risks it can't safely pass on to others sure to remain solvent if a large super-catastrophe comes. Such a "stand alone" reinsurer must be a kind of Fort Knox, prepared occasionally, without calling on any other reinsurers for help, to pay out in a single year many times more than premiums coming in, as it covers losses from some super catastrophe worse than Hurricane Andrew. In short, it needs a balance sheet a lot like Wes-FIC's.

In connection with the retrocessions of super-cat reinsurance from NICO to Wes-FIC the nature of the situation as it has evolved is such that Berkshire Hathaway, owning 100% of NICO and only 80% of Wesco and Wes-FIC, does not, for some philanthropic reason, ordinarily retrocede to Wes-FIC any reinsurance business that Berkshire Hathaway considers desirable and that is available only in amounts below what Berkshire Hathaway wants for itself on the terms offered. Instead, retrocessions occur only occasionally, under limited conditions and with some compensation to Berkshire Hathaway. Such retrocessions ordinarily happen only (1) when Berkshire Hathaway, for some reason (usually a policy of overall risk limitation), desires lower amounts of business than are available on the terms offered and (2) Wes-FIC has adequate capacity to bear the risk assumed and (3) Wes-FIC pays a fair ceding commission designed to cover part of the cost of getting and managing insurance business.

Generally, Berkshire Hathaway, in dealing with partly owned subsidiaries, tries to lean over a little backward in an attempt to observe what Justice Cardozo called "the punctilio of an honor the most sensitive," but it cannot be expected to make large and plain giveaways of Berkshire Hathaway assets or business to a partially owned subsidiary like Wes-FIC.

Given Berkshire Hathaway's unwillingness to make plain giveaways to Wes-FIC and reductions in opportunities in the super-cat reinsurance market in recent years, prospects are often poor for Wes-FIC's acquisition of retroceded super-cat reinsurance. Nonetheless, in February 1994, Wes-FIC was offered by NICO participations in four very unusual super-cat reinsurance contracts. Considering its other exposures to the same risks, NICO was willing to retrocede to Wes-FIC 20% of what was then available to NICO under each contract in return for a ceding commission amounting to 3% of Wes-FIC's premiums to be received. The remaining 80% of the risk was to be retained by NICO. A little later, a fifth retrocession was offered: 10% of a one-year NICO property loss contract with a maximum loss amount of $50 million. The annual premium was 5% of the maximum possible loss. Then, in June, a sixth contract became available.

Wes-FIC promptly accepted all of these six unusual super-cat reinsurance participations offered by NICO in 1994.

In the first four contracts, in aggregate, Wes-FIC thus became exposed, during a single year, to either winning about $4 million pre-tax or losing about $20 million pre-tax. In addition, there is some slight possibility of a huge "long tail" loss for Wes-FIC and NICO many years after the four contracts ended, because a minority part of the insurance was liability insurance written on an "occurrence" basis. This is not the first time such "long tail" risks have been accepted by Wes-FIC. There are also, it should be remembered, possibilities for unpleasant surprises involving similar possible large "long tail" losses, many years hence, from Wes-FIC's long-terminated reinsurance arrangement with Fireman's Fund Group. Wes-FIC, now as then, is willing to run such "long tail" risks, carefully weighed against prospects for gain, provided it is much better capitalized than other insurance companies more influenced by animal spirits and institutional momentums.

In the fifth super-cat retrocession to Wes-FIC from NICO, which covered only property loss, there was no possibility of a surprising "long tail" loss. However, for the year covered, Wes-FIC had a very small chance of losing $5 million pre-tax, while it could gain only $250,000, less 3%, leaving Wes-FIC's net proceeds $242,500, pre-tax.

In the sixth retrocession from NICO, Wes-FIC participated to the extent of 5% in a $400 million contract with 20th Century Industries, a California insurer currently attempting to recover from devastating effects of the Northridge, California earthquake. The amount of reinsurance under the contract (covering what was mostly earthquake risk) declined monthly over the term, and expired early in 1995 as 20th Century withdrew from the homeowners and earthquake insurance markets in California. Wes-FIC earned a premium of approximately $1 million in 1995 under the contract.

Needless to say, NICO does not believe that the average yearly loss to be expected from writing over many years a great series of super-cat reinsurance contracts like those it has retroceded in part to Wes-FIC would be as high as the one-year premiums to be received. But such super-cat reinsurance, like other super-cat reinsurance, is not for the faint of heart. A huge variation in annual results, with some very unpleasant years, is inevitable.

But it is precisely what must, in the nature of things, be associated with these bad possibilities, with their huge and embarrassing adverse consequences in occasional years, that makes Wes-FIC like its way of being in the super-cat business. Buyers (particularly wise buyers) of super-cat reinsurance often want to deal with wholly owned Berkshire Hathaway subsidiaries (possessing as they do the highest possible credit ratings and a reliable corporate personality) instead of other reinsurers less cautious, straightforward and well endowed. And many competing sellers of super-cat reinsurance are looking for a liberal "intermediary's" profit, hard to get because they must find a "layoff" reinsurer both (1) so smart that it is sure to stay strong enough to pay possible losses yet (2) so casual about costs that it is not much bothered by a liberal profit earned by some intermediary entity not willing to retain any major risk. Thus the forces in place can rationally be expected to cause acceptable long-term results for well-financed, disciplined decision makers, despite horrible losses in some years and other years of restricted opportunity to write business. And, again, we wish to repeat that we expect only acceptable long-term results. We see no possibility for bonanza.

It should also be noted that Wes-FIC, in the arrangements recently made with NICO, receives a special business-acquisition advantage from using Berkshire Hathaway's general reputation. Under all the circumstances, a 3% ceding commission seems more than fair to Wes-FIC. Certainly and obviously, Berkshire Hathaway would not offer terms so good to any other entity outside the Berkshire Hathaway affiliated group.

Finally, we repeat an important disclosure about Wes-FIC's super-cat-reinsurance-acquisition mechanics. It is impractical to have people in California make complex accept-or-reject decisions for Wes-FIC when retrocessions of reinsurance are offered by Berkshire Hathaway insurance subsidiaries. But, happily, the Berkshire Hathaway insurance group executives making original business-acquisition decisions are greatly admired and trusted by the writer and will be "eating their own cooking." Under such circumstances, Wesco's and Wes-FIC's boards of directors, on the writer's recommendation, have simply approved automatic retrocessions of reinsurance to Wes-FIC as offered by one or more wholly owned Berkshire Hathaway subsidiaries. Each retrocession is to be accepted forthwith in writing in Nebraska by agents of Wes-FIC who are at the same time salaried employees of wholly owned subsidiaries of Berkshire Hathaway. Moreover, each retrocession will be made at a 3%-of-premiums ceding commission. Finally, two conditions must be satisfied: (1) Wes-FIC must get 20% or less of the risk (before taking into account effects from the ceding commission) and (2) wholly owned Berkshire Hathaway subsidiaries must retain at least 80% of the identical risk (again, without taking into account effects from the ceding commission).

We will not ordinarily describe individual super-cat reinsurance contracts in full detail to Wesco shareholders. That would be contrary to our competitive interest. Instead, we will try to summarize reasonably, more or less as we have done here.

Will more reinsurance be later available to Wes-FIC through Berkshire Hathaway subsidiaries on the basis and using the automatic procedure we have above described? Well, we have often proved poor prognosticators. We can only say that we hope so and that more reinsurance should come, albeit irregularly and with long intermissions, if buyers of super-cat coverage are rational. However, in 1995 no entirely new super-cat contracts were retroceded to Wes-FIC.

We continue to examine other possible insurance-writing opportunities, and also insurance company acquisitions, not involving Berkshire Hathaway.

Wes-FIC is now a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

On super-cat reinsurance accepted by Wes-FIC to date (March 8, 1996) there has been no loss whatsoever that we know of. Underwriting profit of $6.3 million, before taxes, benefited 1995 earnings. In contrast, no underwriting profit flowed through Wesco's books in 1994 because none of its super-cat contracts expired in 1994, and our accounting policy requires contract expiration before super-cat underwriting profit is recognized. Needless to say, we would not have similar reluctance to report losses before contract expirations. Our super-cat accounting policy is not irrationally super-conservative, although it may amount to "best-practice" accounting.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $2,386,000 to normal net operating income in 1995, down 18% compared with $2,900,000 in 1994. The decrease in 1995 profit occurred as pounds of product sold decreased 9%. Revenues were up only 0.2%, reflecting the pounding which competition gave to prices.

Under the skilled leadership of David Hillstrom, Precision Steel's businesses in 1995 continued to provide an excellent return on resources employed.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of assets and liabilities with a net book value (after writedowns considered adequate) of about $25 million. Operations (including writedowns) of MS Property Company caused an after-tax loss to Wesco in 1995 of about $700,000. Sooner or later Wesco is expected to realize at least a little more than $25 million from MS Property Company's net assets, after earning modest returns until that time on the $25 million of book value involved. MS Property Company's 1995 loss, immaterial versus Wesco's present size, is included in the foregoing breakdown of earnings within "all other 'normal' net operating income."

Of course, the main tag end from Wesco's savings and loan days is 7,200,000 shares of Federal Home Loan Mortgage Corporation ("Freddie Mac"), purchased by Mutual Savings for $71.7 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. This holding, with a market value of $601.2 million at yearend 1995, now reposes in Wes-FIC. And, in the years following our initial purchase, Freddie Mac and its similar cousin, "Fannie Mae," have made matters pretty miserable for the savings and loan industry by taking over most financing of low-to-moderate-cost homes.

For us, at least, our experience in shifting from savings and loan operation to ownership of Freddie Mac shares tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale in doing some simple thing will often be enough to make the financial results of that lifetime quite satisfactory.

All Other "Normal" Net Operating Income

All other "normal" net operating income, net of interest paid and general corporate expenses, increased to $1,326,000 in 1995 from $177,000 in 1994. Sources were (1) rents ($2,954,000 gross) from Wesco's Pasadena office property (leased almost entirely to outsiders and with CenFed Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiary, mostly offset in both years by costs and expenses (including additions to loss reserves) of liquidating tag-end delinquent loans and foreclosed real estate. The 1995 and 1994 figures also include intercompany charges for interest expense ($965,000 and $826,000 after taxes, respectively) on borrowings from Wes-FIC principally made late in 1993 to facilitate the transfer of loans and foreclosed properties to MS Property Company. This intercompany interest expense does not affect Wesco's consolidated net income inasmuch as the same amount is included as interest income in Wes-FIC's "normal" net operating income.

Net Securities Gains and Losses

Wesco's aggregate net gains on sales of securities, combined, amounted to $4,333,000, after income taxes, in 1995, and included $4,192,000 realized on the conversion to common stock and sale of Wesco's investment in cumulative convertible preferred stock of Champion International Corporation. Wesco's earnings for 1994 contained securities gains of $163,000, after income taxes, and also reflected the after-tax effect of a writedown of an investment in preferred stock of USAir Group, Inc. by $5,850,000, described in the following section entitled "Convertible Preferred Stockholdings."

Convertible Preferred Stockholdings

At the end of 1995, Wesco and its subsidiaries owned $92 million, at original cost, in convertible preferred stocks of Salomon Inc ("Salomon") and USAir Group, Inc. ("USAir"), both requiring redemption at par value within ten years or so from date of acquisition.

The investments are carried on Wesco's consolidated balance sheet at fair market value, with any difference between historical cost and market value as to Salomon, and between adjusted cost and market value as to USAir, included in shareholders' equity, net of income tax effect, without affecting reported net income, according to accounting convention. The investment in USAir was written down to fair market value of $3 million effective December 31, 1994, and this $3 million figure is now treated as adjusted cost; the $5.9 million after-tax loss on the writedown to the new adjusted cost was shown as a separate charge on Wesco's 1994 statement of income. Following is a summary of these investments at yearend 1995:

Security	Preferred Dividend Rate	Par Value of Holding	Conversion Price at which Par Value may be Exchanged for Common Stock	Market Price of Common Stock on 12/31/95	12/31/95 Yearend Carrying Value of Holding
Salomon Inc.	9.00%	$80 Million	$38.00	$35.38	$ 84 Million
USAir Group, Inc.	9.25%	12 Million	38.74	13.25	7.2 Million

These preferred stocks were purchased at the same time Wesco's parent corporation, Berkshire Hathaway, purchased additional amounts of the same stocks at the same price per share. On October 31, 1995, in accordance with the terms of its convertible preferred stock, Salomon redeemed $20 million par value of its shares owned by Wesco at cost plus accrued dividends.

In previous years we noted that "few, if any, investors have ever prospered mightily from investing in convertible preferred stocks of leading corporations." Our two holdings at yearend 1995 appear to bear this out. We estimate that (1) our $80 million Salomon holding was worth about $4 million more than we paid for it, and (2) our $12 million USAir holding, written down to an adjusted cost of $3 million at yearend 1994, was worth about $4.2 million more than such adjusted cost, but $4.8 million less than we paid for it. These figures when combined created $8.2 million in pre-tax appreciation above adjusted cost, and $0.8 million less than actual cost, considering the $9 million pre-tax loss realized in 1994 on the USAir Group writedown. Readers should bear in mind, however, that Wesco's experience to date has been much better in an investment in convertible preferred stock of The Gillette Company, made in 1989 at cost of $40 million, and converted into Gillette common stock in 1991. This investment is carried at a $166.8 million yearend market value in Wesco's consolidated 1995 balance sheet, $126.8 million higher than the investment cost. Also, as discussed above, Wesco realized an after-tax gain of $4.2 million in 1995 on the conversion to common stock and sale of its $23 million investment in preferred stock of Champion International Corporation. However, even with all good experience factored in, our overall investment returns from convertible preferred stockholdings have been unexciting, just as we have predicted.

Consolidated Balance Sheet And Related Discussion

As indicated in the accompanying financial statements, Wesco increased its net worth, as accountants compute it under their conventions, to $957.6 million ($134

per Wesco share) at yearend 1995 from $678.1 million ($95 per Wesco share) at yearend 1994.

The $279.5 million increase in reported net worth in 1995 was the result of two factors: (1) $252.2 million resulting from continued net appreciation of investments after provision for future taxes on capital gains; and (2) $27.3 million from retention of 1995 net income after deduction of dividends paid.

The foregoing $134-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than a couple of dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) is now far below its former high, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free "loan" from the government equal to its deferred income taxes on unrealized gains, subtracted in determining its net worth. This interest-free "loan" from the government is at this moment working for Wesco shareholders and amounted to about $45 per Wesco share at yearend 1995.

However, some day, perhaps soon, major parts of the interest-free "loan" must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $45 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $45 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free "loan" was probably about $15 per Wesco share at yearend 1995.

After the value of the advantage inhering in the interest-free "loan" is estimated, a reasonable approximation can be made of Wesco's intrinsic value per share. This approximation is made by simply adding (1) the value of the advantage from the interest-free "loan" per Wesco share and (2) liquidating value per Wesco share. Others may think differently, but the foregoing approach seems reasonable to the writer as a way of estimating intrinsic value per Wesco share.

Thus, if the value of the advantage from the interest-free tax-deferral "loan" present was $15 per Wesco share at yearend 1995, and after-tax liquidating value was then about $134 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become only about $149 per share at yearend 1995, up 43% from intrinsic value as guessed in a similar calculation at the end of 1994. And, finally, this reasonable-to-this-writer, $149-per-share figure for intrinsic per share value of Wesco stock should be compared with the $182 per share price at

which Wesco stock was selling on December 31, 1995. This comparison indicates that Wesco stock was then selling about 22% above intrinsic value.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. In this connection, it should be remembered that the writer caused or helped cause (1) a loss on Wesco's former electrical equipment subsidiary, (2) what will now plainly turn out to be a bad financial result from development of foreclosed mostly-seaside land in the Montecito district of Santa Barbara and (3) some recent losses from boom-time mortgage loans on residences. Wesco, under the writer's leadership, managed to be clobbered in three different ways by the California real estate crash, albeit in categories employing a very small portion of Wesco's assets.

Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

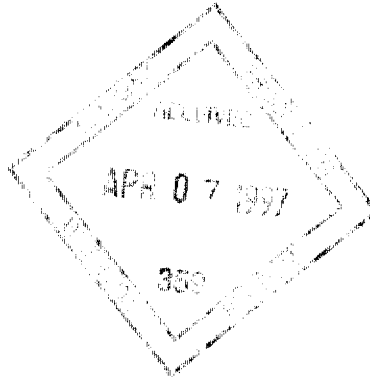
We are not now pessimists, on a long-term basis, about business expansion. Despite present ebullient markets for entire businesses, making it hard for Wesco to find attractive opportunities, we do not believe that such opportunities will never come.

On January 17, 1996 Wesco increased its regular dividend from 25½ cents per share to 26½ cents per share, payable March 6, 1996, to shareholders of record as of the close of business on February 7, 1996.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Charles T. Munger
Chairman of the Board

March 8, 1996



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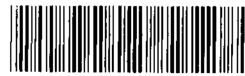

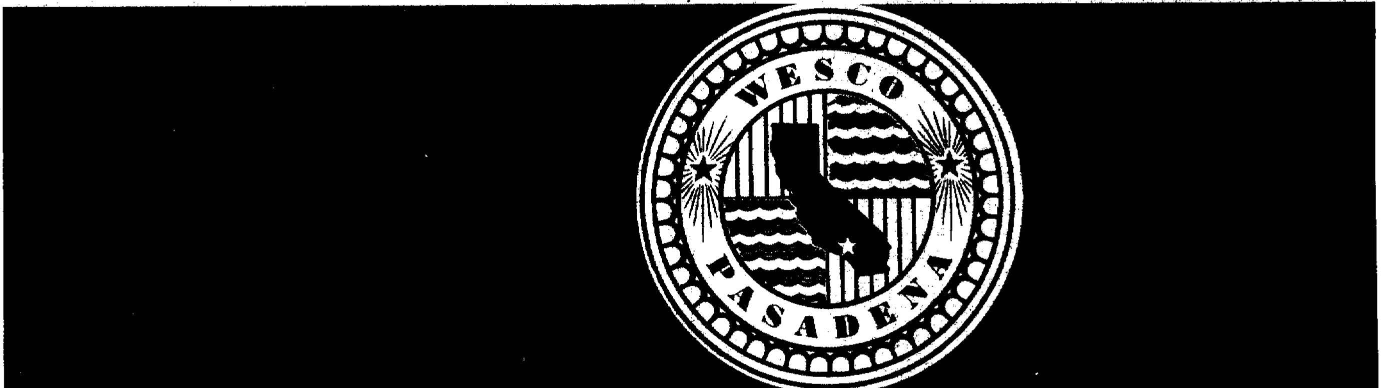

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WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

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Consolidated net income (i.e., after irregularly occurring items shown in the table below) decreased to $30,619,000 ($4.30 per share) from $34,541,000 ($4.85 per share) in the previous year.

Wesco has three major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("KBS"), purchased by Wes-FIC in July 1996 and specializing in insurance products tailored to midwestern banks, and (3) Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 1996		December 31, 1995	
	Amount	Per Wesco Share	Amount	Per Wesco Share
"Normal" net operating income of:				
Wes-FIC and KBS insurance businesses	$27,249	$3.83	$26,496	$3.72
Precision Steel businesses	3,033	.43	2,386	.33
All other "normal" net operating income[2]	452	.06	1,326	.19
	30,734	4.32	30,208	4.24
Net gain (loss) on sales of marketable securities	(115)	(.02)	4,333	.61
Wesco consolidated net income	$30,619	$4.30	$34,541	$4.85

(1) All figures are net of income taxes.

(2) After deduction of interest and other corporate expenses, and costs and expenses associated with delinquent loans and foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company ("Wes-FIC")

Wes-FIC's normal net income for 1996 was $27,249,000, versus $26,496,000 for 1995. The 1996 figure includes $2,288,000 contributed by The Kansas Bankers Surety Company ("KBS") following its purchase by Wes-FIC early in the third

quarter. The purchase of KBS is discussed in the section, "The Kansas Bankers Surety Company," below.

At the end of 1996 Wes-FIC retained about $31 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing "float."

We previously informed shareholders that Wes-FIC had entered into the business of super-cat reinsurance through retrocessions from the Insurance Group of Berkshire Hathaway, Wesco's ultimate parent. Wes-FIC's entry into the super-cat reinsurance business early in 1994 followed the large augmentation of its claims-paying capacity caused by its merger with Mutual Savings, the former savings and loan subsidiary of Wesco. In 1994, in recognition of Wes-FIC's sound financial condition, Standard and Poor's Corporation assigned to Wes-FIC the highest possible claims-paying-ability rating: AAA.

The super-cat reinsurance business, in which Wes-FIC is engaged, continues to be a very logical business for Wes-FIC. Wes-FIC has a large net worth in relation to annual premiums being earned. And this is exactly the condition rationally required for any insurance company planning to be a "stand alone" reinsurer covering super-catastrophe risks it can't safely pass on to others sure to remain solvent if a large super-catastrophe comes. Such a "stand alone" reinsurer must be a kind of Fort Knox, prepared occasionally, without calling on any other reinsurers for help, to pay out in a single year many times more than premiums coming in, as it covers losses from some super catastrophe worse than Hurricane Andrew. In short, it needs a balance sheet a lot like Wes-FIC's.

In connection with the retrocessions of super-cat reinsurance to Wes-FIC from the Berkshire Hathaway Insurance Group, the nature of the situation as it has evolved is such that Berkshire Hathaway, owning 100% of its Insurance Group and only 80% of Wesco and Wes-FIC, does not, for some philanthropic reason, ordinarily retrocede to Wes-FIC any reinsurance business that Berkshire Hathaway considers desirable and that is available only in amounts below what Berkshire Hathaway wants for itself on the terms offered. Instead, retrocessions occur only occasionally, under limited conditions and with some compensation to Berkshire Hathaway. Such retrocessions ordinarily happen only (1) when Berkshire Hathaway, for some reason (usually a policy of overall risk limitation), desires lower amounts of business than are available on the terms offered and (2) Wes-FIC has adequate capacity to bear the risk assumed and (3) Wes-FIC pays a fair ceding commission designed to cover part of the cost of getting and managing insurance business.

Generally, Berkshire Hathaway, in dealing with partly owned subsidiaries, tries to lean over a little backward in an attempt to observe what Justice Cardozo called "the punctilio of an honor the most sensitive," but it cannot be expected to make large and plain giveaways of Berkshire Hathaway assets or business to a partially owned subsidiary like Wes-FIC.

Given Berkshire Hathaway's unwillingness to make plain giveaways to Wes-FIC and reductions in opportunities in the super-cat reinsurance market in recent years, prospects are often poor for Wes-FIC's acquisition of retroceded super-cat reinsurance.

Moreover, Wesco shareholders should continue to realize that super-cat reinsurance is not for the faint of heart. A huge variation in annual results, with some very unpleasant future years for Wes-FIC, is inevitable.

But it is precisely what must, in the nature of things, be associated with these bad possibilities, with their huge and embarrassing adverse consequences in occasional years, that makes Wes-FIC like its way of being in the super-cat business. Buyers (particularly wise buyers) of super-cat reinsurance often want to deal with Berkshire Hathaway subsidiaries (possessing as they do the highest possible credit ratings and a reliable corporate personality) instead of other reinsurers less cautious, straightforward and well endowed. And many competing sellers of super-cat reinsurance are looking for a liberal "intermediary's" profit, hard to get because they must find a "layoff" reinsurer both (1) so smart that it is sure to stay strong enough to pay possible losses yet (2) so casual about costs that it is not much bothered by a liberal profit earned by some intermediary entity not willing to retain any major risk. Thus the forces in place can rationally be expected to cause acceptable long-term results for well-financed, disciplined decision makers, despite horrible losses in some years and other years of restricted opportunity to write business. And, again, we wish to repeat that we expect only acceptable long-term results. We see no possibility for bonanza.

It should also be noted that Wes-FIC, in the arrangements with the Insurance Group of Berkshire Hathaway, receives a special business-acquisition advantage from using Berkshire Hathaway's general reputation. Under all the circumstances, the 3% ceding commission now being paid seems more than fair to Wes-FIC. Certainly and obviously, Berkshire Hathaway would not offer terms so good to any other entity outside the Berkshire Hathaway affiliated group.

Finally, we repeat an important disclosure about Wes-FIC's super-cat-reinsurance-acquisition mechanics. It is impractical to have people in California make complex accept-or-reject decisions for Wes-FIC when retrocessions of reinsurance are offered by the Berkshire Hathaway Insurance Group. But, happily, the Berkshire Hathaway Insurance Group executives making original business-acquisition decisions are greatly admired and trusted by the writer and will be "eating their own cooking." Under such circumstances, Wesco's and Wes-FIC's boards of directors, on the writer's recommendation, have simply approved automatic retrocessions of reinsurance to Wes-FIC as offered by one or more wholly owned Berkshire Hathaway subsidiaries. Each retrocession is to be accepted forthwith in writing in Nebraska by agents of Wes-FIC who are at the same time salaried employees of wholly owned subsidiaries of Berkshire Hathaway. Moreover, each retrocession will be made at a 3%-of-premiums ceding commission. Finally, two conditions must be satisfied: (1) Wes-FIC must get 20% or less of the risk (before taking into account

effects from the ceding commission) and (2) wholly owned Berkshire Hathaway subsidiaries must retain at least 80% of the identical risk (again, without taking into account effects from the ceding commission).

We will not ordinarily describe individual super-cat reinsurance contracts in full detail to Wesco shareholders. That would be contrary to our competitive interest. Instead, we will try to summarize reasonably any items of very large importance.

Will more reinsurance be later available to Wes-FIC through Berkshire Hathaway subsidiaries on the basis and using the automatic procedure we have above described? Well, we have often proved poor prognosticators. We can only say that we hope so and that more reinsurance should come, albeit irregularly and with long intermissions. However, only three new contracts became available and were taken on by Wes-FIC in 1996, with one of these not being a super-cat contract and another becoming effective starting in January 1997. Moreover, all Wes-FIC's super-cat policies written before 1996 had expired by yearend 1996.

We continue to examine other possible insurance-writing opportunities, and also insurance company acquisitions, like and unlike the purchase of our recently acquired KBS.

Wes-FIC is now a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

On super-cat reinsurance accepted by Wes-FIC to date (March 7, 1997) there has been no loss whatsoever that we know of. Underwriting profit of $3.9 million, before taxes, benefited 1996 earnings, versus $6.3 million in 1995. Our accounting policy requires contract expiration before super-cat underwriting profit is recognized. Needless to say, we would not have similar reluctance to report losses before contract expirations. Our super-cat accounting policy is not irrationally super-conservative, although it may amount to "best-practice" accounting.

The Kansas Bankers Surety Company ("KBS")

KBS, purchased by Wes-FIC early in the third quarter of 1996 for approximately $80 million in cash, contributed $2,288,000 to the normal net operating income of the insurance businesses, after adjustments under consolidated accounting convention. The results of KBS have been combined with those of Wes-FIC, and are included in the foregoing table in the category, "'normal' net operating income of Wes-FIC and KBS insurance businesses."

The acquisition of KBS became available to, and was accepted by, Wesco following an agreement entered into with KBS by Berkshire Hathaway, under which Berkshire agreed to acquire the stock of the surety company with the intention of having the transaction completed by Wesco or its insurance subsidiary. If you deduct the $63.9 million of cash, cash-equivalent investments, investments in obligations

backed by the Federal government and its agencies, and state and municipal bonds owned by KBS as of the purchase date, this left Wesco with approximately $16 million less in net investable assets after the acquisition. This reduction in investable assets was considered worth accepting, given the likely future underwriting profit of KBS.

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 22 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

KBS is run by Donald Towle, President, assisted by 13 dedicated officers and employees.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $3,033,000 to normal net operating income in 1996, up 27% compared with $2,386,000 in 1995. However, the substantial improvement in 1996 earnings was due mainly to LIFO inventory accounting adjustments, which increased after-tax earnings approximately $250,000 in 1996 after reducing such earnings by $460,000 in 1995. We do not regard earnings changes from LIFO accounting adjustments, up or down, as material in predicting future earning power. The increase in 1996 profit occurred as pounds of product sold increased 7%. Revenues were up only 2.2%.

Under the skilled leadership of David Hillstrom, Precision Steel's businesses in 1996 continued to provide an excellent return on resources employed.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of assets and liabilities with a net book value (after writedowns considered adequate) of about $24 million. Operations (including writedowns, of which there were none in 1996) of MS Property Company caused an after-tax loss to Wesco in 1996 of about $400,000. Sooner or later Wesco is expected to realize at least a little more than $24 million from MS Property Company's net assets, after earning modest returns until that time on the $24 million of book value involved. MS Property Company's 1996 loss, immaterial versus Wesco's present size, is included in the foregoing breakdown of earnings within "all other 'normal' net operating income."

It is anticipated that in 1997 Wesco will be able to make a substantial net withdrawal, in cash, from MS Property Company following sale of various real estate assets.

Of course, the main tag end from Wesco's savings and loan days is 28,800,000 shares (reflecting a 4-for-1 split distributed shortly after yearend 1996) of Federal Home Loan Mortgage Corporation ("Freddie Mac"), purchased by Mutual Savings for $71.7 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. This holding, with a market value of $794.7 million at yearend 1996, now reposes in Wes-FIC. And, in the years following our initial purchase, Freddie Mac and its similar cousin, "Fannie Mae," have made matters pretty miserable for the savings and loan industry by taking over most financing of low-to-moderate-cost homes.

Our experience in shifting from savings and loan operation to ownership of Freddie Mac shares tends to confirm a long-held notion that being prepared, on a few occasions in a lifetime, to act promptly in scale in doing some simple and logical thing will often dramatically improve the financial results of that lifetime. A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past.

All Other "Normal" Net Operating Income

All other "normal" net operating income, net of interest paid and general corporate expenses, decreased to $452,000 in 1996 from $1,326,000 in 1995. Sources were (1) rents ($2,917,000 gross) from Wesco's Pasadena office property (leased almost entirely to outsiders, including CenFed Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, mostly offset in both years by costs and expenses of liquidating tag-end delinquent loans and foreclosed real estate. The 1996 and 1995 figures also include intercompany charges for interest expense ($298,000 and $965,000 after taxes, respectively) on borrowings from Wes-FIC principally made late in 1993 to facilitate the transfer of loans and foreclosed properties to MS Property Company. This intercompany interest expense does not affect Wesco's consolidated net income inasmuch as the same amount is included as interest income in Wes-FIC's "normal" net operating income.

Net Securities Gains and Losses

Wesco's earnings for 1996 contained securities losses of $115,000, after income taxes, versus net gains of $4,333,000, after income taxes, in 1995. The latter figure included $4,192,000 realized on the conversion to common stock and sale of Wesco's investment in convertible preferred stock of Champion International Corporation.

Convertible Preferred Stockholdings

At the end of 1996, Wesco and its subsidiaries owned $72 million, at original cost, in convertible preferred stocks of Salomon Inc ("Salomon") and USAir Group, Inc. ("USAir"), both requiring redemption at par value or conversion to common stock within the next few years.

The investments are carried on Wesco's consolidated balance sheet at fair market value, with any difference between historical cost and market value as to Salomon, and between adjusted cost and market value as to USAir, included in shareholders' equity, net of income tax effect, without affecting reported net income, according to accounting convention. The investment in USAir was written down to a fair market value of $3 million effective December 31, 1994, and this $3 million figure is now treated as adjusted cost; the $5.9 million after-tax loss on the writedown to the new adjusted cost was shown as a separate charge on Wesco's 1994 statement of income. Following is a summary of these investments in convertible preferred stocks at yearend 1996:

Security	Preferred Dividend Rate	Par Value of Holding	Conversion Price at Which Par Value May Be Exchanged for Common Stock	Market Price of Common Stock on 12/31/96	12/31/96 Yearend Carrying Value of Holding
Salomon Inc.	9.00%	$60 Million	$38.00	$47.125	$ 66 Million
USAir Group, Inc.	9.25%	12 Million	38.74	23.375	10.8 Million

These convertible preferred stocks were purchased at the same time Wesco's parent corporation, Berkshire Hathaway, purchased additional amounts of the same stocks at the same price per share. On October 31, 1995, in accordance with the terms of its convertible preferred stock, Salomon redeemed $20 million par value of its preferred shares owned by Wesco at cost plus accrued dividends. One year later, on October 31, 1996, Wesco converted $20 million par value of its remaining preferred shares of Salomon to 526,314 shares of common stock of Salomon. Market value of these common shares, carried in the category "marketable equity securities" in Wesco's financial statements, was $24.8 million at yearend 1996.

In previous years we noted that "few, if any, investors have ever prospered mightily from investing in convertible preferred stocks of leading corporations." Our two holdings at yearend 1996 appear to bear this out. We estimate that (1) our $60 million Salomon holding was worth about $6 million more than we paid for it, and (2) our $12 million USAir holding, written down to an adjusted cost of $3 million at yearend 1994, was at yearend 1996 worth about $7.8 million more than such adjusted cost, but $1.2 million less than we paid for it. These figures when combined created $13.8 million in pre-tax appreciation above adjusted cost, and $4.8 million more than actual cost, considering the $9 million pre-tax loss shown in 1994 on the USAir Group writedown. Readers should bear in mind, however, that Wesco's experience to date has been very much better in an investment in convertible preferred stock of The Gillette Company, made in 1989 at cost of $40 million, and converted into Gillette common stock in 1991. This investment is carried at a $248.8 million yearend market value in Wesco's consolidated 1996

balance sheet. This is $200.8 million more than the investment cost. Also, as discussed above, Wesco realized an after-tax gain of $4.2 million in 1995 on sale of its $23 million investment in preferred stock of Champion International Corporation. However, even with all good experience factored in, our overall investment returns from convertible preferred stockholdings have been unexciting, although somewhat better than we predicted.

Consolidated Balance Sheet And Related Discussion

As indicated in the accompanying financial statements, Wesco increased its net worth, as accountants compute it under their conventions, to $1.25 billion ($176 per Wesco share) at yearend 1996 from $957 million ($134 per Wesco share) at yearend 1995.

The $293 million increase in reported net worth in 1996 was the result of two factors: (1) $270 million resulting from continued net appreciation of investments after provision for future taxes on capital gains; and (2) $23 million from retention of 1996 net income after deduction of dividends paid.

The foregoing $176-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than a couple of dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) is now far below its former high, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free "loan" from the government equal to its deferred income taxes on unrealized gains, subtracted in determining its net worth. This interest-free "loan" from the government is at this moment working for Wesco shareholders and amounted to about $66 per Wesco share at yearend 1996.

However, some day, perhaps soon, major parts of the interest-free "loan" must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $66 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $66 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free "loan" was probably about $20 per Wesco share at yearend 1996.

After the value of the advantage inhering in the interest-free "loan" is estimated, a reasonable approximation can be made of Wesco's intrinsic value per share. This approximation is made by simply adding (1) the value of the advantage from the interest-free "loan" per Wesco share and (2) liquidating value per Wesco share.

Others may think differently, but the foregoing approach seems reasonable to the writer as a way of estimating intrinsic value per Wesco share.

Thus, if the value of the advantage from the interest-free tax-deferral "loan" present was $20 per Wesco share at yearend 1996, and after-tax liquidating value was then about $176 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become about $196 per share at yearend 1996, up 32% from intrinsic value as guessed in a similar calculation at the end of 1995. And, finally, this reasonable-to-this-writer, $196-per-share figure for intrinsic per share value of Wesco stock should be compared with the $187 per share price at which Wesco stock was selling on December 31, 1996. This comparison indicates that Wesco stock was then selling about 5% below intrinsic value.

As Wesco's unrealized appreciation has continued to grow, it should be remembered that it is subject to market fluctuation, with no guaranty as to its ultimate full realization. Unrealized after-tax appreciation represents 70% of Wesco's shareholders' equity at 1996 yearend, versus 63% and 51% one and two years earlier.

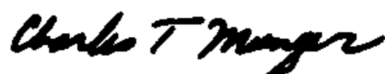
Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

We are not now pessimists, on a long-term basis, about business expansion. Despite present ebullient markets for entire businesses, making it hard for Wesco to find attractive opportunities, we do not believe that such opportunities will never come.

On January 15, 1997 Wesco increased its regular dividend from 26½ cents per share to 27½ cents per share, payable March 5, 1997, to shareholders of record as of the close of business on February 5, 1997.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 7, 1997

WESCO FINANCIAL CORPORATION

Annual Report 1997

Form 10-K Annual Report 1997

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated "normal" net operating income (i.e., before irregularly occurring items shown in the table below) for the calendar year 1997 increased to $38,262,000 ($5.38 per share) from $30,720,000 ($4.32 per share) in the previous year.

Consolidated net income (i.e., after irregularly occurring items shown in the table below) increased to $101,809,000 ($14.30 per share) from $30,619,000 ($4.30 per share) in the previous year.

Wesco has three major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("KBS"), purchased by Wes-FIC in July 1996 and specializing in insurance products tailored to midwestern banks, and (3) Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)(1):

	Year Ended			
	December 31, 1997		December 31, 1996	
	Amount	Per Wesco Share(2)	Amount	Per Wesco Share(2)
"Normal" net operating income of:				
Wes-FIC and KBS insurance businesses	$ 33,507	$ 4.71	$27,249	$3.83
Precision Steel businesses	3,622	.51	3,033	.43
All other "normal" net operating income(3)	1,133	.16	438	.06
	38,262	5.38	30,720	4.32
Realized net securities gains (losses)	62,697	8.80	(115)	(.02)
Gain on sales of foreclosed properties	850	.12	14	—
Wesco consolidated net income	$101,809	$14.30	$30,619	$4.30

(1) All figures are net of income taxes.

(2) Per-share data is based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) After deduction of interest and other corporate expenses, and costs and expenses associated with delinquent loans and foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, and, in 1997, the reduction of loss reserves provided in prior years against possible losses on sales of foreclosed real estate.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company ("Wes-FIC")

Wes-FIC's normal net income for 1997 was $33,507,000, versus $27,249,000 for 1996. The figures include $6,044,000 in 1997 and $2,288,000 in 1996 contributed by

The Kansas Bankers Surety Company ("KBS") following its purchase by Wes-FIC early in the third quarter of 1996. The purchase of KBS is discussed in the section, "The Kansas Bankers Surety Company," below.

At the end of 1997 Wes-FIC retained about $27.5 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing "float."

We previously informed shareholders that Wes-FIC had entered into the business of super-cat reinsurance through retrocessions from the Insurance Group of Berkshire Hathaway, Wesco's ultimate parent. Wes-FIC's entry into the super-cat reinsurance business early in 1994 followed the large augmentation of its claims-paying capacity caused by its merger with Mutual Savings, the former savings and loan subsidiary of Wesco. In 1994, in recognition of Wes-FIC's sound financial condition, Standard and Poor's Corporation assigned to Wes-FIC the highest possible claims-paying-ability rating: AAA.

The super-cat reinsurance business, in which Wes-FIC is engaged, continues to be a very logical business for Wes-FIC. Wes-FIC has a large net worth in relation to annual premiums being earned. And this is exactly the condition rationally required for any insurance company planning to be a "stand alone" reinsurer covering super-catastrophe risks it can't safely pass on to others sure to remain solvent if a large super-catastrophe comes. Such a "stand alone" reinsurer must be a kind of Fort Knox, prepared occasionally, without calling on any other reinsurers for help, to pay out in a single year many times more than premiums coming in, as it covers losses from some super catastrophe worse than Hurricane Andrew. In short, it needs a balance sheet a lot like Wes-FIC's.

In connection with the retrocessions of super-cat reinsurance to Wes-FIC from the Berkshire Hathaway Insurance Group, the nature of the situation as it has evolved is such that Berkshire Hathaway, owning 100% of its Insurance Group and only 80% of Wesco and Wes-FIC, does not, for some philanthropic reason, ordinarily retrocede to Wes-FIC any reinsurance business that Berkshire Hathaway considers desirable and that is available only in amounts below what Berkshire Hathaway wants for itself on the terms offered. Instead, retrocessions occur only occasionally, under limited conditions and with some compensation to Berkshire Hathaway. Such retrocessions ordinarily happen only when (1) Berkshire Hathaway, for some reason (usually a policy of overall risk limitation), desires lower amounts of business than are available on the terms offered and (2) Wes-FIC has adequate capacity to bear the risk assumed and (3) Wes-FIC pays a fair ceding commission designed to cover part of the cost of getting and managing insurance business.

Generally, Berkshire Hathaway, in dealing with partly owned subsidiaries, tries to lean over a little backward in an attempt to observe what Justice Cardozo called "the punctilio of an honor the most sensitive," but it cannot be expected to make

large and plain giveaways of Berkshire Hathaway assets or business to a partially owned subsidiary like Wes-FIC.

Given Berkshire Hathaway's unwillingness to make plain giveaways to Wes-FIC and reductions in opportunities in the super-cat reinsurance market in recent years, prospects are often poor for Wes-FIC's acquisition of retroceded super-cat reinsurance.

Moreover, Wesco shareholders should continue to realize that super-cat reinsurance is not for the faint of heart. A huge variation in annual results, with some very unpleasant future years for Wes-FIC, is inevitable.

But it is precisely what must, in the nature of things, be associated with these bad possibilities, with their huge and embarrassing adverse consequences in occasional years, that makes Wes-FIC like its way of being in the super-cat business. Buyers (particularly wise buyers) of super-cat reinsurance often want to deal with Berkshire Hathaway subsidiaries (possessing as they do the highest possible credit ratings and a reliable corporate personality) instead of other reinsurers less cautious, straightforward and well endowed. And many competing sellers of super-cat reinsurance are looking for a liberal ''intermediary's'' profit, hard to get because they must find a ''layoff'' reinsurer both (1) so smart that it is sure to stay strong enough to pay possible losses yet (2) so casual about costs that it is not much bothered by a liberal profit earned by some intermediary entity not willing to retain any major risk. Thus the forces in place can rationally be expected to cause acceptable long-term results for well-financed, disciplined decision makers, despite horrible losses in some years and other years of restricted opportunity to write business. And, again, we wish to repeat that we expect only acceptable long-term results. We see no possibility for bonanza.

It should also be noted that Wes-FIC, in the arrangements with the Insurance Group of Berkshire Hathaway, receives a special business-acquisition advantage from using Berkshire Hathaway's general reputation. Under all the circumstances, the 3% ceding commission now being paid seems more than fair to Wes-FIC. Certainly and obviously, Berkshire Hathaway would not offer terms so good to any other entity outside the Berkshire Hathaway affiliated group.

Finally, we repeat an important disclosure about Wes-FIC's super-cat-reinsurance-acquisition mechanics. It is impractical to have people in California make complex accept-or-reject decisions for Wes-FIC when retrocessions of reinsurance are offered by the Berkshire Hathaway Insurance Group. But, happily, the Berkshire Hathaway Insurance Group executives making original business-acquisition decisions are greatly admired and trusted by the writer and will be ''eating their own cooking.'' Under such circumstances, Wesco's and Wes-FIC's boards of directors, on the writer's recommendation, have simply approved automatic retrocessions of reinsurance to Wes-FIC as offered by one or more wholly owned Berkshire Hathaway subsidiaries. Each retrocession is to be accepted forthwith in writing in Nebraska by agents of Wes-FIC who are at the same time salaried employees of wholly owned subsidiaries of Berkshire Hathaway. Moreover, each retrocession will be made at a 3%-of-premiums ceding commission. Finally, two conditions must be

satisfied: (1) Wes-FIC must get 20% or less of the risk (before taking into account effects from the ceding commission) and (2) wholly owned Berkshire Hathaway subsidiaries must retain at least 80% of the identical risk (again, without taking into account effects from the ceding commission).

We will not ordinarily describe individual super-cat reinsurance contracts in full detail to Wesco shareholders. That would be contrary to our competitive interest. Instead, we will try to summarize reasonably any items of very large importance.

Will more reinsurance be later available to Wes-FIC through Berkshire Hathaway subsidiaries on the basis and using the automatic procedure we have above described? Well, we have often proved poor prognosticators. We can only say that we hope so and that more reinsurance should come, albeit irregularly and with long intermissions. No new contracts became available to Wes-FIC in 1997, although one super-cat contract of three-years' duration, written in 1996, became effective in January 1997, and another expired during the year. As of 1997 yearend, the one remaining super-cat contract, plus one other contract, not a super-cat contract, and renewed during the year, represented Wes-FIC's active reinsurance business.

We continue to examine other possible insurance-writing opportunities, and also insurance company acquisitions, like and unlike the purchase of KBS.

Wes-FIC is now a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

On super-cat reinsurance accepted by Wes-FIC to date (March 9, 1998) there has been no loss whatsoever that we know of, but some ''no-claims'' contingent commissions have been paid to original cessors of business (i.e., cessors not including Berkshire Hathaway). Super-cat underwriting profit of $2.3 million, before taxes, benefited 1997 earnings, versus $3.9 million in 1996. The balance of pre-tax underwriting profit, amounting to $2.8 million for 1997, came mostly from favorable revision of loss reserves on the old Fireman's Fund contract. Our accounting policy requires contract expiration before super-cat underwriting profit is recognized. Needless to say, we would not have similar reluctance to report losses before contract expirations.

The Kansas Bankers Surety Company (''KBS'')

KBS, purchased by Wes-FIC early in the third quarter of 1996 for approximately $80 million in cash, contributed $6,044,000 to the normal net operating income of the insurance businesses in 1997 and $2,288,000 in 1996, after reductions for goodwill amortization under consolidated accounting convention of $508,000, after taxes, in 1997 and $275,000 in 1996. The results of KBS have been combined with those of Wes-FIC, and are included in the foregoing table in the category, '' 'normal' net operating income of Wes-FIC and KBS insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 25 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

KBS is run by Donald Towle, President, assisted by 13 dedicated officers and employees.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $3,622,000 to normal net operating income in 1996, up 19% compared with $3,033,000 in 1996. The improvement in 1997 earnings was attributable mainly to a 15% increase in pounds of product sold. Revenues were up only 6.3%.

Under the skilled leadership of David Hillstrom, Precision Steel's businesses in 1997 continued to provide an excellent return on resources employed.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of assets and liabilities with a net book value of about $13 million. In 1997, MS Property Company shrunk by approximately half after sales of several foreclosed properties and contribution of $12,750,000 in cash to Wesco. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the foregoing breakdown of earnings within ''all other 'normal' net operating income.''

Of course, the main tag end from Wesco's savings and loan days is 28,800,000 shares of Federal Home Loan Mortgage Corporation (''Freddie Mac''), purchased by Mutual Savings for $72 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. This holding, with a market value of $1.2 billion at yearend 1997, now reposes in Wes-FIC.

All Other ''Normal'' Net Operating Income

All other ''normal'' net operating income, net of interest paid and general corporate expenses, increased to $1,133,000 in 1997 from $438,000 in 1996. Sources were (1) rents ($2,885,000 gross) from Wesco's Pasadena office property (leased almost entirely to outsiders, including CenFed Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) costs and expenses of

liquidating tag-end foreclosed real estate. In 1997, reversals of reserves for possible losses on sales of such tag-end real estate, expensed in prior years, benefited this category of earnings by about $1.1 million, after income tax effect. The 1997 and 1996 ''other 'normal' net operating income'' figures also include intercompany charges for interest expense ($172,000 and $298,000 after taxes, respectively) on borrowings from Wes-FIC principally made late in 1993 to facilitate the transfer of loans and foreclosed properties to MS Property Company. This intercompany interest expense does not affect Wesco's consolidated net income inasmuch as the same amount is included as interest income in Wes-FIC's ''normal'' net operating income.

Net Securities Gains and Losses

Wesco's earnings for 1997 contained securities gains of $62,697,000, after income taxes, versus losses of $115,000, after income taxes, in 1996. Of the 1997 figure, only $93,000 was realized through the sale of securities; the balance, $62,604,000, resulted from the exchange of the preferred and common shares of Salomon Inc (''Salomon'') owned by Wesco for preferred and common shares of Travelers Group Inc. (''Travelers'') late in 1997 in connection with the merger of Salomon with a subsidiary of Travelers. Accounting standards promulgated by the Financial Accounting Standards Board require that the fair (market) value of shares received in such an exchange be recorded as the new cost basis as of the date of the exchange, with the difference, after appropriate reserves for future income tax on the gain, recognized in the financial statements as a realized after-tax gain. For income tax purposes the exchange is recorded at the original cost of the securities exchanged; no gain is reported on the tax return, and no taxes are yet due.

Although the realized gain had a material impact on Wesco's reported earnings, *it had a very minor impact on Wesco's shareholders' equity*. Inasmuch as $48,504,000 of the after-tax gain had previously been reflected in the unrealized gain component of Wesco's shareholders' equity as of September 30, 1997, that amount was merely switched from unrealized gains to retained earnings, another component of shareholders' equity.

Convertible Preferred Stockholdings

At the end of 1997, Wesco and its subsidiaries owned $52 million, at original cost, in convertible preferred stocks of Travelers Group Inc. (''Travelers'') and US Airways Group, Inc. (''US Air''). The Travelers preferred stock was received in late 1997 (see the preceding section) in exchange for the Wesco group's remaining shares of Salomon Inc preferred stock, which originally cost $40 million, and whose cost was adjusted upwards to $90 million as of the date of the exchange. The US Air preferred stock originally cost $12 million; that figure was adjusted down to $3 million when we decided in 1994 that an other-than-temporary decline in the value of its stock had occurred. Both issues require redemption at par value or conversion to common stock within the next two years.

The investments are carried on Wesco's consolidated balance sheet at fair value, with any difference between *adjusted* cost and market value included in shareholders' equity, net of income tax effect, without affecting reported net income, according to accounting convention. Following is a summary of these investments in convertible preferred stocks at yearend 1997:

Security	Preferred Dividend Rate	Par Value of Holding	Conversion Price at Which Par Value May Be Exchanged for Common Stock	Market Price of Common Stock on 12/31/97	12/31/97 Yearend Carrying Value of Holding
Travelers Group Inc. . . .	9.00%	$40 Million	$22.42	$53.875	$ 96 Million
US Airways Group, Inc.	9.25%	12 Million	38.74	62.50	19.2 Million

These convertible preferred stocks were obtained at the same time Wesco's parent corporation, Berkshire Hathaway, obtained additional amounts of the same stocks at the same price per share. The preferred stock of Travelers was obtained in exchange for the remaining shares of preferred stock of Salomon Inc which Wesco and its subsidiaries had acquired in 1987. On October 31, 1995, in accordance with the terms of its convertible preferred stock, Salomon redeemed $20 million par value of its preferred shares owned by Wesco at cost plus accrued dividends. On October 31, 1996 and October 31, 1997, Wesco converted an aggregate of $40 million par value of its remaining preferred shares of Salomon to 1,052,628 shares of Salomon common stock, with Wesco continuing to hold par value of $40 million of Salomon preferred stock. On November 28, 1997, Wesco and its subsidiaries received $40 million par value of Travelers 9% preferred stock plus 1,784,204 shares of Travelers common stock, in exchange for the Salomon holdings, in connection with a merger of Salomon into Travelers. Fair value of the Travelers preferred and common shares, carried on Wesco's consolidated balance sheet in the categories "securities with fixed maturities" and "marketable equity securities," were $96.0 million and $96.1 million, respectively, at yearend 1997, versus the adjusted costs of $90.0 and $90.8 million, respectively, at which they were carried.

US Air has called its convertible preferred stock for redemption on March 15, 1998. On March 13, 1998, Wesco converted its shares, acquired for $12 million in 1989 and written down to an adjusted cost of $3 million in 1994, to 309,718 shares of US Air common.

In previous years we noted that "few, if any, investors have ever prospered mightily from investing in convertible preferred stocks of leading corporations." Our experience proves, yet again, what poor prognosticators we are. We estimate that (1) our investment in preferred and common stock of Travelers, acquired in 1997 through its merger with Salomon, in which we originally invested $80 million, net, was worth about $112.1 million more than we paid, and (2) our $12 million US Air holding was at yearend 1997 worth about $7.2 million more than we paid. These figures when combined created $119.3 million more than actual cost. In addition, Wesco's investment in convertible preferred stock of The Gillette Company, made in 1989 at cost of $40 million, and converted into Gillette common stock in 1991 is carried at a $321.4 million yearend market value in Wesco's consolidated 1997 balance sheet. This

is $281.4 million more than the investment cost. Also, in 1995, Wesco realized a gain of $6.9 million, before taxes ($4.2 million after taxes), on sale of its $23 million investment in preferred stock of Champion International Corporation.

Consolidated Balance Sheet And Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth increased, as accountants compute it under their conventions, to $1.76 billion ($248 per Wesco share) at yearend 1997 from $1.25 billion ($176 per Wesco share) at yearend 1996.

The $513 million increase in reported net worth in 1997 was the result of three factors: (1) $419 million resulting from continued net appreciation of investments after provision for future taxes on capital gains; plus (2) $94 million from retention of 1997 net income, including $63 million realized on the exchange of Salomon stock for Travelers stock, discussed above; less (3) dividends paid.

The foregoing $248-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than two or three dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) containing only 125,000 net rentable square feet, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on both the unrealized gains and gains deferred from the merger of Salomon into Travelers in 1997, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $102 per Wesco share at yearend 1997.

However, some day, perhaps soon, major parts of the interest-free ''loan'' must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $102 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $102 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free ''loan'' was probably about $25 per Wesco share at yearend 1997.

After the value of the advantage inhering in the interest-free ''loan'' is estimated, a reasonable approximation can be made of Wesco's intrinsic value per share. This approximation is made by simply adding (1) the value of the advantage from the interest-free ''loan'' per Wesco share and (2) liquidating value per Wesco share. Others may think differently, but the foregoing approach seems reasonable to the writer as a way of estimating intrinsic value per Wesco share.

Thus, if the value of the advantage from the interest-free tax-deferral ''loan'' present was $25 per Wesco share at yearend 1997, and after-tax liquidating value was then about $248 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become about $273 per share at yearend 1997, up 39% from intrinsic value as guessed in a similar calculation at the end of 1996. And, finally, this reasonable-to-this-writer, $273-per-share figure for intrinsic per share value of Wesco stock should be compared with the $300 per share price at which Wesco stock was selling on December 31, 1997. This comparison indicates that Wesco stock was then selling about 10% above intrinsic value.

As Wesco's unrealized appreciation has continued to grow in frothy markets for securities, it should be remembered that it is subject to market fluctuation, possibly dramatic on the downside, with no guaranty as to its ultimate full realization. Unrealized after-tax appreciation represents 73% of Wesco's shareholders' equity at 1997 yearend), versus 70% and 63% one and two years earlier.

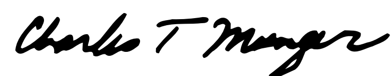
Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, been widening in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

We are not now pessimists, on a long-term basis, about business expansion. Despite present super-ebullient markets for entire businesses, making it hard for Wesco to find attractive opportunities, we do not believe that such opportunities will never come.

On January 28, 1998 Wesco increased its regular dividend from 27½ cents per share to 28½ cents per share, payable March 11, 1998, to shareholders of record as of the close of business on February 11, 1998.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 13, 1998

WESCO FINANCIAL CORPORATION

Annual Report 1998

Form 10-K Annual Report 1998

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated ''normal'' net operating income (i.e., before irregularly occurring items shown in the table below) for the calendar year 1998 decreased to $37,622,000 ($5.28 per share) from $38,262,000 ($5.38 per share) in the previous year.

Consolidated net income (i.e., after irregularly occurring items shown in the table below) decreased to $71,803,000 ($10.08 per share) from $101,809,000 ($14.30 per share) in the previous year.

Wesco has three major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, and (3) Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 1998		December 31, 1997	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
''Normal'' net operating income of:				
Wes-FIC and KBS insurance businesses	$34,654	$ 4.87	$ 33,507	$ 4.71
Precision Steel businesses	3,154	.44	3,622	.51
All other ''normal'' net operating income (loss)[3]	(186)	(.03)	1,133	.16
	37,622	5.28	38,262	5.38
Realized net securities gains	33,609	4.72	62,697	8.80
Gain on sales of foreclosed properties	572	.08	850	.12
Wesco consolidated net income	$71,803	$10.08	$101,809	$14.30

(1) All figures are net of income taxes.

(2) Per-share data is based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) After deduction of interest and other corporate expenses, and costs and expenses associated with foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, and, in 1997, the reduction of loss reserves provided in prior years against possible losses on sales of foreclosed real estate.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company (''Wes-FIC'')

Wes-FIC's normal net income for 1998 was $34,654,000, versus $33,507,000 for 1997. The figures include $4,987,000 in 1998 and $6,044,000 in 1997 contributed by The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC since 1996. KBS is discussed in the section, ''The Kansas Bankers Surety Company,'' below.

At the end of 1998 Wes-FIC retained about $24 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing ''float.''

We previously informed shareholders that Wes-FIC had entered into the business of super-cat reinsurance through retrocessions from the Insurance Group of Berkshire Hathaway, Wesco's ultimate parent. Wes-FIC's entry into the super-cat reinsurance business early in 1994 followed the large augmentation of its claims-paying capacity caused by its merger with Mutual Savings, the former savings and loan subsidiary of Wesco. In 1994, in recognition of Wes-FIC's sound financial condition, Standard and Poor's Corporation assigned to Wes-FIC the highest possible claims-paying-ability rating: AAA.

The super-cat reinsurance business, in which Wes-FIC is engaged, continues to be a very logical business for Wes-FIC. Wes-FIC has a large net worth in relation to annual premiums being earned. And this is exactly the condition rationally required for any insurance company planning to be a ''stand alone'' reinsurer covering super-catastrophe risks it can't safely pass on to others sure to remain solvent if a large super-catastrophe comes. Such a ''stand alone'' reinsurer must be a kind of Fort Knox, prepared occasionally, without calling on any other reinsurers for help, to pay out in a single year many times more than premiums coming in, as it covers losses from some super catastrophe worse than Hurricane Andrew. In short, it needs a balance sheet a lot like Wes-FIC's.

In connection with the retrocessions of super-cat reinsurance to Wes-FIC from the Berkshire Hathaway Insurance Group, the nature of the situation as it has evolved is such that Berkshire Hathaway, owning 100% of its Insurance Group and only 80% of Wesco and Wes-FIC, does not, for some philanthropic reason, ordinarily retrocede to Wes-FIC any reinsurance business that Berkshire Hathaway considers desirable and that is available only in amounts below what Berkshire Hathaway wants for itself on the terms offered. Instead, retrocessions occur only occasionally, under limited conditions and with some compensation to Berkshire Hathaway. Such retrocessions ordinarily happen only when (1) Berkshire Hathaway, for some reason (usually a policy of overall risk limitation), desires lower amounts of business than are available on the terms offered and (2) Wes-FIC has adequate capacity to bear the risk assumed and (3) Wes-FIC pays a fair ceding commission designed to cover part of the cost of getting and managing insurance business.

Generally, Berkshire Hathaway, in dealing with partly owned subsidiaries, tries to lean over a little backward in an attempt to observe what Justice Cardozo called ''the punctilio of an honor the most sensitive,'' but it cannot be expected to make large and plain giveaways of Berkshire Hathaway assets or business to a partially owned subsidiary like Wes-FIC.

Given Berkshire Hathaway's unwillingness to make plain giveaways to Wes-FIC and reductions in opportunities in the super-cat reinsurance market in recent years, prospects are often poor for Wes-FIC's acquisition of retroceded super-cat reinsurance.

Moreover, Wesco shareholders should continue to realize that super-cat reinsurance is not for the faint of heart. A huge variation in annual results, with some very unpleasant future years for Wes-FIC, is inevitable.

But it is precisely what must, in the nature of things, be associated with these bad possibilities, with their huge and embarrassing adverse consequences in occasional years, that makes Wes-FIC like its way of being in the super-cat business. Buyers (particularly wise buyers) of super-cat reinsurance often want to deal with Berkshire Hathaway subsidiaries (possessing as they do the highest possible credit ratings and a reliable corporate personality) instead of other reinsurers less cautious, straightforward and well endowed. And many competing sellers of super-cat reinsurance are looking for a liberal ''intermediary's'' profit, hard to get because they must find a ''layoff'' reinsurer both (1) so smart that it is sure to stay strong enough to pay possible losses yet (2) so casual about costs that it is not much bothered by a liberal profit earned by some intermediary entity not willing to retain any major risk. Thus the forces in place can rationally be expected to cause acceptable long-term results for well-financed, disciplined decision makers, despite horrible losses in some years and other years of restricted opportunity to write business. And, again, we wish to repeat that we expect only acceptable long-term results. We see no possibility for bonanza.

It should also be noted that Wes-FIC, in the arrangements with the Insurance Group of Berkshire Hathaway, receives a special business-acquisition advantage from using Berkshire Hathaway's general reputation. Under all the circumstances, the 3% ceding commission now being paid seems more than fair to Wes-FIC. Certainly and obviously, Berkshire Hathaway would not offer terms so good to any other entity outside the Berkshire Hathaway affiliated group.

Finally, we repeat an important disclosure about Wes-FIC's super-cat-reinsurance-acquisition mechanics. It is impractical to have people in California make complex accept-or-reject decisions for Wes-FIC when retrocessions of reinsurance are offered by the Berkshire Hathaway Insurance Group. But, happily, the Berkshire Hathaway Insurance Group executives making original business-acquisition decisions are greatly admired and trusted by the writer and will be ''eating their own cooking.'' Under such circumstances, Wesco's and Wes-FIC's boards of directors, on the writer's recommendation, have simply approved automatic retrocessions of reinsurance to Wes-FIC as offered by one or more wholly owned Berkshire

Hathaway subsidiaries. Each retrocession is to be accepted forthwith in writing in Nebraska by agents of Wes-FIC who are at the same time salaried employees of wholly owned subsidiaries of Berkshire Hathaway. Moreover, each retrocession will be made at a 3%-of-premiums ceding commission. Finally, two conditions must be satisfied: (1) Wes-FIC must get 20% or less of the risk (before taking into account effects from the ceding commission) and (2) wholly owned Berkshire Hathaway subsidiaries must retain at least 80% of the identical risk (again, without taking into account effects from the ceding commission).

We will not ordinarily describe individual super-cat reinsurance contracts in full detail to Wesco shareholders. That would be contrary to our competitive interest. Instead, we will try to summarize reasonably any items of very large importance.

Will more reinsurance be later available to Wes-FIC through Berkshire Hathaway subsidiaries on the basis and using the automatic procedure we have above described? Well, we have often proved poor prognosticators. We can only say that we hope so and that more reinsurance should come, albeit irregularly and with long intermissions. No new contracts became available to Wes-FIC in 1998. As of 1998 yearend, the one remaining super-cat contract, plus one other contract, not a super-cat contract, represented Wes-FIC's active reinsurance business.

We continue to examine other possible insurance-writing opportunities, and also insurance company acquisitions, like and unlike the purchase of KBS.

Wes-FIC is now a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

On super-cat reinsurance accepted by Wes-FIC to date (March 8, 1999) there has been no loss whatsoever that we know of, but some ''no-claims'' contingent commissions have been paid to original cessors of business (i.e., cessors not including Berkshire Hathaway). Super-cat underwriting profit of $1.4 million, before taxes, benefited 1998 earnings, versus $2.3 million in 1997. The balance of pre-tax underwriting profit amounted to $1.9 million for 1998 and $2.8 million for 1997. These figures came mostly from favorable revision of loss reserves on the old Fireman's Fund contract.

The Kansas Bankers Surety Company (''KBS'')

KBS, purchased by Wes-FIC in 1996 for approximately $80 million in cash, contributed $4,987,000 to the normal net operating income of the insurance businesses in 1998 and $6,044,000 in 1997, after reductions for goodwill amortization under consolidated accounting convention of $782,000 each year. The results of KBS have been combined with those of Wes-FIC, and are included in the foregoing table in the category, '' 'normal' net operating income of Wes-FIC and KBS insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the

changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 25 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

The principal change in KBS's operations in 1998 was a large reduction in insurance premiums ceded to reinsurers, effective January 1, 1998. The increased volume of business retained (94% in 1998 versus 58% in 1997) accompanied reduced underwriting income during 1998. However, KBS's combined ratio remained much better than average for insurers, at 62.2% for 1998, versus 37.2% for 1997 and 29.3% for 1996, and we expect volatile but favorable long-term effects from increased insurance retained. Part of KBS's continuing insurance volume is now ceded through reinsurance to other Berkshire subsidiaries under reinsurance arrangements whereunder such other Berkshire subsidiaries take 50% and unrelated reinsurers take the other 50%.

KBS is run by Donald Towle, President, assisted by 15 dedicated officers and employees.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $3,154,000 to normal net operating income in 1998, compared with $3,622,000 in 1997. The decrease in profit occurred as revenues decreased 2%, despite a 5% increase in pounds of product sold, and was attributable mainly to expenditures necessitated to upgrade computers and computer systems to ensure that Precision Steel's order-taking and other data processing systems continue to function accurately beyond December 31, 1999.

Under the skilled leadership of David Hillstrom, Precision Steel's businesses in 1998 continued to provide an excellent return on resources employed.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of assets and liabilities with a net book value of about $13 million. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the foregoing breakdown of earnings within "all other 'normal' net operating income (loss)."

Of course, the main tag end from Wesco's savings and loan days is 28,800,000 shares of Freddie Mac, purchased by Mutual Savings for $72 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan

association. This holding, with a market value of $1.9 billion at yearend 1998, now reposes in Wes-FIC.

All Other ''Normal'' Net Operating Income or Loss

All other ''normal'' net operating income or loss, net of interest paid and general corporate expenses, decreased to an after-tax loss of $186,000 in 1998 from an after-tax profit of $1,133,000 in 1997. Sources were (1) rents ($2,921,000 gross) from Wesco's Pasadena office property (leased almost entirely to outsiders, including California Federal Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) costs and expenses of liquidating tag-end foreclosed real estate. Income in 1998 was lower because (1) reversals of reserves for possible losses on sales of such tag end real estate, expensed in prior years, benefited earnings by about $1.1 million in 1997, and (2) lower dividends were received in 1998 after forced conversion of preferred stock of Citigroup Inc. (''Citigroup'') into lower-dividend-paying common stock. The 1998 and 1997 ''other 'normal' net operating income or loss'' figures also include intercompany charges for interest expense ($102,000 and $172,000 after taxes, respectively) on borrowings from Wes-FIC. This intercompany interest expense does not affect Wesco's consolidated net income inasmuch as the same amount is included as interest income in Wes-FIC's ''normal'' net operating income.

Net Securities Gains and Losses

Wesco's earnings contained securities gains of $33,609,000, after income taxes, for 1998, versus $62,697,000, after taxes, for 1997. The entire 1998 figure resulted from sales of marketable securities. Of the 1997 figure, only $93,000 was realized through the sale of securities; the balance, $62,604,000, resulted from the exchange of the preferred and common shares of Salomon Inc (''Salomon'') owned by Wesco for preferred and common shares of The Travelers Group Inc. (''Travelers'') late in 1997 in connection with the merger of Salomon with a subsidiary of Travelers. Accounting standards require that the fair (market) value of shares received in such an exchange be recorded as the new cost basis as of the date of the exchange, with the difference, after appropriate reserves for future income tax on the gain, recognized in the financial statements as a realized after-tax gain. For income tax purposes the exchange is recorded at the original cost of the securities exchanged; no gain is reported on the tax return until the securities are sold.

Although the realized gains materially impacted Wesco's reported earnings for each year, *they had a very minor impact on Wesco's shareholders' equity*. Inasmuch as the greater portion of each year's realized gains had previously been reflected in the unrealized gain component of Wesco's shareholders' equity, those amounts were merely switched from unrealized gains to retained earnings, another component of shareholders' equity.

Convertible Preferred Stockholdings

At the end of 1998, Wesco and its subsidiaries owned $20,000,000, at original cost, in convertible preferred stock which by merger of Travelers and Citicorp late in 1998 became convertible preferred stock of Citigroup. The Travelers preferred stock, itself, was received in 1997 (see the preceding section) in exchange for the Wesco group's remaining shares of Salomon preferred stock, which originally cost $20,000,000, and whose cost was adjusted upwards to $45,000,000 as of the date of the exchange. The issue requires redemption at par value of $20,000,000 on October 31, 1999, if not converted to 892,105 shares of common stock before that date. The investment is carried on Wesco's consolidated balance sheet at fair value of $44,000,000 as of December 31, 1998, the approximate market value of the common shares at that date, with the $1,000,000 difference between *its adjusted* cost and market value deducted from shareholders' equity, net of income tax effect, without affecting reported net income, according to accounting convention. The convertible preferred stock was obtained at the same time Wesco's parent corporation, Berkshire Hathaway, obtained additional amounts of the same stock at the same price per share.

Through yearend 1997, Wesco's consolidated financial statements reflected an investment in 9.25% convertible preferred stock of US Airways Group, Inc., acquired by Wesco at par of $12,000,000 in 1989; that figure was adjusted down to $3,000,000 when we decided in 1994 that an other-than-temporary decline in the value of its stock had occurred. Early in 1998, US Airways called the preferred stock for redemption. Prior to the effective date, Wesco converted its preferred stock investment to 309,718 shares of US Airways common stock and sold the latter for $21,738,000, realizing a gain of $18,738,000 for financial statement purposes ($12,180,000 after taxes). For tax return purposes, however, only $9,738,000 of gain ($6,330,000 after taxes) will be realized, because the $9,000,000 writedown in 1994 was not deductible.

Consolidated Balance Sheet And Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth increased, as accountants compute it under their conventions, to $2.22 billion ($312 per Wesco share) at yearend 1998 from $1.76 billion ($248 per Wesco share) at yearend 1997.

The $459.5 million increase in reported net worth in 1998 was the result of three factors: (1) $395.8 million resulting from continued net appreciation of investments after provision for future taxes on capital gains; plus (2) $71.8 million from 1998 net income; less (3) $8.1 million in dividends paid.

The foregoing $312-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than two or three dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings

(where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) containing only 125,000 net rentable square feet, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $127 per Wesco share at yearend 1998.

However, some day, perhaps soon, major parts of the interest-free ''loan'' must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $127 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $127 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free ''loan'' was probably about $30 per Wesco share at yearend 1998.

After the value of the advantage inhering in the interest-free ''loan'' is estimated, a reasonable approximation can be made of Wesco's intrinsic value per share. This approximation is made by simply adding (1) the value of the advantage from the interest-free ''loan'' per Wesco share and (2) liquidating value per Wesco share. Others may think differently, but the foregoing approach seems reasonable to the writer as a way of estimating intrinsic value per Wesco share.

Thus, if the value of the advantage from the interest-free tax-deferral ''loan'' present was $30 per Wesco share at yearend 1998, and after-tax liquidating value was then about $312 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become about $342 per share at yearend 1998, up 25% from intrinsic value as guessed in a similar calculation at the end of 1997. And, finally, this reasonable-to-this-writer, $342-per-share figure for intrinsic per share value of Wesco stock should be compared with the $354¾ per share price at which Wesco stock was selling on December 31, 1998. This comparison indicates that Wesco stock was then selling about 4% above intrinsic value.

As Wesco's unrealized appreciation has continued to grow in frothy markets for securities, it should be remembered that it is subject to market fluctuation, possibly dramatic on the downside, with no guaranty as to its ultimate full realization. Unrealized after-tax appreciation represents 76% of Wesco's shareholders' equity at 1998 yearend), versus 73% and 70% one and two years earlier.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues

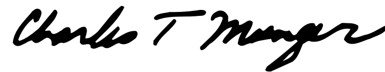
plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, been widening in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

We are not now pessimists, on a long-term basis, about business expansion. Despite present super-ebullient markets for entire businesses, making it hard for Wesco to find attractive opportunities, we do not believe that such opportunities will never come.

On January 13, 1999 Wesco increased its regular dividend from 28½ cents per share to 29½ cents per share, payable March 10, 1999, to shareholders of record as of the close of business on February 10, 1999.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 8, 1999

WESCO FINANCIAL CORPORATION

Annual Report 1999

Form 10-K Annual Report 1999

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated "normal" net operating income (i.e., before irregularly occurring items shown in the table below) for the calendar year 1999 increased to $45,904,000 ($6.44 per share) from $37,622,000 ($5.28 per share) in the previous year.

Consolidated net income (i.e., after irregularly occurring items shown in the table below) decreased to $54,143,000 ($7.60 per share) from $71,803,000 ($10.08 per share) in the previous year.

Wesco had three major subsidiaries at yearend 1999: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("KBS"), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, and (3) Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 1999		December 31, 1998	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
"Normal" net operating income of:				
Wes-FIC and KBS insurance businesses	$43,610	$6.12	$34,654	$ 4.87
Precision Steel businesses	2,532	.35	3,154	.44
All other "normal" net operating income (loss)[3]	(238)	(.03)	(186)	(.03)
	45,904	6.44	37,622	5.28
Realized net securities gains	7,271	1.02	33,609	4.72
Gain on sales of foreclosed properties	968	.14	572	.08
Wesco consolidated net income	$54,143	$7.60	$71,803	$10.08

(1) All figures are net of income taxes.

(2) Per-share data is based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) After deduction of interest and other corporate expenses, and costs and expenses associated with foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, and, in 1999, the reduction of loss reserves provided in prior years against possible losses on sales of loans and foreclosed real estate.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company ("Wes-FIC")

Wes-FIC's normal net income for 1999 was $43,610,000, versus $34,654,000 for 1998. The figures include $6,415,000 in 1999 and $4,987,000 in 1998 contributed by

The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC since 1996. KBS is discussed in the section, ''The Kansas Bankers Surety Company,'' below.

At the end of 1999 Wes-FIC retained about $21 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing ''float.''

In addition, Wes-FIC has been engaged for several years in super-cat reinsurance, described in great detail in our pre-1999 annual reports, which Wesco shareholders should re-read each year. Wes-FIC also engages in other reinsurance business, including large and small quota share arrangements similar and dissimilar to our previous reinsurance contract with Fireman's Fund Group.

In all recent reinsurance sold by us, other subsidiaries of our 80%-owning parent, Berkshire Hathaway, sold four times as much reinsurance to the same customers on the same terms, except that such subsidiaries usually take from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has virtually no insurance-acquisition or insurance administration costs.

Early in the current year (2000) Wes-FIC made an intracompany loan that funds a large majority of the purchase price of CORT Business Services Corporation, discussed below.

Wes-FIC remains a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

On super-cat reinsurance accepted by Wes-FIC to date (March 3, 2000) there has been no loss whatsoever that we know of, but some ''no-claims'' contingent commissions have been paid to original cessors of business (i.e., cessors not including Berkshire Hathaway). Super-cat underwriting profit of $1.4 million a year, before taxes, benefited earnings in 1999 and 1998. The balance of pre-tax underwriting profit amounted to $3.0 million for 1999 and $1.9 million for 1998. These figures came mostly from favorable revision of loss reserves on the old Fireman's Fund contract.

Wesco shareholders should continue to realize that recent marvelous underwriting results are sure to be followed, sometime, by one or more horrible underwriting losses from super-cat or other insurance written by Wes-FIC.

The Kansas Bankers Surety Company (''KBS'')

KBS, purchased by Wes-FIC in 1996 for approximately $80 million in cash, contributed $6,415,000 to the normal net operating income of the insurance businesses in 1999 and $4,987,000 in 1998, after reductions for goodwill amortization under consolidated accounting convention of $782,000 each year. The results of

KBS have been combined with those of Wes-FIC, and are included in the foregoing table in the category, '' 'normal' net operating income of Wes-FIC and KBS insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 25 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

A significant change in KBS's operations occurred in 1998 and consisted of a large reduction in insurance premiums ceded to reinsurers. The increased volume of business retained (95% in 1999 and 94% in 1998 compares with 58% in 1997) accompanied slightly higher underwriting income for 1999 after a reduction in the amount for 1998. KBS's combined ratio remained much better than average for insurers, at 59.4% for 1999 and 62.2% for 1998, versus 37.2% for 1997, and we expect volatile but favorable long-term effects from increased insurance retained. Part of KBS's continuing insurance volume is now ceded through reinsurance to other Berkshire subsidiaries under reinsurance arrangements whereunder such other Berkshire subsidiaries take 50% and unrelated reinsurers take the other 50%.

KBS is run by Donald Towle, President, assisted by 15 dedicated officers and employees.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased 100% of CORT Business Services Corporation (''CORT'') for $384 million in cash. In addition, CORT retains about $45 million of previously existing debt.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

In 1999, CORT had total revenues of $354 million. Of this, $295 million was furniture rental revenue and $59 million was furniture sales revenue. CORT's pre-tax earnings in 1999 were $46 million.

Thus, in essence, Wesco paid $384 million for $46 million in pre-tax earnings. About 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

After the transaction, Wesco's consolidated balance sheet will contain about $260 million in goodwill (including $29 million from Wesco's 1996 purchase of Kansas Bankers Surety). On a full year basis, Wesco's future reported earnings will be reduced by about $6 million on account of mostly-non-tax-deductible amortization of goodwill. We do not believe, however, that this accounting deduction reflects any real deterioration in earnings-driving goodwill in place.

More details with respect to the CORT transaction are contained in Note 8 to the accompanying financial statements, and on the last page of this annual report, to which careful attention is directed.

CORT has long been headed by Paul Arnold, age 53, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. Paul will continue as CEO of CORT, with no interference from Wesco headquarters. We would be crazy to second-guess a man with his record in business. We are absolutely delighted to have Paul and CORT within Wesco and hope to see a considerable expansion of CORT's business and earnings in future years.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $2,532,000 to normal net operating income in 1999, compared with $3,154,000 in 1998. The $622,000 decrease in 1999 net income occurred despite a 2.5% increase in pounds of product sold, and reflects mainly the pounding which competition gave to prices as costs of principal raw materials declined. Fewer dollars of gross profit were available to absorb operating expenses. Precision Steel's operations for 1999 and 1998 also reflect after-tax expenditures of approximately $225,000 and $350,000, respectively, necessitated to upgrade computers and computer systems to ensure that Precision Steel's order-taking and other data processing systems continue to function accurately beyond December 31, 1999.

It is with mixed emotions that we report that David Hillstrom, President and Chief Executive officer of Precision Steel for more than twenty years, retired in the latter part of 1999 and that Terry Piper was elected to replace him. Terry is a very able man and is no stranger to Precision Steel. He joined it as a salesman approximately forty years ago, steadily advanced, and served as President and General Manager of Precision Steel's Precision Brand Products subsidiary for the last thirteen years. Terry now has the responsibility of carrying on the leadership of his predecessor; and, under their combined skills, Precision Steel's businesses in 1999 continued to provide an excellent return on resources employed.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of assets and liabilities with a net book value of about $15 million. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the foregoing breakdown of earnings within ''all other 'normal' net operating income (loss).''

Of course, the main tag end from Wesco's savings and loan days is an investment in Freddie Mac common stock, purchased by Mutual Savings for $72 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. The 28,800,000 shares owned by Wes-FIC at yearend 1999 had a market value of $1.4 billion.

All Other ''Normal'' Net Operating Income or Loss

All other ''normal'' net operating income or loss, net of interest paid and general corporate expenses, amounted to after-tax losses of $238,000 in 1999 and $186,000 in 1998. Sources were (1) rents ($2,862,000 gross in 1999) from Wesco's Pasadena office property (leased almost entirely to outsiders, including California Federal Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) costs and expenses of liquidating tag-end foreclosed real estate. The loss widened in 1999 because fewer dividends were received during the year after forced conversion of preferred stock of Citigroup Inc. (''Citigroup'') into lower-dividend-paying common stock. The ''other 'normal' net operating income or loss'' figures for 1999 and 1998 also include intercompany charges for interest expense ($353,000 and $102,000 after taxes, respectively) on borrowings from Wes-FIC. This intercompany interest expense does not affect Wesco's consolidated net income inasmuch as the same amount is included as interest income in Wes-FIC's ''normal'' net operating income. ''Other 'normal' net operating income or loss'' benefited in 1999 by about $800,000 caused by reversals of reserves for possible losses on sales of loans and tag-end real estate, expensed in prior years.

Net Securities Gains and Losses

Wesco's earnings contained securities gains of $7,271,000, after income taxes, for 1999, versus $33,609,000, after taxes, for 1998.

Although the realized gains materially impacted Wesco's reported earnings for each year, *they had a very minor impact on Wesco's shareholders' equity*. Inasmuch as the greater portion of each year's realized gains had previously been reflected in the unrealized gain component of Wesco's shareholders' equity, those amounts were merely switched from unrealized gains to retained earnings, another component of shareholders' equity.

Consolidated Balance Sheet and Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth decreased, as accountants compute it under their conventions, to $1.90 billion ($266 per Wesco share) at yearend 1999 from $2.22 billion ($312 per Wesco share) at yearend 1998.

The $328.4 million decrease in reported net worth in 1999 was the result of (1) $54.1 million from 1999 net income; less (2) a $374.1 million decrease in the market value of investments after provision for future taxes on capital gains; and (2) $8.4 million in dividends paid.

The foregoing $266-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than two or three dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena containing only 125,000 net rentable square feet), and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $99 per Wesco share at yearend 1999.

However, some day, perhaps soon, major parts of the interest-free ''loan'' must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $99 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $99 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free ''loan'' was probably about $20 per Wesco share at yearend 1999.

After the value of the advantage inhering in the interest-free ''loan'' is estimated, a reasonable approximation can be made of Wesco's intrinsic value per share. This approximation is made by simply adding (1) the value of the advantage from the interest-free ''loan'' per Wesco share and (2) liquidating value per Wesco share. Others may think differently, but the foregoing approach seems reasonable to the writer as a way of estimating intrinsic value per Wesco share.

Thus, if the value of the advantage from the interest-free tax-deferral ''loan'' was $20 per Wesco share at yearend 1999, and after-tax liquidating value was then about $266 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become about $286 per share at yearend 1999, down 16% from intrinsic

value as guessed in a similar calculation at the end of 1998. And, finally, this reasonable-to-this-writer, $286-per-share figure for intrinsic per share value of Wesco stock should be compared with the $245 per share price at which Wesco stock was selling on December 31, 1999. This comparison indicates that Wesco stock was then selling about 14% below intrinsic value.

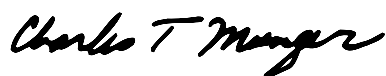
Wesco's investment portfolio suffered more than its commensurate share of decline in market value in 1999. Last year, we said ''as Wesco's unrealized appreciation has continued to grow in frothy markets for securities, it should be remembered that it is subject to market fluctuation, possibly dramatic on the downside, with no guaranty as to its ultimate full realization.'' The stock of several of our largest investees lagged the market in 1999 by a large margin. It's no sure thing that the value of our marketable securities will quickly recover. Unrealized after-tax appreciation represented 69% of Wesco's shareholders' equity at 1999 yearend, versus 76% and 73% one and two years earlier.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, been widening in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

The Board of Directors recently increased Wesco's regular dividend from 29½ cents per share to 30½ cents per share, payable March 8, 2000, to shareholders of record as of the close of business on February 9, 2000.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 3, 2000

WESCO FINANCIAL CORPORATION

Annual Report 2000
Form 10-K Annual Report 2000

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized securities gains shown in the table below) for the calendar year 2000 increased to $70,087,000 ($9.84 per share) from $46,872,000 ($6.58 per share) in the previous year.

Consolidated net income increased to $922,470,000 ($129.56 per share) from $54,143,000 ($7.60 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia, purchased in February 2000 and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 2000		December 31, 1999	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Wes-FIC and KBS insurance businesses	$ 45,518	$ 6.39	$44,392	$6.23
CORT furniture rental business	28,988	4.07	—	—
Precision Steel businesses	1,281	.18	2,532	.35
Goodwill amortization	(5,867)	(.82)	(782)	(.11)
Other(3)	167	.02	730	.11
	70,087	9.84	46,872	6.58
Realized net securities gains	852,383	119.72	7,271	1.02
Wesco consolidated net income	$922,470	$129.56	$54,143	$7.60

(1) All figures are net of income taxes.

(2) Per-share data is based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) After deduction of interest and other corporate expenses, and costs and expenses associated with foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries. The 1999 figure also includes net gains on sales of foreclosed real estate and a benefit from the reduction of loss reserves provided in prior years against possible losses on sales of loans and foreclosed real estate.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The supplementary breakdown is furnished because it is considered useful to shareholders.

Wesco-Financial Insurance Company (''Wes-FIC'')

Consolidated operating earnings of Wes-FIC and KBS represent the combination of the results of their insurance underwriting with their net investment income. Following is a summary of these figures as they pertain to Wes-FIC, excluding its subsidiary, KBS. The operating earnings of Wes-FIC's KBS subsidiary are discussed in the section, ''The Kansas Bankers Surety Company,'' below.

	Pre-Tax Operating Earnings		After-Tax Operating Earnings	
	2000	1999	2000	1999
Underwriting gain (loss)	$ (616,000)	$ 4,359,000	$ (400,000)	$ 2,833,000
Net investment income	53,412,000	44,129,000	38,958,000	34,362,000
Wes-FIC parent company operating income	$52,796,000	$48,488,000	$38,558,000	$37,195,000

As shown above, Wes-FIC's consolidated operating earnings include significant net investment income, representing dividends and interest earned on its portfolio of marketable securities. Wes-FIC's consolidated operating earnings exclude its realized net securities gains, net of income taxes, of $853.1 million in 2000 versus $7.3 million in 1999. Our discussion will concentrate on Wes-FIC's insurance underwriting, not on the results of its investments.

At the end of 2000 Wes-FIC retained about $19 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing ''float'' and by favorable loss development, which has enabled it to reduce the liability for losses and loss-related expenses, benefiting after-tax operating earnings by $.8 million in 2000 and $1.7 million in 1999.

Wes-FIC engages in other reinsurance business, including large and small quota share arrangements similar and dissimilar to our previous reinsurance contract with Fireman's Fund Group, and, from time to time, in super-cat reinsurance, described in great detail in our pre-1999 annual reports, which Wesco shareholders should reread each year. Although Wes-FIC was not active in super-cat reinsurance business in 2000, its operating earnings benefited by $.9 million, after taxes, in 1999. On super-cat reinsurance accepted by Wes-FIC to date (March 5, 2001) there has been no loss whatsoever that we know of, but some ''no-claims'' contingent commissions have been paid to original cessors of business (i.e., cessors not including Berkshire Hathaway).

The balance of Wes-FIC's after-tax underwriting profit or loss not described above, amounted to underwriting loss of $1.2 million for 2000 and underwriting profit of $.2 million for 1999.

In all recent reinsurance sold by us, other subsidiaries of our 80%-owning parent, Berkshire Hathaway, sold several times as much reinsurance to the same customers on the same terms. In certain instances, such subsidiaries have taken from us a 3%-

of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs with regard to those policies.

Wes-FIC remains a very strong insurance company, with very low costs, and, one way or another, in the future as in the past, we expect to continue to find and seize at least a few sensible insurance opportunities.

Wesco shareholders should continue to realize that recent marvelous underwriting results are sure to be followed, sometime, by one or more horrible underwriting losses from super-cat or other insurance written by Wes-FIC.

The Kansas Bankers Surety Company (''KBS'')

KBS, purchased by Wes-FIC in 1996 for approximately $80 million in cash, contributed $7 million to the consolidated operating earnings of the insurance businesses in 2000 and $7.2 million in 1999. These figures are before goodwill amortization under accounting convention of $.8 million each year. The results of KBS have been combined with those of Wes-FIC, and are included in the table on page 1 in the category, ''operating earnings of Wes-FIC and KBS insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 25 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers; and, it now reinsures only about 5% under arrangements whereby other Berkshire subsidiaries take 50% and unrelated reinsurers take the other 50%. As we indicated last year, the increased volume of business retained comes, of course, with increased irregularity in the income stream.

KBS's combined ratio remained much better than average for insurers, at 73.9% for 2000 and 59.4% for 1999, versus 37.2% for 1997, and we continue to expect volatile but favorable long-term effects from increased insurance retained.

KBS is run by Donald Towle, President, assisted by 15 dedicated officers and employees.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash. In addition, CORT retains about $45 million of previously existing debt.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

In the ten months that we have owned CORT, its revenues have totaled $361 million. Of this, $306 million was furniture rental revenue and $55 million was furniture sales revenue. CORT contributed $29 million to Wesco's consolidated operating income in 2000, before goodwill amortization of $5.1 million or realized securities losses of $.7 million. CORT's pre-tax operating income (before goodwill amortization) for the entire calendar year 2000 was $54.3 million.

Thus, in essence, Wesco paid $386 million for $54.3 million in pre-tax operating earnings. About 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $260 million in goodwill (including $28 million from Wesco's 1996 purchase of KBS). On a full year basis, Wesco's reported earnings for 2000 were reduced by about $6 million of mostly-non-tax-deductible amortization of goodwill. I am pleased to report that the Financial Accounting Standards Board has recently proposed a rule that, if adopted, will no longer require automatic amortization of acquired goodwill. If this proposed rule change goes into effect, our reported earnings will more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 54, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco, are pleased with CORT's performance under his leadership in 2000, and hope to see a considerable expansion of CORT's business and earnings in future years.

Commencing late last year, and continuing to date, new business coming into CORT has declined sharply. We believe that CORT's operations will remain profitable in any likely recession-related decline in the rent-to-rent segment of the furniture business.

The purchase of CORT has increased Wesco's employee count to approximately 3,000 from 275 one year earlier.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $1.3 million to Wesco's net operating earnings in 2000, down from the $2.5 million contributed in 1999. The 50% decline in 2000 operating earnings was due principally to two factors: (1) LIFO inventory accounting adjustments decreased after-tax earnings approximately $.4 million in 2000 after increasing such earnings by $.3 million in 1999, and (2) pounds of product sold decreased 3%, while competition restrained prices as costs of principal raw materials increased, causing fewer dollars of gross profit to be available to absorb operating expenses. Revenues were up only 1%.

Generally, the U.S. steel business was a disaster in 2000, and Precision Steel suffered worse effects than occurred for it in previous general declines in the U.S. steel business.

We do not regard earnings changes from LIFO accounting adjustments, up or down, as material in predicting future earning power.

Terry Piper, who became Precision Steel's President and Chief Executive officer late in 1999, has done an excellent job in leading Precision Steel through a very difficult year.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of real estate assets with a net book value of about $6.5 million. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within "other operating earnings."

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.2 million in 2000 and $.7 million in 1999. Sources were (1) rents ($3 million gross in 2000) from Wesco's Pasadena office property (leased almost entirely to outsiders, including California Federal Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Realized Net Securities Gains

The main tag end from Wesco's savings and loan days was an investment in Freddie Mac common stock, purchased by Mutual Savings for $72 million at a time

when Freddie Mac shares could be lawfully owned only by a savings and loan association. Those shares, carried on Wesco's balance sheet at yearend 1999 at a market value of $1.4 billion, were sold in 2000, giving rise to the principal portion of the $852.4 million of after-tax securities gains realized by Wesco in 2000, versus $7.3 million, after taxes, realized in 1999.

Although the realized gains materially impacted Wesco's reported earnings for each year, *they had a very minor impact on Wesco's shareholders' equity*. Inasmuch as the greater portion of each year's realized gains had previously been reflected in the unrealized gain component of Wesco's shareholders' equity, those amounts were merely switched from unrealized gains to retained earnings, another component of shareholders' equity.

Consolidated Balance Sheet and Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $1.98 billion ($278 per Wesco share) at yearend 2000 from $1.90 billion ($266 per Wesco share) at yearend 1999.

The foregoing $278-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by any large percentage because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena containing only 125,000 net rentable square feet), and (2) possible unrealized appreciation in other assets (primarily CORT and Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. The sale of the Freddie Mac shares in 2000 reduced that interest-free ''loan'' from $705 million as of yearend 1999 to $258 million as of yearend 2000. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted only to about $36 per Wesco share at year end 2000.

However, some day, additional parts of the interest-free ''loan'' may be removed as securities are sold, as happened to such a large extent with the sale of Freddie Mac stock in 2000. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $36 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $36 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an

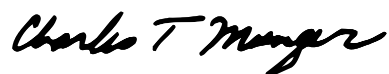
equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies like CORT, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries.

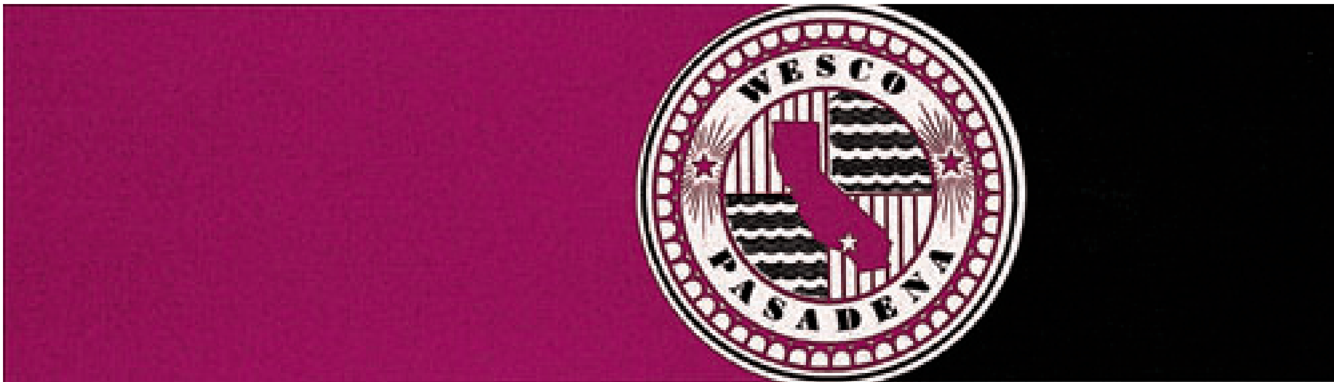
The Board of Directors recently increased Wesco's regular dividend from 30½ cents per share to 31½ cents per share, payable March 7, 2001, to shareholders of record as of the close of business on February 7, 2001.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 5, 2001



WESCO FINANCIAL CORPORATION

Annual Report 2001

Form 10-K Annual Report 2001

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized securities gains shown in the table below) for the calendar year 2001 decreased to $52,536,000 ($7.38 per share) from $70,087,000 ($9.84 per share) in the previous year.

Consolidated net income decreased to $52,536,000 ($7.38 per share) from $922,470,000 ($129.56 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia, purchased in February 2000 and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 2001		December 31, 2000	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Insurance businesses	$45,254	$6.36	$ 45,518	$ 6.39
CORT furniture rental business	13,076	1.84	28,988	4.07
Precision Steel businesses	388	.05	1,281	.18
Goodwill amortization[3]	(6,814)	(.96)	(5,867)	(.82)
Other[4]	632	.09	167	.02
	52,536	7.38	70,087	9.84
Realized net securities gains	—	—	852,383	119.72
Wesco consolidated net income	$52,536	$7.38	$922,470	$129.56

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) In accordance with a new pronouncement of the Financial Accounting Standards Board, Wesco will no longer be required to amortize goodwill beginning in 2002. The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, at which time the intangible would be written down or written off, as appropriate.

(4) After deduction of interest and other corporate expenses, and costs and expenses associated with foreclosed real estate previously charged against Wesco's former Mutual Savings and Loan Association subsidiary. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to

shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting with their net investment income. Following is a summary of these figures as they pertain to all insurance operations except The Kansas Bankers Surety Company (''KBS''), which is separately discussed below.

	Pre-Tax Operating Earnings		After-Tax Operating Earnings	
	2001	**2000**	**2001**	**2000**
Underwriting loss	$(12,403,000)	$ (616,000)	$(8,062,000)	$ (400,000)
Net investment income	64,529,000	53,412,000	44,001,000	38,958,000
Operating income	$ 52,126,000	$52,796,000	$35,939,000	$38,558,000

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes realized net securities gains, net of income taxes, of $853.1 million in 2000. There were no such gains in 2001. Our discussion will concentrate on insurance underwriting, not on the results from investments.

Results for 2001 from insurance underwriting, other than at KBS, were the worst since we entered into the insurance business in 1985.

The nature of our non-KBS insurance business was roughly described in our year 2000 Annual Report wherein we reported to shareholders that we were not currently active in super-catastrophe reinsurance and had never suffered a super-catastrophe loss, but that shareholders should continue to realize that Wes-FIC's marvelous underwriting results were sure to be followed, sometime, by one or more horrible underwriting losses.

When we said that, we had in mind a natural catastrophe. But, instead, we were clobbered by a man-made catastrophe on September 11 — an event that delivered the insurance industry its largest loss in history. Fortunately, we recorded a loss of only $10 million, before income taxes ($6.5 million, after taxes) in connection with that event. The $10 million is an estimate and is subject to considerable estimation error. It will literally take years to resolve complicated coverage issues, as well as to develop an accurate estimation of insured losses that will ultimately be incurred. That $10 million, however, was the principal cause of our substantial underwriting loss in 2001.

At the end of 2001 we retained about $17 million in invested assets, offset by claims reserves, from our former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing ''float'' and by favorable loss development, which has enabled it to reduce the liability for losses and loss-related

expenses, benefiting after-tax operating earnings in 2001 and 2000 by $.8 million each.

We engage in other reinsurance business, including large and small quota share arrangements similar and dissimilar to our previous reinsurance contract with Fireman's Fund Group, and, from time to time, in super-cat reinsurance, described in detail in previous annual reports, which Wesco shareholders should re-read each year.

In almost all recent reinsurance sold by us, other subsidiaries of our 80%-owning parent, Berkshire Hathaway, sold several times as much reinsurance to the same customers on the same terms. In certain instances, such subsidiaries have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs with regard to those policies.

KBS, purchased by Wes-FIC in 1996 for approximately $80 million in cash, contributed $9.3 million to the after-tax operating earnings of the insurance businesses in 2001 and $7.0 million in 2000. These figures are before goodwill amortization under accounting convention of $.8 million each year. The results of KBS have been combined with those of Wes-FIC, and are included in the table on page 1 in the category of ''insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 27 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS also offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies and bank insurance agents professional errors and omissions indemnity policies.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 5% under arrangements whereby other Berkshire subsidiaries take 50% and unrelated reinsurers take the other 50%. As we indicated last year, the increased volume of business retained comes, of course, with increased irregularity in the income stream.

The combined ratio of an insurance company represents the percentage that its underwriting losses and expenses bear to its premium revenues. KBS's combined ratio has been much better than average for insurers, at 55.1% for 2001 and 73.9% for 2000, and we continue to expect volatile but favorable long-term effects from increased insurance retained.

KBS is ably run by Donald Towle, President, assisted by 15 dedicated officers and employees.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $395 million for calendar 2001, versus $361 million for the ten months that we owned it in the year 2000. Of these amounts, furniture rental revenues were $329 million and $306 million, and furniture sales revenues were $66 million and $55 million. CORT contributed $13.1 million to Wesco's consolidated operating income for the entire year of 2001, versus $29.0 million for the ten months of 2000. These figures are before (1) goodwill amortization of $6.0 million for 2001 and $5.1 million for 2000, and (2) realized securities losses of $.7 million in 2000.

CORT's after-tax operating income (before goodwill amortization) for the entire calendar year 2000 was $33.4 million compared to only $13.1 million for 2001, a decline of 61%.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector. Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, continued weakness in the economy and the events of September 11, CORT's operations were hammered in 2001.

Moreover, CORT started up a new subsidiary during the year, Relocation Central Corporation, whose $12 million in expenses far exceeded its $1 million in revenues. The results of its operations have been consolidated with those reported for CORT, shown above. Relocation Central has developed a virtual call center which carries out an internet-based furniture and apartment leads operation (www.relocationcentral.com), and it has begun marketing CORT's furniture rental services to real estate investment trusts, owners of many major apartment communities. CORT is hopeful that, through Relocation Central, it will ultimately become the principal source of rental furniture to the apartment industry.

We hope to report in due course that all CORT operations have become more satisfactory, but prospects for 2002 do not thrill us. However, there is good news along with bad. CORT operates at a positive cash flow. During 2001 it reduced its line-of-credit debt by $32 million and invested an additional $20 million in business expansion through acquisitions of several small businesses. We happily tolerate a

poor part of the business cycle when we turn it to our advantage by expanding business through cash acquisition at sound prices. We continue to believe that CORT's operations will remain profitable in any likely recession-related decline in the rent-to-rent segment of the furniture business.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $264 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). Wesco's reported earnings were reduced by about $7 million of mostly-non-tax-deductible amortization of goodwill for 2001 and $6 million for 2000. The Financial Accounting Standards Board has recently adopted a rule that will no longer require automatic amortization of acquired goodwill beginning in 2002. Thus, earnings we report in the future will more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 55, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco, are pleased with CORT's performance under his leadership, despite adverse developments in 2001, and we hope to see a considerable expansion of CORT's business and earnings in future years.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $.4 million to Wesco's net operating earnings in 2001, down from $1.3 million in 2000 and $2.5 million in 1999. Had it not been for LIFO inventory accounting adjustments, Precision Steel would have reported no income at all for the year 2001, versus $1.7 million, after taxes, for 2000.

Last year we reported that the U.S. steel industry was generally a disaster in 2000, and that Precision Steel suffered worse effects than occurred for it in previous general declines in the U.S. steel business. The year 2001 was much worse. The absence of Precision Steel's operating earnings for 2001, before the effect of the LIFO adjustment, was due principally to a significant reduction in demand for steel, combined with intensified competition above the fierce level encountered in the prior year. This resulted in a 29.7% decrease in pounds of product sold. Sales revenues declined 25.6%.

We do not regard earnings changes from LIFO accounting adjustments, up or down, as material in predicting future earning power.

Terry Piper, who became Precision Steel's President and Chief Executive Officer late in 1999, has done an excellent job in leading Precision Steel through difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of real estate assets with a net book value of about $5.8 million, consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.6 million in 2001 and $.2 million in 2000. Sources were (1) rents ($3.2 million gross in 2001) from Wesco's Pasadena office property (leased almost entirely to outsiders, including California Federal Bank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Realized Net Securities Gains

The main tag end from Wesco's savings and loan days was an investment in Freddie Mac common stock, purchased by Mutual Savings for $72 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. Those shares, carried on Wesco's balance sheet at yearend 1999 at a market value of $1.4 billion, were sold in 2000, giving rise to the principal portion of the $852.4 million of after-tax securities gains realized by Wesco in 2000, versus no gains or losses realized in 2001.

Although the realized gain had a material impact on Wesco's reported earnings for 2000, *it had a very minor impact on Wesco's shareholders' equity*. Inasmuch as the greater portion of the realized gain had previously been reflected in the unrealized gain component of Wesco's shareholders' equity, the amount was merely switched from unrealized gains to retained earnings, another component of shareholders' equity.

Consolidated Balance Sheet and Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, decreased to $1.91 billion ($269 per Wesco share) at yearend 2001 from $1.98 billion ($278 per Wesco share) at yearend 2000.

The foregoing $269-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Perhaps this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by any large percentage because (1) the liquidation

value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena containing only 125,000 net rentable square feet), and (2) possible unrealized appreciation in other assets cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. The sale of the Freddie Mac shares in 2000 was principally responsible for the reduction of that interest-free ''loan'' from $705 million as of yearend 1999 to $199 million as of yearend 2001. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $28 per Wesco share at year end 2001.

However, some day, additional parts of the interest-free ''loan'' may be removed as securities are sold, as happened to such a large extent with the sale of Freddie Mac stock in 2000. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $28 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $28 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

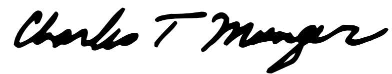
All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies like CORT, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries.

The thing that should interest Wesco shareholders most with respect to 2001 is that we found no new common stocks for our insurance companies to buy. We are not excited by general prospects for common stocks.

The Board of Directors recently increased Wesco's regular dividend from 31½ cents per share to 32½ cents per share, payable March 6, 2002, to shareholders of record as of the close of business on February 6, 2002.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 5, 2002

WESCO FINANCIAL CORPORATION

Annual Report 2002

Form 10-K Annual Report 2002

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net income for the calendar year 2002 was $52,718,000 ($7.40 per share), essentially the same as $52,536,000 ($7.38 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''KBS''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 2002		December 31, 2001	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Insurance businesses	$49,471	$6.95	$45,254	$6.36
CORT furniture rental business	2,442	.34	13,076	1.84
Precision Steel businesses	250	.03	388	.05
Goodwill amortization[3]	—	—	(6,814)	(.96)
Other[4]	555	.08	632	.09
Wesco consolidated net income[3]	$52,718	$7.40	$52,536	$7.38

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) In accordance with a new pronouncement of the Financial Accounting Standards Board, Wesco discontinued goodwill amortization at the beginning of 2002. The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, at which time the intangible would be written down or written off, as appropriate. Had the new accounting standard been in effect for 2001, Wesco would have reported after-tax income of $59,350,000 or $8.34 per share, exclusive of goodwill amortization. **Thus, Wesco's 2002 after-tax net income, on a pro forma basis, actually *decreased* in 2002 by $6,632,000, or $.94 per share.**

(4) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting with their net investment income. Following is a summary of these figures as they pertain to all insurance operations except The Kansas Bankers Surety Company (''KBS''), which is separately discussed below.

	Pre-Tax Operating Earnings		After-Tax Operating Earnings	
	2002	2001	2002	2001
Underwriting gain (loss)	$ 92,000	$(12,403,000)	$(1,926,000)	$(8,062,000)
Net investment income	64,484,000	64,529,000	44,030,000	44,001,000
Operating income	$64,576,000	$ 52,126,000	$42,104,000	$35,939,000

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. Our discussion will concentrate on insurance underwriting, not on the results from investments.

Results for 2002 from insurance underwriting, other than at KBS, were sharply improved from those for 2001. Results for 2001 were the worst since we entered the insurance business in 1985. Results for 2002 were satisfactory.

The nature of our non-KBS insurance business was roughly described in our year 2000 Annual Report wherein we reported to shareholders that we were not currently active in super-catastrophe reinsurance and had never suffered a super-catastrophe loss, but that shareholders should continue to realize that Wes-FIC's marvelous underwriting results were sure to be followed, sometime, by one or more horrible underwriting losses.

When we said that, we had in mind a natural catastrophe. But, instead, in 2001 we were clobbered by a man-made catastrophe on September 11 — an event that delivered the insurance industry its largest loss in history. Fortunately, we recorded a loss of only $10 million before income taxes ($6.5 million, after taxes) in connection with that event. The $10 million is an estimate and is subject to considerable estimation error. It will literally take years to resolve complicated coverage issues, as well as to develop an accurate estimation of insured losses that will ultimately be incurred. That $10 million, however, was the principal cause of our substantial underwriting loss in 2001.

At the end of 2002 we retained about $15 million in invested assets, offset by claims reserves, from our former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing ''float'' and by favorable loss development, which has enabled it to reduce the liability for losses and loss-related expenses, benefiting after-tax operating earnings in 2002 and 2001 by $.8 million each year.

We engage in other reinsurance business, including large and small quota share arrangements similar and dissimilar to our previous reinsurance contract with Fireman's Fund Group, and, from time to time, in super-cat reinsurance, described in detail in previous annual reports, which Wesco shareholders should re-read each year.

Following is a summary of Wes-FIC's current reinsurance activity:

- A three-year arrangement entered into in 2000 through an insurance subsidiary of Berkshire Hathaway, our 80%-owning parent, as intermediary without ceding commission, for participation to the extent of 3.3% in certain property and casualty exposure ceded by a large, unaffiliated insurer. The terms of this arrangement are identical to those accepted by that Berkshire subsidiary except as to the amount of the participation.
- Participation in four risk pools managed by a Berkshire insurance subsidiary (also acting as intermediary without ceding commission) covering hull, liability, workers' compensation and satellite exposures relating to the aviation industry as follows: with respect to 2001, to the extent of 3% for each pool; for 2002, 13% of the hull and liability pools, 3% of the workers' compensation pool and, effective mid-year, 15.5% of the satellite pool; and, for 2003, 10% of the hull and liability pools only. The Berkshire subsidiary provides a portion of the reinsurance protection to these aviation risk pools, and therefore to Wes-FIC.

In much reinsurance sold by us, other Berkshire subsidiaries sold several times as much reinsurance to the same customers on the same terms. In certain instances but not always, such subsidiaries have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs.

KBS, purchased by Wes-FIC in 1996 for approximately $80 million in cash, contributed $7.4 million to the after-tax operating earnings of the insurance businesses in 2002 and $9.3 million in 2001. The 2001 figure is before goodwill amortization of $.8 million; there was no goodwill amortization for 2002. Prior to 2002 goodwill was amortized mainly on a straight-line basis over 40 years. As explained above, as of the beginning of 2002, Wesco discontinued amortization of goodwill and became subject to other changes in goodwill accounting, as required by the Financial Accounting Standards Board. The results of KBS have been combined with those of Wes-FIC, and are included in the table on page 1 in the category of ''insurance businesses.''

KBS was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 27 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits

in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank annuity and mutual funds indemnity policies, and bank insurance agents professional errors and omissions indemnity policies. Also, KBS has recently begun offering Internet banking catastrophe theft insurance.

Beginning in 2003, KBS revised the allocation of its reinsurance between a Berkshire insurance subsidiary and a non-affiliate: Under the previous program, the Berkshire subsidiary and the non-affiliate each reinsured 50% of the per-occurrence risks of $3 million in excess of $2 million, and the non-affiliate also reinsured 70% of the per-occurrence risks up to $10 million above $5 million, all for approximately 5% of KBS's premiums. Beginning in 2003, the Berkshire subsidiary has replaced the non-affiliate on the second layer, and total reinsurance costs are expected to aggregate 10%-12% of premiums. Reinsurance costs have risen greatly throughout the insurance industry, and the revised arrangement is considered fair by all involved, all factors considered. (Indeed, we believe that our combined insurance arrangements through Berkshire constitute a net advantage to Wes-FIC that would not be available from Berkshire in the absence of its 80% ownership of Wesco, and such combined insurance arrangements have worked out well so far, even after taking into account our September 11 loss in 2001.)

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 5%. As we indicated last year, the increased volume of business retained comes, of course, with increased irregularity in the income stream.

The combined ratio of an insurance company represents the percentage that its underwriting losses and expenses bear to its premium revenues. KBS's combined ratio has been much better than average for insurers, at 71.3% for 2002 and 55.1% for 2001, and we continue to expect volatile but favorable long-term effects from increased insurance retained.

KBS is ably run by Donald Towle, President, assisted by 15 dedicated officers and employees.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $389 million for calendar 2002, versus $395 million for calendar 2001. Of these amounts, furniture rental revenues were $316 million and $329 million, and furniture sales revenues were $73 million and $66 million. CORT contributed $2.4 million and $13.1 million to Wesco's consolidated operating income for 2002 and 2001, versus $29.0 million for the ten months that we owned it in 2000. These figures are before (1) goodwill amortization of zero for 2002 (see discussion above), $6.0 million for 2001 and $5.1 million for 2000, and (2) realized securities losses of $.7 million in 2000.

CORT's after-tax operating income (before goodwill amortization) for the entire calendar year 2000 was $33.4 million compared to only $2.4 million for 2002 and $13.1 million for 2001. 2002 was a terrible year in the ''rent-to-rent'' segment of the furniture rental business.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector. Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and continued weakness in the economy, CORT's operations have been hammered. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to-rent'' sector of the furniture business.

Moreover, CORT started up a new subsidiary during 2001, Relocation Central Corporation, whose operations should be considered as still in a ''start-up'' phase and, so far, have generated pre-tax losses amounting to $12.8 million in 2002 and $10.8 million in 2001. The results of its operations have been consolidated with those reported for CORT, shown above.

Relocation Central has developed a virtual call center which carries out an Internet-based furniture and apartment leads operation (www.relocationcentral.com), and it markets CORT's furniture rental services to real estate investment trusts, owners of many major apartment communities. As a result of the acquisition of its largest competitor in December 2002, Relocation Central operates in 20 metropolitan cities in sixteen states. CORT is hopeful that, through Relocation Central, it will ultimately become the principal source of rental furniture to the apartment industry, but this outcome is far from certain.

We expect to report in due course that all CORT operations have become more satisfactory, but prospects for 2003 do not seem good. However, there is good news along with bad. CORT has operated at a positive cash flow and the general distress in its field permitted various small expansions. During the past two years it invested $57 million in business expansion through acquisitions of several small businesses and reduced its line-of-credit debt by $30 million. CORT would not be making these acquisitions if we believed its furniture rental business prospects were permanently impaired.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $266 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board recently adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. Thus, earnings we report more closely reflect microeconomic reality as we appraise it. As above shown in the first page of this letter, Wesco's reported earnings were reduced by about $7 million of mostly-non-tax-deductible amortization of goodwill for 2001, versus no such amortization for 2002.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 56, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco, and are pleased with CORT's progress under his leadership, despite adverse developments in 2001 and 2002. We continue to expect a considerable expansion of CORT's business and earnings at some future time.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $.3 million to Wesco's net operating earnings in 2002, down from $.4 million in 2001 and $1.3 million in 2000. Had it not been for LIFO inventory accounting adjustments, Precision Steel would have reported $.1 million for 2002 and no income at all for the year 2001, versus $1.7 million for 2000.

Last year we reported that the U.S. steel industry was generally a disaster in 2000, and that Precision Steel suffered worse effects than occurred for it in previous general declines in the U.S. steel business. The year 2001 was much worse. The absence of Precision Steel's operating earnings for 2001, before the effect of the LIFO adjustment, was due principally to a significant reduction in demand for steel, combined with intensified competition above the fierce level encountered in the prior year. This resulted in a 29.7% decrease in pounds of product sold. Sales revenues declined 25.6%.

We do not regard earnings changes from LIFO accounting adjustments, up or down, as material in predicting future earning power.

Terry Piper, who became Precision Steel's President and Chief Executive Officer late in 1999, has done an excellent job in leading Precision Steel through difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of real estate assets with a net book value of about $5.8 million, consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.6 million in both 2002 and 2001. Sources were (1) rents ($3.3 million gross in 2002) from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Corporate Governance

Two of our long-standing directors, Jim Gamble and Dave Robinson, are not standing for reelection. At practically no pay, they have been wise and honorable protectors of Wesco shareholders for many decades going back to a time before Berkshire Hathaway had any interest in Wesco. During their long tenure the value of Wesco stock appreciated about 5,000 percent. We will much miss their directorial service, but will not lose touch. They both retain offices in our building and will surely be in our offices from time to time.

Consolidated Balance Sheet and Related Discussion

Wesco carries its investments at market value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included in income taxes payable, in its consolidated balance sheet. As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $1.96 billion ($275 per Wesco share) at yearend 2002 from $1.91 billion ($269 per Wesco share) at yearend 2001. The main cause of increase was net income after deduction of dividends paid to shareholders.

The foregoing $275-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment

working for Wesco shareholders and amounted to about $28 per Wesco share at yearend 2002.

However, some day, parts of the interest-free ''loan'' may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $28 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $28 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

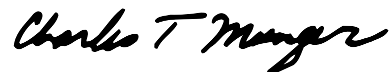
To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries. Our views regarding the general prospects for investment in common stocks are contained in the following excerpt from Warren Buffett's recent letter to shareholders of our parent company:

> ''We continue to do little in equities. [We] are increasingly comfortable with our holdings in [our] major investees because most of them have increased their earnings while their valuations have decreased. But we are not inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.
>
> ''In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find *very* few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.
>
> ''The aversion to equities that [we] exhibit today is far from congenital. We love owning common stocks — if they can be purchased at attractive prices. In [(Warren states:) my] 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translates to 6½-7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.''

In fact, the one thing that should interest Wesco shareholders most with respect to 2002 is that, as in 2001, Wesco found *no* new common stocks for our insurance companies to buy.

The Board of Directors recently increased Wesco's regular dividend from 32½ cents per share to 33½ cents per share, payable March 5, 2003, to shareholders of record as of the close of business on February 5, 2003.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 6, 2003

WESCO FINANCIAL CORPORATION

Annual Report 2003

Form 10-K Annual Report 2003

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized securities gains shown in the table below) for the calendar year 2003 decreased to $39,958,000 ($5.61 per share) from $52,718,000 ($7.40 per share) in the previous year.

Consolidated net income increased to $74,711,000 ($10.49 per share) from $52,718,000 ($7.40 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''Kansas Bankers''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 2003		December 31, 2002	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$15,711	$ 2.21	$ 3,829	$ .54
Investment income	30,925	4.34	45,642	6.41
CORT furniture rental business	(6,257)	(.88)	2,442	.34
Precision Steel businesses	(860)	(.12)	250	.03
All other ''normal'' net operating earnings[3]	439	.06	555	.08
	39,958	5.61	52,718	7.40
Realized investment gains	34,753	4.88	—	—
Wesco consolidated net income	$74,711	$10.49	$52,718	$7.40

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s):

	Year Ended December 31,	
	2003	2002
Premiums written	$ 86,962	$ 88,411
Premiums earned	$106,651	$ 64,627
Underwriting gain	$ 24,171	$ 5,891
Dividend and interest income	44,118	70,007
Income before income taxes	68,289	75,898
Income tax provision	(21,653)	(26,427)
Total operating income — insurance businesses	$ 46,636	$ 49,471

Following is a breakdown of premiums written (in 000s):

Wes-FIC —		
Aviation pools	$36,652	$40,052
Property-casualty pool	30,390	27,691
Other	70	12
Kansas Bankers	19,850	20,656
Premiums written	$86,962	$88,411

Following is a breakdown of premiums earned (in 000s):

Wes-FIC —		
Aviation pools	$ 44,316	$24,393
Property-casualty pool	42,021	20,913
Other	119	77
Kansas Bankers	20,195	19,244
Premiums earned	$106,651	$64,627

Following is a breakdown by company of after-tax results (in 000s):

Underwriting gain —		
Wes-FIC	$11,158	$ 62
Kansas Bankers	4,553	3,767
	15,711	3,829
Net investment income —		
Wes-FIC	28,998	42,042
Kansas Bankers	1,927	3,600
	30,925	45,642
Total operating income — insurance businesses	$46,636	$49,471

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes investment gains of $34.8 million, net of income taxes, realized in 2003. No investment gains were realized in 2002. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business, occasionally insuring against loss from rare but horrendous ''super-catastrophes.'' In much reinsurance sold by us, other Berkshire subsidiaries sold several times as much reinsurance to the same customers on the same terms. In certain instances but not always, such subsidiaries have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs. In some cases, other Berkshire subsidiaries act as reinsurers at higher levels than the level at which Wes-FIC is reinsuring; terms of the reinsurance are considered by Wes-FIC to be fair or advantageous to Wes-FIC.

Underwriting results of Wes-FIC in 2003 were weirdly favorable, causing the underwriting gain of $15.7 million. Such weirdly favorable results are not to be expected over the long term. It should be recalled that Wes-FIC reported an underwriting loss of $8.1 million as recently as 2001. However, we do try to create some underwriting gain as results are averaged out over many years.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 28 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 11%. The increased volume of business retained comes, of course, with increased irregularity in the income stream.

The combined ratio of an insurance company represents the percentage that its underwriting losses and expenses bear to its premium revenues. KBS's combined ratio has been much better than average for insurers, at 65.0% for 2003 and 71.3% for 2002. We continue to expect volatile but favorable long-term effects from increased insurance retained.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $360 million for calendar 2003, versus $389 million for calendar 2002. Of these amounts, furniture rental revenues were $276 million and $309 million, furniture sales revenues were $68 million and $73 million, and apartment locator fees of Relocation Central Corporation, a subsidiary CORT started up in 2001, were $16 million and $7 million. CORT operated at an after-tax loss of $6.3 million for 2003; it contributed $2.4 million and $13.1 million to Wesco's consolidated operating income for 2002 and 2001. These figures are significantly worse than CORT's $29 million of after-tax operating profits for the ten months that we owned it in 2000. Recent years were terrible in the ''rent-to-rent'' segment of the furniture rental business. The figures are before (1) goodwill amortization of zero for 2003 and 2002 (see discussion below), $6.0 million for 2001 and $5.1 million for 2000, and (2) realized securities losses of $.7 million in 2000, but include Relocation Central's after-tax losses, less minority interest, of $9.0 million for 2003, $8.3 million for 2002 and $7.0 million for 2001. Excluding the operating losses of Relocation Central, CORT, at the parent company level, contributed $2.7 million to Wesco's consolidated after-tax operating earnings for 2003, versus $10.7 million for 2002 and $20.1 million for 2001.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector. Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and continued weakness of job growth in the economy, CORT's operations have been hammered. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to- rent'' sector of the furniture business.

Moreover, CORT started up a new subsidiary during 2001, Relocation Central Corporation, which has developed a virtual call center and carries out an Internet-based furniture and apartment-leads operation (www.relocationcentral.com), and it markets CORT's furniture rental services to real estate investment trusts, owners of many major apartment communities. As a result of the acquisition of its largest competitor in December 2002, followed by some office closures, Relocation Central operates in 15 metropolitan cities in fourteen states. CORT is hopeful that, through Relocation Central, it will ultimately become the principal source of rental furniture to the apartment industry, but this outcome is far from certain. Its operations should be considered as still in a ''start-up'' phase. CORT has recently begun the process of reorganizing Relocation Central's operations, including relocating various of its

facilities into CORT's, withdrawing from markets having unsatisfactory potential, and aggressively trimming its expenses, in an attempt to improve its operations, which so far have not been satisfactory. The results of its operations have been consolidated with those reported for CORT, shown above.

We expect to report in due course that all CORT operations have become more satisfactory. CORT has operated at a positive cash flow and the general distress in its field has permitted various small expansions. During the past three years it invested $61 million in business expansion through acquisitions of several small businesses and reduced its line-of-credit and other debt by $50 million. CORT remains the national leader in its market segment and would not be making these acquisitions if we believed its furniture rental business prospects were permanently impaired.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $267 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. (The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, in which event the intangible would be written down or written off, as appropriate.) The earnings we have reported for 2002 and 2003, without deduction of any goodwill amortization, more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 57, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco. We continue to expect a considerable expansion of CORT's business and earnings at some future time.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at an after-tax loss of $.9 million in 2003, versus an after-tax profit of $.3 million in 2002. The 2003 figure reflects $.7 million, after taxes, expensed in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the environmental matter or for LIFO inventory accounting adjustments, Precision Steel would have reported an operating loss of $.2 million, after taxes, for 2003, versus after-tax profits of $.1 million for 2002. We do not regard earnings changes from environmental cleanup or LIFO accounting adjustments, up or down, as material in predicting future earning power.

The U.S. steel industry has generally been a disaster since 2000, and Precision Steel has suffered worse effects than occurred for it in previous general declines in the U.S. steel business.

Precision Steel has suffered a significant reduction in demand for steel combined with intensified competition above the fierce level encountered in each prior year. Some of the sales reduction is caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. The severity of the domestic downturn is demonstrated by the fact that Precision Steel's average annual steel service revenues for the years 2001 through 2003 were down 27% from those reported for 1998 through 2000. It has not reported satisfactory operating results in recent years; ignoring environmental-cleanup costs and LIFO adjustments, its approximately-break-even operations for 2002 and 2003 compare very unfavorably with operating profits which averaged $2.3 million, after taxes, for the years 1998 through 2000. Very recently, the cost of Precision Steel's raw materials rose sharply in price.

Supplies of steel, which have generally been available to Precision Steel, are no longer easy to obtain. The market has drifted into near chaos caused by shortages. It is not clear how this is going to work out. Early in 2004, prices and profits are higher at Precision Steel, but longer-term effects are far from clear.

Terry Piper, who became Precision Steel's President and Chief Executive Officer late in 1999, has done an excellent job in leading Precision Steel through difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets with a net book value of about $6.4 million, consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.4 million in 2003 and $.6 million in 2002. Sources were (1) rents ($3.2 million gross in 2003) from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Consolidated Balance Sheet and Related Discussion

Wesco carries its investments at market value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included in income taxes payable, in its consolidated balance sheet. As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.1 billion ($292 per Wesco share) at yearend 2003 from $1.96 billion ($275 per Wesco share) at yearend 2002. The main cause of increase was net income after deduction of dividends paid to shareholders.

The foregoing $292-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $32 per Wesco share at yearend 2003.

However, some day, parts of the interest-free ''loan'' may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $32 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $32 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries. Our views regarding the general prospects for investment in common stocks are unchanged one year after Warren Buffett wrote the following, in his 2002 annual report to shareholders of our parent company:

> ''We continue to do little in equities. [We] are increasingly comfortable with our holdings in [our] major investees because most of them have increased their earnings while their valuations have decreased. But we are not

inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.

''In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find *very* few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.

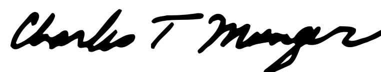
''The aversion to equities that [we] exhibit today is far from congenital. We love owning common stocks — if they can be purchased at attractive prices. In [my] 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translates to 6½-7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.''

In fact, the one thing that should interest Wesco shareholders most with respect to 2003 is that, as in 2002 and 2001, Wesco found *no* new common stocks for our insurance companies to buy.

The Board of Directors recently increased Wesco's regular dividend from 33½ cents per share to 34½ cents per share, payable March 3, 2004, to shareholders of record as of the close of business on February 4, 2004.

Wesco now has a website: www.wescofinancial.com. Shareholders can there access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.



Charles T. Munger
Chairman of the Board

March 4, 2004

WESCO FINANCIAL CORPORATION

Annual Report 2004

Form 10-K Annual Report 2004

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized investment gains shown in the table below) for the calendar year 2004 increased to $47,427,000 ($6.66 per share) from $39,958,000 ($5.61 per share) in the previous year.

Consolidated net income decreased to $47,427,000 ($6.66 per share) from $74,711,000 ($10.49 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''Kansas Bankers''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[(1)]:

	Year Ended			
	December 31, 2004		December 31, 2003	
	Amount	Per Wesco Share[(2)]	Amount	Per Wesco Share[(2)]
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$14,618	$2.05	$15,711	$ 2.21
Investment income	26,302	3.69	30,925	4.34
CORT furniture rental business	5,022	.71	(6,257)	(.88)
Precision Steel businesses	1,094	.15	(860)	(.12)
All other ''normal'' net operating earnings[(3)]	391	.06	439	.06
	47,427	6.66	39,958	5.61
Realized investment gains	—	—	34,753	4.88
Wesco consolidated net income	$47,427	$6.66	$74,711	$10.49

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2004	2003
Premiums written	$45,042	$ 86,962
Premiums earned	$54,589	$106,651
Underwriting gain	$22,490	$ 24,171
Dividend and interest income	36,035	44,118
Income before income taxes	58,525	68,289
Income taxes	17,605	21,653
Total operating income — insurance businesses	$40,920	$ 46,636

Following is a breakdown of premiums written (in 000s):

	2004	2003
Wes-FIC —		
Aviation pools	$26,655	$ 36,652
Property-casualty pool	(2,342)	30,390
Other	—	70
Kansas Bankers	20,729	19,850
Premiums written	$45,042	$ 86,962

Following is a breakdown of premiums earned (in 000s):

	2004	2003
Wes-FIC —		
Aviation pools	$27,944	$ 44,316
Property-casualty pool	6,244	42,021
Other	29	119
Kansas Bankers	20,372	20,195
Premiums earned	$54,589	$106,651

Following is a breakdown of after-tax results (in 000s):

	2004	2003
Underwriting gain —		
Wes-FIC	$11,144	$ 11,158
Kansas Bankers	3,474	4,553
	14,618	15,711
Net investment income —		
Wes-FIC	24,567	28,998
Kansas Bankers	1,735	1,927
	26,302	30,925
Total operating income — insurance businesses	$40,920	$ 46,636

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes investment gains of $34.8 million, net of income taxes, realized in 2003. No investment gains or losses were realized in 2004. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business, occasionally insuring against loss from rare but horrendous ''super-catastrophes.'' In much reinsurance sold by us, other Berkshire subsidiaries have sold several times as much reinsurance to the same customers on the same terms. In certain instances but not always, such subsidiaries

have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs. In some cases, other Berkshire subsidiaries act as reinsurers at higher levels than the level at which Wes-FIC is reinsuring; terms of the reinsurance are considered by Wes-FIC to be fair or advantageous to Wes-FIC.

For the past several years Wes-FIC's reinsurance activity has consisted of the participation in two arrangements:

(1) Participation in four risk pools managed by an insurance subsidiary of Berkshire Hathaway, our 80%-owning parent, covering hull, liability, workers' compensation and satellite exposures relating to the aviation industry as follows: with respect to 2001, to the extent of 3% for each pool, with satellite exposures effective June 1; for 2002, 13% of the hull and liability pools, increasing to 15.5% in August, and 3% of the workers' compensation pool (satellite exposures were not renewed in June); and, for 2003 and 2004, 10% of the hull and liability pools only. The Berkshire subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools, and therefore to Wes-FIC, on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss.

(2) A multi-year contract entered into in 2000 through another Berkshire insurance subsidiary, as intermediary without profit, covering certain multi-line property and casualty risks of a large, unaffiliated insurer. This contract was commuted (terminated) in the fourth quarter of 2004, at which time Wes-FIC paid the ceding company $43.1 million, cash, representing all unearned premiums, reduced by unamortized costs and expenses. After the commutation, Wes-FIC's obligation to indemnify any further insurance losses under the contract ceased. Under that contract, there was a net reduction in written premiums of $2.3 million for 2004, compared with written premiums of $30.4 million for 2003; earned premiums were $6.4 million for 2004 and $42.0 million for 2003.

Underwriting results of Wes-FIC in both 2004 and 2003 were weirdly favorable, causing the underwriting gains of $14.6 million for 2004 and $15.7 million for 2003. Such weirdly favorable results are not to be expected over the long term. It should be recalled that Wes-FIC reported an underwriting loss of $8.1 million as recently as 2001. However, we do try to create some underwriting gain as results are averaged out over many years.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 30 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and

officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 14%. The increased volume of business retained comes, of course, with increased irregularity in the income stream.

The combined ratio of an insurance company represents the percentage that its underwriting losses and expenses bear to its premium revenues. KBS's combined ratio has been much better than average for insurers, at 74.9% for 2004 and 65.0% for 2003. We continue to expect volatile but favorable long-term effects from increased insurance retained.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $354 million for calendar 2004, versus $360 million for calendar 2003. Of these amounts, furniture rental revenues were $275 million and $276 million, furniture sales revenues were $68 million each year, and apartment locator fees of Relocation Central Corporation, a business CORT started up in 2001, were $11 million and $16 million. CORT operated at an after-tax profit of $5.0 million for 2004; its operations resulted in an after-tax loss of $6.3 million for 2003; it contributed $2.4 million and $13.1 million to Wesco's consolidated operating income for 2002 and 2001. Recent results have been significantly worse than CORT's $29 million of after-tax operating profits for the ten months that we owned it in 2000. The figures are before (1) goodwill amortization of $6.0 million for 2001 and $5.1 million for 2000 (see discussion below), and (2) realized securities losses of $.7 million in 2000, but include Relocation Central's after-tax losses of $7.4 million for 2004, $9.0 million for 2003, $8.3 million for 2002 and $7.0 million for 2001. Excluding the operating losses of Relocation Central, CORT, at the parent company level, contributed $12.4 million to Wesco's consolidated after-tax operating earnings for 2004, versus $2.7 million for 2003 and $10.7 million for 2002.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector.

Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and a protracted slowdown in new business formation, CORT's operations have been hammered, reflecting generally bad results in the ''rent-to-rent'' segment of the

furniture rental business. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to- rent'' sector of the furniture business. It now appears that CORT's business has begun to rebound. Furniture rental revenues for the fourth quarter of 2004 exceeded those for the comparable quarter of 2003 by 13%, and, during the year the number of furniture leases outstanding grew by 2%.

CORT started up a new subsidiary during 2001, Relocation Central Corporation, which provides the nation's largest apartment locator service through its websites, (www.relocationcentral.com and www.myrelocationcentral.com), customer call centers and walk-in locations. This start-up venture did not progress as rapidly as CORT expected and caused losses followed by some downsizing. More than 350 apartment communities now refer their tenants to CORT. Relocation Central was reorganized to become a division of CORT as of yearend 2004; it now relies more on Internet traffic and less on separate, fully-staffed facilities than previously. The integration of Relocation Central into CORT was begun in 2003 as part of a program to reduce CORT's costs and thus enhance its operating results. CORT still likes the idea of having relocation services in its product mix.

We expect to report in due course that CORT's operations have become more satisfactory. Even through the crash, CORT has operated at a positive cash flow, and the general distress in its field has permitted various small expansions. During the past four years it invested $74 million in business expansion through acquisitions of several small businesses and reduced its line-of-credit and other debt by $33 million. CORT remains the national leader in its market segment and we believe that these acquisitions will prove to be satisfactory expansions of a fundamentally sound business.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset.

Wesco's consolidated balance sheet now contains about $267 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. (The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, in which event the intangible would be written down or written off, as appropriate.) Earnings we have reported since 2002 more closely reflect microeconomic reality as we appraise it.

CORT has long been headed by Paul Arnold, age 58, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco. We continue to expect a considerable expansion of CORT's business and earnings at some future time.

Precision Steel Warehouse, Inc. (''Precision Steel'')

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at an after-tax profit of $1.1 million in 2004, versus an after-tax loss of $.9 million in 2003. The 2004 figure reflects an after-tax LIFO inventory accounting adjustment decreasing after-tax income by $1.8 million. In 2003 the LIFO adjustment was insignificant. Precision Steel's operating results for 2004 and 2003 also reflect expenses of $.1 million and

$.7 million, after taxes, in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the LIFO accounting adjustment or the environmental matter, Precision Steel would have reported operating income of $3.0 million, after taxes, for 2004, versus an operating loss of $.2 million, after taxes, for 2003.

Prior to 2004, Precision Steel suffered from a significant reduction in demand for steel combined with intensified competition for quite some time. Some of the sales reduction was caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. Although the 2004 figures appear to signal improvement, the severity of the domestic downturn is demonstrated by the fact that Precision Steel's average annual steel service revenues for the years 2001 through 2003 were down 27% from those reported for 1998 through 2000. Even after improved 2004 results, Precision Steel has not reported satisfactory operating results in recent years. Its approximately-break-even after-tax operations for the most recent four years compare unfavorably with operating profits which averaged $2.3 million, after taxes, for the years 1998 through 2000.

Precision Steel endured a difficult and chaotic year in 2004. At the beginning of 2004, a shortage of raw materials from domestic mills produced near chaos in the domestic steel service industry. Prices of those raw materials were sharply increased and the price of finished steel also increased sharply. Fortunately, the impact to date on Precision Steel has been favorable. Its 2004 revenues increased 31.2%, from those of 2003; pounds of steel products sold increased 14.5%. At present, domestic steel mills have been operating at capacity and imported steel has not been readily available. These and other factors have enabled steel mills to raise prices, place limits on order quantities and extend delivery times. Precision Steel has reacted to these pressures by passing the price increases, plus normal mark-ups, on to customers, and favoring long-term customer relationships. However, we are concerned that the favorable 2004 operating results may have been anomalous and temporary and that the steel warehouse business may revert to difficult times.

Terry Piper, who became Precision Steel's President and Chief Executive Officer late in 1999, has done an outstanding job in leading Precision Steel through very difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets with a net book value of about $8.6 million, consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.4 million in 2004, unchanged from the $.4 million earned in 2003. Sources were (1) rents ($3.4 million gross in 2004) from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Consolidated Balance Sheet and Related Discussion

Wesco carries its investments at market value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included in income taxes payable, in its consolidated balance sheet. As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.12 billion ($297 per Wesco share) at yearend 2004 from $2.08 billion ($292 per Wesco share) at yearend 2003. The main cause of increase was net income after deduction of dividends paid to shareholders.

The foregoing $297-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free "loan" from the government equal to its deferred income taxes on the unrealized gains, subtracted in determining its net worth. This interest-free "loan" from the government is at this moment working for Wesco shareholders and amounted to about $32 per Wesco share at yearend 2004.

However, some day, parts of the interest-free "loan" may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $32 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $32 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

To progress from this point at a satisfactory rate, Wesco plainly needs more favorable investment opportunities, recognizable as such by its management, preferably in whole companies, but, alternatively, in marketable securities to be purchased by Wesco's insurance subsidiaries. Our views regarding the general prospects for investment in common stocks are unchanged two years after Warren Buffett wrote the following, in his 2002 annual report to shareholders of our parent company:

> "We continue to do little in equities. [We] are increasingly comfortable with our holdings in [our] major investees because most of them have increased their earnings while their valuations have decreased. But we are not

inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.

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''The aversion to equities that [we] exhibit today is far from congenital. We love owning common stocks — if they can be purchased at attractive prices. In [my] 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pre-tax returns (which translates to 6½-7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.''

In fact, the one thing that should interest Wesco shareholders most with respect to 2004 is that, as in 2003, 2002 and 2001, Wesco found *no* new common stocks for our insurance companies to buy.

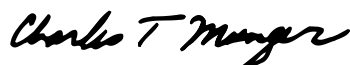
Shareholders should note that the recently announced sale of The Gillette Company to The Procter and Gamble Company, subject to shareholder approval later in 2005, is expected to result in Wesco's recognition of an investment gain of about $190 million, after income taxes. No income taxes will be paid in cash, and all of Wesco's Gillette shares will be converted into Procter and Gamble shares. Although we will be pleased to become owners of shares of Procter and Gamble, we do not regard this ''mere accounting'' gain as significant to Wesco shareholders.

The Board of Directors recently increased Wesco's regular dividend from 34½ cents per share to 35½ cents per share, payable March 2, 2005, to shareholders of record as of the close of business on February 2, 2005.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.

We regret the pending retirement of Wesco's President, Bob Bird, who is not standing for reelection. He has been, in effect, my partner for over 35 years and has never failed in giving wise and diligent service.



Charles T. Munger
Chairman of the Board

March 9, 2005

WESCO FINANCIAL CORPORATION

Annual Report 2005

Form 10-K Annual Report 2005

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net "operating" income (i.e., before realized investment gains shown in the table below) for the calendar year 2005 increased to $77,973,000 ($10.95 per share) from $47,427,000 ($6.66 per share) in the previous year.

Consolidated net income increased to $294,579,000 ($41.37 per share) from $47,427,000 ($6.66 per share) in the previous year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("Kansas Bankers"), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation ("CORT"), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. ("Precision Steel"), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 2005		December 31, 2004	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$ 11,798	$ 1.66	$14,618	$2.05
Investment income	39,068	5.49	26,302	3.69
CORT furniture rental business	20,676	2.90	5,022	.71
Precision Steel businesses	1,198	.17	1,094	.15
All other "normal" net operating earnings[3]	5,233	.73	391	.06
	77,973	10.95	47,427	6.66
Realized investment gains[4]	216,606	30.42	—	—
Wesco consolidated net income	$294,579	$41.37	$47,427	$6.66

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has had no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

(4) Includes $216,112,000 ($30.35 per share) from the tax-free exchange of Wesco's common shares in The Gillette Company for common shares in The Procter & Gamble Company in connection with the merger of Gillette with Procter & Gamble. Although no cash was received, generally accepted accounting principles require that the gain be recorded. Because Wesco's balance sheet reflects investments carried at market value, with unrealized gains, after applicable income tax effect, included in shareholders' equity, the transaction did not affect Wesco's shareholders' equity. It merely resulted in a reclassification from unrealized gains to retained earnings, another component of shareholders' equity.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders.

The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting (premiums earned, less insurance losses, loss adjustment expenses and underwriting expenses) with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2005	2004
Premiums written	$50,253	$45,042
Premiums earned	$49,482	$54,589
Underwriting gain	$14,566	$22,490
Dividend and interest income	55,889	36,058
Income before income taxes	70,455	58,548
Income taxes	19,589	17,628
Total operating income — insurance businesses	$50,866	$40,920

Following is a breakdown of premiums written (in 000s):

	2005	2004
Wes-FIC —		
Aviation pools	$29,118	$26,655
Property-casualty pool	—	(2,342)
Other	(64)	—
Kansas Bankers	21,199	20,729
Premiums written	$50,253	$45,042

Following is a breakdown of premiums earned (in 000s):

	2005	2004
Wes-FIC —		
Aviation pools	$28,391	$27,944
Property-casualty pool	—	6,244
Other	(53)	29
Kansas Bankers	21,144	20,372
Premiums earned	$49,482	$54,589

Following is a breakdown of after-tax results (in 000s):

	2005	2004
Underwriting gain —		
Wes-FIC	$ 6,787	$11,144
Kansas Bankers	5,011	3,474
	11,798	14,618
Net investment income —		
Wes-FIC	36,032	24,567
Kansas Bankers	3,036	1,735
	39,068	26,302
Total operating income — insurance businesses	$50,866	$40,920

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes investment gains of $216.6 million, net of income taxes, realized in 2005. No investment gains or losses were realized in 2004. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business, occasionally insuring against loss from rare but horrendous ''super-catastrophes.'' In much reinsurance sold by us, other Berkshire subsidiaries have sold several times as much reinsurance to the same customers on the same terms. In certain instances but not always, such subsidiaries have taken from us a 3%-of-premiums ceding commission on premium volume passed through them to Wes-FIC. Excepting this ceding commission, Wes-FIC has had virtually no insurance-acquisition or insurance administration costs. In some cases, other Berkshire subsidiaries act as reinsurers at higher levels than the level at which Wes-FIC is reinsuring; terms of the reinsurance are considered to be fair or advantageous to Wes-FIC.

For the past several years Wes-FIC's reinsurance activity has consisted of the participation in two arrangements described below, the second of which was terminated in the fourth quarter of 2004:

(1) Participation, since 2001, in several risk pools managed by an insurance subsidiary of Berkshire Hathaway, our 80%-owning parent, recently covering hull, liability and workers' compensation exposures relating to the aviation industry as follows: for 2004, to the extent of 10% in the hull and liability pools; for 2005, 10% of the hull and liability pools and 5% of the workers' compensation pool. For 2006, participation in the hull and liability pools has increased to 12½ %. The Berkshire subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss.

(2) A multi-year contract entered into in 2000 through another Berkshire insurance subsidiary, as intermediary without profit, covering certain multi-line property and casualty risks of a large, unaffiliated insurer. This contract was commuted in the fourth quarter of 2004, at which time Wes-FIC paid the ceding company $43.1 million, cash, representing all unearned premiums, reduced by unamortized costs and expenses. After the commutation, Wes-FIC's obligation to indemnify any further insurance losses under the contract ceased. Under that contract for 2004, there was a net reduction in written premiums of $2.3 million; earned premiums were $6.4 million, and underwriting gain was $11.0 million ($7.2 million, after income taxes).

Wes-FIC's underwriting results have fluctuated from year to year, but have been satisfactory. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. The combined ratios of Wes-FIC have been much better than average for insurers. Excluding the unusual beneficial effects caused by the commuted contract in 2004, Wes-FIC's combined ratios were 75.9% for 2005 and 77.8% for 2004. Although we have an appetite for unusually large risks when prices are satisfactory, thus subjecting

Wes-FIC to significant periodic underwriting losses, we try to create some underwriting gain as results are averaged out over many years.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small and medium-sized community banks, is spread throughout 30 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

KBS increased the volume of business retained effective in 1998. It had previously ceded almost half of its premium volume to reinsurers. Now it reinsures only about 13%. The increased volume of business retained comes, of course, with increased irregularity in the income stream. KBS's combined ratios were 58.8% for 2005 and 74.9% for 2004. We continue to expect volatile but favorable long-term effects from increased insurance retained.

CORT Business Services Corporation (''CORT'')

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT'') for $386 million in cash.

CORT is a very long established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Hertz, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $384 million for calendar 2005, versus $354 million for calendar 2004. Of these amounts, furniture rental revenues were $304 million and $275 million, furniture sales revenues were $72 million and $68 million, and apartment locator fees of its Relocation Central division, a business CORT started up in 2001, were $8 million and $11 million. CORT operated at an after-tax profit of $20.7 million for 2005, up satisfactorily from its after-tax profit of $5.0 million for 2004. These results reflect the favorable effects of several selective acquisitions.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector.

Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and a protracted slowdown in new business formation, CORT's operations were hammered,

reflecting generally bad results in the ''rent-to-rent'' segment of the furniture rental business. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to-rent'' sector of the furniture business.

CORT started up a new subsidiary during 2001, Relocation Central, which provides a large national apartment locator service through its websites, (www.relocationcentral.com and www.myrelocationcentral.com), customer call centers and walk-in locations. This start-up venture did not progress as rapidly as CORT expected and caused losses followed by some downsizing. Relocation Central was reorganized to become a division of CORT as of yearend 2004; it now relies more on Internet traffic and less on separate, fully-staffed facilities. The integration of Relocation Central into CORT was begun in 2003 as part of a program to reduce CORT's costs and thus enhance its operating results. CORT still likes the idea of having relocation services in its product mix. Almost twenty thousand apartment communities now refer their tenants to CORT.

We are pleased with the progress CORT made in 2005. We are cautiously optimistic that, in future years, we will be able to look back to the recent past and consider it merely a cyclical aberration in CORT's growth. We note, however, that the number of furniture leases outstanding as of yearend 2005 has fallen by about 4% from those one year earlier.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset. Wesco's consolidated balance sheet now contains about $267 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. (The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, in which event the intangible asset would be written down or written off, as appropriate.) Earnings we have reported since 2002 more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

CORT has long been headed by Paul Arnold, age 59, who is a star executive as is convincingly demonstrated by his long record as CEO of CORT. We are absolutely delighted to have Paul and CORT within Wesco.

Precision Steel Warehouse, Inc. (''Precision Steel'')

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at after-tax profits of $1.2 million in 2005 and $1.1 million in 2004. These figures reflect after-tax LIFO inventory accounting adjustments decreasing after-tax income by $.2 million for 2005 and $1.8 million for 2004. Precision Steel's operating results for 2004 also reflect expenses of $.2 million, after taxes, in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the LIFO accounting adjustment or the environmental matter, Precision Steel would have reported after-tax operating income of $1.3 million for 2005 and $3.0 million for 2004.

Precision Steel's business has been subject to economic cycles. Precision Steel has increasingly suffered from intensified competition resulting from a reduction in demand caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. At the beginning of 2004, a shortage of raw materials from domestic mills produced near chaos in the domestic steel service industry. Domestic mills were operating at capacity and imported steel was not readily available. These and other factors enabled steel mills to raise prices, place limits on order quantities and extend delivery times. Prices of those raw materials were sharply increased and the price of finished steel also increased sharply. Customers of Precision Steel increased their purchases to counter allocations imposed by mills and other suppliers. Precision Steel successfully passed the price increases, plus normal markups, on to customers while favoring long-term customer relationships. Precision Steel's 2004 revenues increased 31.2% from those of 2003; pounds of steel products sold increased 14.5%. Throughout 2005, raw material supplies remained very tight, but competitive pressures increased as demand softened, possibly reflecting customers' absorption in their manufacturing processes of accelerated purchases made in 2004 in reaction to the chaotic market conditions. In 2005, pounds of steel products sold by Precision Steel decreased 8.6% from those of 2004, but revenues increased 1.4%, reflecting mainly 40%-higher average selling prices than those prevailing two years earlier. We are concerned that the favorable operating results experienced by Precision in the two most recent years may have been anomalous and temporary and that the steel warehouse business may revert to difficult times.

Although Precision Steel's figures for each of the past two years may signal improvement when compared with its after-tax operating loss of $.9 million for 2003 and $.3 million of income for 2002, it should be noted that conditions currently facing the steel service industry continue to be in a state of flux. The severity of the domestic downturn in the steel service industry is demonstrated by the fact that Precision Steel's average annual steel service revenues for the years 2001 through 2003 were down 27% from those reported for 1998 through 2000. Considering the improved earnings for 2004 and 2005, Precision Steel has still not reported satisfactory operating results in recent years. Its recent earnings compare unfavorably with operating profits which averaged $2.3 million, after taxes, for the years 1998 through 2000.

Terry Piper, who became Precision Steel's President and Chief Executive Officer in 1999, has done an outstanding job in leading Precision Steel through very difficult years.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. Adjacent to that building is a parcel of land on which we have begun to build a multi-story luxury condominium building. We are also seeking city approval of our plans to build another multi-story luxury condominium building on a vacant parcel of land in the next block. We have recently begun to take reservations. Simply phone Bob Sahm (626-585-6700) for more information. MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $5.2 million in 2005, up from the $.4 million earned in 2004. Ignoring favorable income tax adjustments of $4.9 million, the sources of the $.3 million of earnings in 2005 were (1) rents ($3.5 million gross in 2005) from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Realized Investment Gains

Wesco's 2005 earnings contained investment gains of $216.6 million, after income taxes. There were no realized investment gains in 2004. Of the 2005 gains, only $.5 million was realized through the *sale* of investments; the balance, $216.1 million, resulted from the tax-free exchange of common shares of The Gillette Company (''Gillette'') owned by Wesco, for common shares of The Procter & Gamble Company (''P&G'') in the fourth quarter of 2005 in connection with the merger of Gillette with P&G. Accounting standards promulgated by the Financial Accounting Standards Board require that the fair (market) value of shares received in such an exchange be recorded as the new cost basis as of the date of the exchange, with the difference between the new basis and the historical cost realized in the audited financial statements as an investment gain. For tax return purposes the exchange is recorded at the original cost of the securities exchanged; no gain is reported, and no taxes are yet due.

Although the realized gain had a material impact on Wesco's reported earnings, *it had no impact on Wesco's shareholders' equity*. Wesco carries its investments at fair value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included in income taxes payable, on its consolidated balance sheet. Thus, the entire after-tax gain on the non-cash merger had been reflected in the unrealized gain component of Wesco's shareholders' equity as of September 30, 2005. That amount was merely switched from unrealized gain to retained earnings, another component of shareholders' equity. This accounting entry had no economic effect on Wesco, and you should ignore it when you are evaluating Wesco's 2005 earnings.

Consolidated Balance Sheet and Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.23 billion ($313 per Wesco share) at yearend 2005 from $2.12 billion ($297 per Wesco share) at yearend 2004. The main cause of the increase was net operating income after deduction of dividends paid to shareholders.

The foregoing $313-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, including the P&G shares Wesco received in connection with P&G's acquisition of Gillette, discussed above in the section, ''Realized Investment Gains,'' Wesco has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes, subtracted in determining its net worth. This interest-free ''loan'' from

the government is at this moment working for Wesco shareholders and amounted to about $36 per Wesco share at yearend 2005.

However, some day, parts of the interest-free ''loan'' may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $36 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $36 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

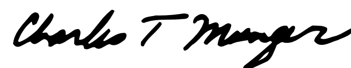
All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

Wesco's consolidated balance sheet reflects total assets of $2.7 billion as of yearend 2005. Of that amount, more than $1 billion has been invested in cash equivalents and fixed-maturity investments since early in 2003. Unless those funds can be attractively reinvested in acquisitions, equity securities or other long-term instruments of the type that have been responsible for the long-term growth of Wesco's shareholders' equity, future returns on shareholders' equity will probably be less than those of the past. Due to the current size of Wesco and its parent, Berkshire Hathaway, Wesco's opportunities for growing shareholders' equity are unlikely to be as attractive as in the past.

The Board of Directors recently increased Wesco's regular dividend from 35½ cents per share to 36½ cents per share, payable March 2, 2006, to shareholders of record as of the close of business on February 1, 2006.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.



Charles T. Munger
Chairman of the Board
and President

March 2, 2006

WESCO FINANCIAL CORPORATION

Annual Report 2006

Form 10-K Annual Report 2006

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net ''operating'' income (i.e., before realized investment gains shown in the table below) for the calendar year 2006 increased to $92,033,000 ($12.93 per share) from $77,973,000 ($10.95 per share) in the previous year.

Consolidated net income decreased, from $294,579,000 ($41.37 per share) in 2005, to $92,033,000 ($12.93 per share) in the current year.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company (''Wes-FIC''), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company (''Kansas Bankers''), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation (''CORT''), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. (''Precision Steel''), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses.

Consolidated net income for the two years just ended breaks down as follows (in thousands except for per-share amounts)[1]:

	Year Ended			
	December 31, 2006		December 31, 2005	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$ 5,164	$ .73	$ 11,798	$ 1.66
Investment income	58,528	8.22	39,068	5.49
CORT furniture rental business	26,884	3.78	20,676	2.90
Precision Steel businesses	1,211	.17	1,198	.17
All other ''normal'' net operating earnings[3]	246	.03	5,233	.73
	92,033	12.93	77,973	10.95
Realized investment gains[4]	—	—	216,606	30.42
Wesco consolidated net income	$92,033	$12.93	$294,579	$41.37

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

(4) Includes $216,112,000 ($30.35 per share) from the tax-free exchange of Wesco's common shares in The Gillette Company for common shares in The Procter & Gamble Company in connection with the merger of Gillette with Procter & Gamble. Although no cash was received, generally accepted accounting principles required that the gain be recorded. Because Wesco's balance sheet reflects investments carried at market value, with unrealized gains, after applicable income tax effect, included in shareholders' equity, the transaction did not affect Wesco's shareholders' equity. It merely resulted in a reclassification from unrealized gains to retained earnings, another component of shareholders' equity.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing

supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting (premiums earned, less insurance losses, loss adjustment expenses and underwriting expenses) with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2006	2005
Premiums written	$55,510	$50,253
Premiums earned	$54,149	$49,482
Underwriting gain	$ 7,944	$14,566
Dividend and interest income	83,441	55,889
Income before income taxes	91,385	70,455
Income taxes	27,693	19,589
Total operating income — insurance businesses	$63,692	$50,866

Following is a breakdown of premiums written (in 000s):

	2006	2005
Wes-FIC —		
Aviation pools	$35,714	$29,118
Other	(4)	(64)
Kansas Bankers	19,800	21,199
Premiums written	$55,510	$50,253

Following is a breakdown of premiums earned (in 000s):

	2006	2005
Wes-FIC —		
Aviation pools	$33,326	$28,391
Other	(3)	(53)
Kansas Bankers	20,826	21,144
Premiums earned	$54,149	$49,482

Following is a breakdown of after-tax results (in 000s):

	2006	2005
Underwriting gain —		
Wes-FIC	$ 1,650	$ 6,787
Kansas Bankers	3,514	5,011
	5,164	11,798
Net investment income —		
Wes-FIC	53,732	36,032
Kansas Bankers	4,796	3,036
	58,528	39,068
Total operating income — insurance businesses	$63,692	$50,866

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However,

operating income excludes investment gains of $216.6 million, net of income taxes, realized in 2005. No investment gains or losses were realized in 2006. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business. For the past several years, its reinsurance activity has consisted of the participation in several risk pools managed by an insurance subsidiary of Berkshire Hathaway, our 80%-owning parent. The arrangement became effective in 2001 and most recently covered hull, liability and workers' compensation exposures relating to the aviation industry, as follows: for 2005, to the extent of 10% in the hull and liability pools and 5% of a workers' compensation pool; for 2006, 12½% of the hull and liability pools and 5% of the workers' compensation pool. For 2007, participation in the hull and liability pools has increased to 16.67%. The Berkshire subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss.

Wes-FIC's underwriting results have fluctuated from year to year, but have been satisfactory. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. The combined ratios of Wes-FIC have been much better than average for insurers. Wes-FIC's combined ratios were 94.0% for 2006 and 75.9% for 2005. We try to create some underwriting gain as results are averaged out over many years. We expect this to become increasingly difficult.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small- and medium-sized community banks, is spread throughout 30 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

When Wesco purchased KBS, it had been ceding almost half of its premium volume to reinsurers. Now it reinsures only about 14%. Effective in 2006, insurance subsidiaries of Berkshire Hathaway became KBS's sole reinsurers. Previously, an unaffiliated reinsurer was also involved. The increased volume of business retained comes, of course, with increased irregularity in the income stream. KBS's combined ratios were 73.8% for 2006 and 58.8% for 2005. We continue to expect volatile but favorable long-term effects from increased insurance retained.

CORT Business Services Corporation ("CORT")

In February 2000, Wesco purchased CORT Business Services Corporation ("CORT") for $386 million in cash.

CORT is a very long-established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity ''rent-to-rent'' to distinguish it from ''lease-to-purchase'' businesses that are, in essence, installment sellers of furniture.

However, just as Enterprise, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $400 million for calendar 2006, versus $384 million for calendar 2005. Of these amounts, furniture rental revenues were $324 million and $304 million, furniture sales revenues were $70 million and $72 million, and apartment locator fees of its relocation division were $6 million and $8 million. CORT operated at an after-tax profit of $26.9 million for 2006, up satisfactorily from its $20.7 million of after-tax profit for 2005 (versus $5.0 million for 2004). These results reflect the favorable effects of several ''tuck-in'' acquisitions made between the years 2001 and 2004.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector.

Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and a protracted slowdown in new business formation, CORT's operations were hammered, reflecting generally bad results in the ''rent-to-rent'' segment of the furniture rental business. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the ''rent-to-rent'' sector of the furniture business.

CORT started up a new service during 2001. Originally a subsidiary named Relocation Central, and now its CORTline division, it was conceived mainly to supplement CORT's furniture rental business by providing apartment locator and ancillary services to relocating individuals. Long CORT's star CEO, Paul Arnold is in process of expanding CORTline's operations and redirecting its marketing, with the expectation that it will become a financial success. CORTline, originally conceived to assist relocating individuals, has recently expanded its services and capabilities and has begun to market itself toward the needs of businesses and governmental agencies who require a skilled and able partner to provide the full gamut of seamless relocation services for the temporary relocation of employees. With several websites, principally, www.cortline.com, www.relocationcentral.com and www.apartmentsearch.com, professionals in more than 80 domestic metropolitan markets, affiliates in more than 50 countries, almost twenty thousand apartment communities referring their tenants to CORT, many ancillary services, and its entrée to the business community as a Berkshire Hathaway company, CORTline now seems to be moving in the right direction.

We are pleased with the progress CORT made in the past two years. We are cautiously optimistic that, in future years, we will be able to look back to the recent past and consider it merely a cyclical aberration in CORT's growth. We note, however, that the number of furniture leases outstanding has been slightly declining in each of the past two years.

When Wesco paid $386 million for CORT, about 60% of the purchase price was attributable to goodwill, an intangible balance sheet asset. Wesco's consolidated balance sheet now contains about $267 million in goodwill (including $27 million from Wesco's 1996 purchase of KBS). The Financial Accounting Standards Board adopted a rule which became effective in 2002 that no longer requires automatic amortization of acquired goodwill. (The requirement for such amortization has been replaced by a standard that requires an annual assessment to determine whether the value of goodwill has been impaired, in which event the intangible asset would be written down or written off, as appropriate.) Earnings, not reduced by goodwill amortization, that we have reported since 2002 more closely reflect microeconomic reality as we appraise it.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

Precision Steel Warehouse, Inc. (''Precision Steel'')

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at after-tax profits of $1.2 million in both 2006 and 2005. These figures reflect after-tax LIFO inventory accounting adjustments decreasing after-tax income by $.6 million for 2006 and $.2 million for 2005. Precision Steel's operating results for 2006 also reflect expenses, net of insurance recoveries, of $.3 million, after taxes, in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the LIFO accounting adjustments or the environmental matter, Precision Steel would have reported after-tax operating income of $2.1 million for 2006 and $1.4 million for 2005.

Precision Steel's business has been subject to economic cycles. Although the fiercely competitive, chaotic pressures affecting its steel service center business (which we described at length in last year's shareholders' letter) have recently abated, Precision Steel is continuing to suffer the ongoing effects of a long-term reduction in demand caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. Precision Steel's revenues increased 2.8% in 2006, approximately half of which was due to an extraordinary order of shimstock and other industrial supplies from a customer of its Precision Brand Products subsidiary. Revenues for 2005 increased by 1.4% from those of 2004. In 2006, Precision Steel's service center volume was 46 million pounds, down from 69 million pounds sold as recently as 1999. This decline in physical volume is a serious reverse, not likely to disappear in some ''bounce back'' effect. Nor do we expect another sharp rise in prices like the approximately 40% rise that recently occurred, holding dollar volume roughly level despite a precipitous drop in physical volume.

Although Precision Steel's recent after-tax operating earnings of approximately $1 million per year may signal improvement when compared with its after-tax operating loss of $.9 million for 2003, we do not consider present operating results to be a satisfactory investment outcome. Recent earnings of Precision Steel compare unfavorably with operating earnings which averaged $2.3 million, after taxes, for the years 1998 through 2000. Because the steel warehouse business may revert to even more difficult conditions, more decline for Precision Steel may lie ahead.

Terry Piper, who became Precision Steel's President and Chief Executive Officer in 1999, has done an outstanding job in leading Precision Steel through very difficult years. But he has no magic wand with which to compensate for competitive losses among his best customers.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. Adjacent to that building is a parcel of land on which we are building a multi-story luxury condominium building. We are also seeking city approval of our plans to build another multi-story luxury condominium building on a vacant parcel of land in the next block. For more information, if you want a very-high-end condominium, simply phone Bob Sahm (626-585-6700). MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within ''other operating earnings.''

Other Operating Earnings

Other operating earnings, net of interest paid and general corporate expenses, amounted to $.2 million in 2006, versus $5.2 million in 2005. Had it not been for favorable income tax adjustments of $4.9 million recorded in 2005, other operating earnings would have been $.3 million in 2005. The sources of the $.2 million of other operating earnings in 2006 were (1) rents ($3.7 million gross in 2006) principally from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Realized Investment Gains

There were no realized investment gains in 2006. Wesco's 2005 earnings contained investment gains of $216.6 million, after income taxes. Only $.5 million was realized through the *sale* of investments; the balance, $216.1 million, resulted from the tax-free exchange of common shares of The Gillette Company (''Gillette'') owned by Wesco, for common shares of The Procter & Gamble Company (''PG'') in the fourth quarter of 2005 in connection with the merger of Gillette with PG. Accounting standards promulgated by the Financial Accounting Standards Board require that the fair (market) value of shares received in such an exchange be recorded as the new cost basis as of the date of the exchange, with the difference between the new basis and the historical cost realized in the audited financial statements as an investment gain. For tax return purposes, the securities acquired were recorded at the original cost of the securities exchanged. Thus, no income tax was due or paid.

Although the realized gain had a material impact on Wesco's reported 2005 earnings, *it had no impact on Wesco's shareholders' equity.* Wesco carries its investments at fair value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related taxes included

in income taxes payable, on its consolidated balance sheet. Thus, the entire after-tax gain on the non-cash merger had been reflected in the unrealized gain component of Wesco's shareholders' equity as of September 30, 2005. That amount was merely switched from unrealized gain to retained earnings, another component of shareholders' equity. This accounting entry had no economic effect on Wesco, and you should ignore it when you are evaluating Wesco's 2005 earnings.

Consolidated Balance Sheet and Related Discussion

As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.40 billion ($337 per Wesco share) at yearend 2006 from $2.23 billion ($313 per Wesco share) at yearend 2005. The main causes of the increase were appreciation in fair value of investments, and net operating income after deduction of dividends paid to shareholders.

The foregoing $337-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, including the PG shares Wesco received in connection with PG's acquisition of Gillette in 2005, discussed above in the section, ''Realized Investment Gains,'' Wesco has, in effect, an interest-free ''loan'' from the government equal to its deferred income taxes, subtracted in determining its net worth. This interest-free ''loan'' from the government is at this moment working for Wesco shareholders and amounted to about $42 per Wesco share at yearend 2006.

However, some day, parts of the interest-free ''loan'' may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $42 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $42 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

Wesco's consolidated balance sheet reflects total assets of $3.0 billion as of yearend 2006. Of that amount, more than $1 billion has been invested in cash equivalents and fixed-maturity investments since early in 2003. Unless those funds can be attractively reinvested in acquisitions, equity securities or other long-term instruments of the type that helped cause the long-term growth of Wesco's shareholders' equity, future returns on shareholders' equity will probably be less than those of the past. Due to the current size of Wesco and its parent, Berkshire Hathaway, Wesco's opportunities for growing shareholders' equity are unlikely to be as attractive as in the past.

Wesco's shares were listed for many years on both the American Stock Exchange and, since 1963, on a regional exchange previously known as the Pacific Stock Exchange. Following the recent merger of various regional exchanges into the NYSE, the Pacific Exchange became the NYSE Arca exchange. We had happily paid a minimal annual listing fee of $1,000 for the privilege of having our shares listed on the Pacific Exchange. When notified last December that NYSE Arca had decided to increase Wesco's annual listing fee to $30,000, Wesco voted with its feet. Its shares are now listed only on the American Exchange.

The Board of Directors recently increased Wesco's regular dividend from 36½ cents per share to 37½ cents per share, payable March 8, 2007, to shareholders of record as of the close of business on February 1, 2007.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.

Charles T. Munger
Chairman of the Board
and President

February 27, 2007

WESCO FINANCIAL CORPORATION

Annual Report 2007

Form 10-K Annual Report 2007

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net "operating" income (i.e., before realized investment gains shown in the table below) for the calendar year 2007 increased to $93,405,000 ($13.12 per share) from $92,033,000 ($12.93 per share) in the previous year.

Consolidated net income increased, from $92,033,000 ($12.93 per share) in 2006, to $109,161,000 ($15.33 per share) in the current year. The 2007 figure included realized investment gains of $15,756,000, after taxes ($2.21 per share).

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("Kansas Bankers"), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation ("CORT"), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. ("Precision Steel"), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses.

Consolidated net income for the two years just ended breaks down as follows (in thousands except for per-share amounts)[1]:

	Year Ended			
	December 31, 2007		December 31, 2006	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Operating earnings:				
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting	$ 7,040	$ .99	$ 5,164	$ .73
Investment income	65,207	9.16	58,528	8.22
CORT furniture rental business	20,316	2.85	26,884	3.78
Precision Steel businesses	915	.13	1,211	.17
All other "normal" net operating earnings (loss)[3]	(73)	(.01)	246	.03
	93,405	13.12	92,033	12.93
Realized investment gains	15,756	2.21	—	—
Wesco consolidated net income	$109,161	$15.33	$92,033	$12.93

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The

total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting (premiums earned, less insurance losses, loss adjustment expenses and underwriting expenses) with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2007	2006
Premiums written	$ 54,839	$55,510
Premiums earned	$ 54,411	$54,149
Underwriting gain	$ 10,831	$ 7,944
Dividend and interest income	89,716	83,441
Income before income taxes	100,547	91,385
Income taxes	28,300	27,693
Total operating income — insurance businesses	$ 72,247	$63,692

Following is a breakdown of premiums written (in 000s):

	2007	2006
Wes-FIC reinsurance	$ 35,346	$35,710
Kansas Bankers primary insurance	19,493	19,800
Premiums written	$ 54,839	$55,510

Following is a breakdown of premiums earned (in 000s):

	2007	2006
Wes-FIC reinsurance	$ 34,998	$33,323
Kansas Bankers primary insurance	19,413	20,826
Premiums earned	$ 54,411	$54,149

Following is a breakdown of after-tax results (in 000s):

	2007	2006
Underwriting gain —		
Wes-FIC	$ 1,403	$ 1,650
Kansas Bankers	5,637	3,514
	7,040	5,164
Net investment income —		
Wes-FIC	59,906	53,732
Kansas Bankers	5,301	4,796
	65,207	58,528
Total operating income — insurance businesses	$ 72,247	$63,692

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes investment gains of $15.8 million, net of income taxes, realized in 2007.

No investment gains or losses were realized in 2006. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business. For the past several years, its reinsurance activity has consisted of the participation in several risk pools managed by an insurance subsidiary of Berkshire Hathaway, our 80%-owning parent. The arrangement became effective in 2001 and most recently covered hull, liability and workers' compensation exposures relating to the aviation industry, as follows: for 2006, to the extent of 12½% of the hull and liability pools and 5% of the workers' compensation pool; for 2007, 16.67% of the hull and liability pools and 5% of the workers' compensation pool. The participation rates remain unchanged for 2008. The Berkshire subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss.

Wesco's Board of Directors has recently and enthusiastically approved Wes-FIC's most significant reinsurance contract to date: its participation, since January 1, 2008, in an agreement with National Indemnity Company ("NICO"), another Berkshire Hathaway insurance subsidiary, for the assumption of 10% of NICO's quota-share reinsurance of Swiss Reinsurance Company and its property-casualty affiliates ("Swiss Re"). Under this retrocession agreement, Wes-FIC will effectively assume 2% of all of Swiss Re's property-casualty risks incepting over the next five years on the same terms as NICO's agreement with Swiss Re. If recent years' volumes were to continue over the next five years, the annual written premiums assumed by Wes-FIC under this retrocession agreement would be in the $300 million range; however, actual premiums assumed over the five-year period could vary significantly depending on market conditions and opportunities.

It is the nature of even the finest casualty insurance businesses that in keeping their accounts they must estimate and deduct all future costs and losses from premiums already earned. Uncertainties inherent in this undertaking make financial statements more mere "best honest guesses" than is typically the case with accounts of non-insurance-writing corporations. The reinsurance portion of the casualty insurance business, because it contains one or more extra links in the loss-reporting chain, usually creates more accounting uncertainty than in the non-reinsurance portion. Wesco shareholders should remain aware of the inherent imperfections of Wes-FIC's accounting, based as it is on forecasts of outcomes in many future years.

Wes-FIC's underwriting results have typically fluctuated from year to year, but have been satisfactory. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. The combined ratios of Wes-FIC have been much better than average for insurers. Wes-FIC's combined ratios were 93.9% for 2007 and 94.0% for 2006. We try to create some underwriting gain as results are averaged out over many years. We expect this to become increasingly difficult.

Float is the term for money we hold temporarily, and as long as our insurance underwriting results are break-even or better, it costs us nothing. We expect that the new business venture with NICO will significantly increase Wes-FIC's float from its yearend 2007 balance of $94 million, thus providing additional opportunities for investment.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very

satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small- and medium-sized community banks, is spread throughout 38 mainly midwestern states. In addition to bank deposit guaranty bonds which insure deposits in excess of FDIC coverage, KBS offers directors and officers indemnity policies, bank employment practices policies, bank insurance agents professional errors and omissions indemnity policies and Internet banking catastrophe theft insurance.

When Wesco purchased KBS, it had been ceding almost half of its premium volume to reinsurers. Now it reinsures only about 15%. Effective in 2006, insurance subsidiaries of Berkshire Hathaway became KBS's sole reinsurers. Previously, an unaffiliated reinsurer was also involved. The increased volume of business retained comes, of course, with increased irregularity in the income stream. KBS's combined ratios were 55.1% for 2007 and 73.8% for 2006. We continue to expect volatile but favorable long-term results from KBS.

CORT Business Services Corporation ("CORT")

In February 2000, Wesco purchased CORT Business Services Corporation ("CORT") for $386 million in cash.

CORT is a very long-established company that is the country's leader in rentals of furniture that lessees have no intention of buying. In the trade, people call CORT's activity "rent-to-rent" to distinguish it from "lease-to-purchase" businesses that are, in essence, installment sellers of furniture.

However, just as Enterprise, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $396 million for calendar 2007, versus $400 million for calendar 2006. Of these amounts, furniture rental revenues were $327 million and $324 million, furniture sales revenues were $62 million and $70 million, and rental relocation revenues were $7 million and $6 million. CORT operated at after-tax profits of $20.3 million for 2007 and $26.9 million for 2006.

When we purchased CORT early in 2000, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector.

Beginning late in 2000, however, new business coming into CORT began to decline. With the burst of the dot-com bubble, the events of September 11, and a protracted slowdown in new business formation, CORT's operations were hammered, reflecting generally bad results in the "rent-to-rent" segment of the furniture rental business. Obviously, when we purchased CORT we were poor predictors of near-term industry-wide prospects of the "rent-to-rent" sector of the furniture business.

CORT started up a new service in 2001. Originally a subsidiary named Relocation Central, and subsequently integrated into CORT's operations, CORT's rental relocation activities were intended mainly to supplement its furniture rental business by providing apartment locator and ancillary services to relocating individuals. Long CORT's star CEO, Paul Arnold is in process of expanding CORT's rental relocation services and redirecting its

marketing toward the needs of businesses and governmental agencies who require a skilled and able partner to provide comprehensive and seamless relocation services for the temporary relocation of employees, worldwide. With several websites, principally www.cort.com, www.relocationcentral.com and www.apartmentsearch.com, professionals in more than 80 domestic metropolitan markets, affiliates in more than 50 countries, almost twenty thousand apartment communities referring their tenants to CORT, many ancillary services, and its entrée to the business community as a Berkshire Hathaway company, CORT's rental relocation operations may now be moving in the right direction.

In January 2008, CORT expanded its operations to the United Kingdom through the purchase of Roomservice Group, a small regional provider of furniture rental and relocation services.

CORT's operations are subject to economic cycles. We are pleased with CORT's progress in the past few years; however, we believe that it will likely suffer its share of the downturn as we enter a period of economic contraction. CORT is now a stronger company than it was when acquired by Wesco, helped by several "tuck-in" acquisitions, and poised towards long-term growth despite periodic bumps to be encountered along the way.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at after-tax profits of $0.9 million in 2007 and $1.2 million in 2006. These figures reflect after-tax LIFO inventory accounting adjustments decreasing after-tax income by $1.0 million for 2007 and $0.6 million for 2006. Precision Steel's operating results for 2006 also reflect expenses, net of insurance recoveries, of $0.3 million, after taxes, in connection with environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the LIFO accounting adjustments, or the environmental matter discussed in Note 9 to the accompanying consolidated financial statements, Precision Steel would have reported after-tax operating income of $1.9 million for 2007 and $2.1 million for 2006.

Precision Steel's business has been subject to economic cycles. Although the fiercely competitive, chaotic pressures which affected its steel service center business several years ago have abated, Precision Steel is continuing to suffer the ongoing effects of a long-term reduction in demand caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States. Precision Steel's revenues decreased 2.7% in 2007, following an increase of 2.8% in 2006, approximately half of which was due to an extraordinary order of shimstock and other industrial supplies from a customer of its Precision Brand Products subsidiary. In 2007, Precision Steel's service center volume was 39 million pounds, down from 46 million pounds in 2006 and 69 million pounds sold as recently as 1999. This decline in physical volume is a serious reverse, not likely to disappear in some "bounce back" effect. Nor do we expect that ongoing price increases like the approximately 66% rise that has occurred since 1999, holding dollar volume roughly level despite a precipitous drop in physical volume, will continue.

Although Precision Steel's recent after-tax operating *earnings* of approximately $1 million per year may signal improvement when compared with its after-tax operating *loss* of

$0.9 million for 2003, we do not consider present operating results to be a satisfactory investment outcome. Recent earnings of Precision Steel compare unfavorably with operating earnings which averaged $2.3 million, after taxes, for the years 1998 through 2000. Because the steel warehouse business may revert to even more difficult conditions, more decline for Precision Steel may lie ahead.

Terry Piper, who became Precision Steel's President and Chief Executive Officer in 1999, has done an outstanding job in leading Precision Steel through very difficult years. But he has no magic wand with which to compensate for competitive losses among his best customers.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. Adjacent to that building is a parcel of land on which our construction of a multi-story luxury condominium building is nearing completion. We are also seeking city approval of our plans to build another multi-story luxury condominium building, at a later date, on a vacant parcel of land in the next block. For more information, if you want a very-high-end condominium, simply phone Bob Sahm (626-585-6700). MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within "other operating earnings."

Other Operating Earnings (Loss)

Other operating earnings (loss), net of interest paid and general corporate expenses, amounted to ($0.1 million) in 2007, versus $0.2 million in 2006. The components of the $0.1 million of other operating loss in 2007 were (1) rents ($3.9 million gross in 2007) principally from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus minor expenses involving tag-end real estate.

Consolidated Balance Sheet and Related Discussion

Wesco carries its investments at fair value, with unrealized appreciation, after income tax effect, included as a separate component of shareholders' equity, and related deferred taxes included in income taxes payable, on its consolidated balance sheet. As indicated in the accompanying financial statements, Wesco's net worth, as accountants compute it under their conventions, increased to $2.53 billion ($356 per Wesco share) at yearend 2007 from $2.40 billion ($337 per Wesco share) at yearend 2006. The main causes of the increase were net operating income after deduction of dividends paid to shareholders, and appreciation in fair value of investments.

The foregoing $356-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated securities, it has, in effect, an interest-free "loan" from the government equal to its

deferred income taxes of $322 million, subtracted in determining its net worth. This interest-free "loan" from the government is at this moment working for Wesco shareholders and amounted to about $45 per Wesco share at yearend 2007.

However, some day, parts of the interest-free "loan" may be removed as securities are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of $45 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than $45 per Wesco share.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

Last year we reported that Wesco had held more than $1 billion of cash equivalents and fixed-maturity investments since early in 2003. In the latter part of 2007 Wesco invested $802 million, net, in marketable equity securities. Of its $3.1 billion of assets at December 31, 2007, $565 million is invested in cash equivalents and fixed-maturity investments. Unless significant additional amounts can be attractively reinvested in acquisitions, equity securities or other long-term instruments of the type that helped cause the long-term growth of Wesco's shareholders' equity, future returns on shareholders' equity will probably be less than those of the past. Due to the current size of Wesco and its parent, Berkshire Hathaway, Wesco's opportunities for growing shareholders' equity are unlikely to be as attractive as in the past.

The Board of Directors recently increased Wesco's regular dividend from 37½ cents per share to 38½ cents per share, payable March 6, 2008, to shareholders of record as of the close of business on February 7, 2008.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.

Charles T. Munger
Chairman of the Board
and President

February 27, 2008

WESCO FINANCIAL CORPORATION

Annual Report 2008

Form 10-K Annual Report 2008

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net "operating" income (i.e., before realized investment gains shown in the table below) for the calendar year 2008 decreased to $77,562,000 ($10.89 per share) from $93,405,000 ($13.12 per share) in the previous year.

Consolidated net income decreased to $82,116,000 ($11.53 per share) from $109,161,000 ($15.33 per share) in 2007. These figures included realized after-tax investment gains of $4,554,000 ($.64 per share) for 2008 and $15,756,000 ($2.21 per share) for 2007.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("Kansas Bankers"), owned by Wes-FIC and specializing in insurance products tailored to midwestern banks, (3) CORT Business Services Corporation ("CORT"), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. ("Precision Steel"), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses.

Consolidated net income for the two years just ended breaks down as follows (in thousands except for per-share amounts)[1]:

	Year Ended			
	December 31, 2008		December 31, 2007	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting gain (loss)	$ (2,942)	$ (.42)	$ 7,040	$ .99
Investment income	64,274	9.03	65,207	9.16
CORT furniture rental business	15,744	2.21	20,316	2.85
Precision Steel businesses	842	.12	915	.13
All other "normal" net operating earnings (loss)[3]	(356)	(.05)	(73)	(.01)
	77,562	10.89	93,405	13.12
Realized investment gains	4,554	.64	15,756	2.21
Wesco consolidated net income	$82,116	$11.53	$109,161	$15.33

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has no dilutive capital stock equivalents.

(3) Represents income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting (premiums earned, less insurance losses, loss adjustment expenses and underwriting expenses) with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2008	2007
Premiums written	$316,472	$ 54,839
Premiums earned	$237,964	$ 54,411
Underwriting gain (loss)	$ (4,527)	$ 10,831
Dividend and interest income	84,920	89,716
Income before income taxes	80,393	100,547
Income taxes	19,061	28,300
Total operating income — insurance businesses	$ 61,332	$ 72,247

Following is a breakdown of premiums written (in 000s):

	2008	2007
Wes-FIC reinsurance —		
Swiss Re contract	$265,248	$ —
Aviation pools	33,374	35,346
Kansas Bankers primary insurance	17,850	19,493
Premiums written	$316,472	$ 54,839

Following is a breakdown of premiums earned (in 000s):

	2008	2007
Wes-FIC reinsurance —		
Swiss Re contract	$183,166	$ —
Aviation pools	34,418	34,998
Kansas Bankers primary insurance	20,380	19,413
Premiums earned	$237,964	$ 54,411

Following is a breakdown of after-tax results (in 000s):

	2008	2007
Underwriting gain (loss) —		
Wes-FIC reinsurance	$ (1,405)	$ 1,403
Kansas Bankers primary insurance	(1,537)	5,637
Underwriting gain (loss)	(2,942)	7,040
Net investment income	64,274	65,207
Total operating income — insurance businesses	$ 61,332	$ 72,247

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes after-tax investment gains of $4.6 million realized in 2008 and $15.8 million, in 2007. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business. For several years, through yearend 2007, Wes-FIC's principal reinsurance activity consisted of only the participation in several pools managed by an insurance subsidiary of Berkshire Hathaway, Wesco's 80%-owning

parent. The arrangement became effective in 2001 and has covered hull, liability and workers' compensation exposures relating to the aviation industry, as follows: for 2006, to the extent of 12½% of the hull and liability pools and 5% of the workers' compensation pool; and, since 2007, 16.67% of the hull and liability pools and 5% of the workers' compensation pool. The Berkshire subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss.

At the beginning of 2008, Wes-FIC entered into a retrocession agreement with National Indemnity Company ("NICO"), another Berkshire Hathaway insurance subsidiary, for the assumption of 10% of NICO's 20% quota-share reinsurance of Swiss Reinsurance Company and its principal property-casualty affiliates ("Swiss Re"). Under this agreement, which was enthusiastically approved by Wesco's Board of Directors, Wes-FIC has assumed 2% of essentially all Swiss Re property-casualty risks incepting over the five-year period which began on January 1, 2008, on the same terms as NICO's agreement with Swiss Re. Wes-FIC's share of written and earned premiums under the contract for 2008 were $265.2 million and $183.2 million, representing a very significant increase in Wes-FIC's reinsurance activities to date. It is important to keep in mind that premiums assumed under the contract in each of the next four years could vary significantly depending on market conditions and opportunities.

It is the nature of even the finest property-casualty insurance businesses that in keeping their accounts they must estimate and deduct all future costs and losses from premiums already earned. Uncertainties inherent in this undertaking make financial statements more mere "best honest guesses" than is typically the case with accounts of non-insurance-writing corporations. And the reinsurance portion of the property-casualty insurance business, because it contains one or more extra links in the loss-reporting chain, usually creates more accounting uncertainty than in the non-reinsurance portion. Wesco shareholders should remain aware of the inherent imperfections of Wes-FIC's accounting, based as it is on forecasts of outcomes in many future years.

Wes-FIC's underwriting results have typically fluctuated from year to year, but have been satisfactory. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. The combined ratios of Wes-FIC have been much better than average for insurers. Wes-FIC's combined ratios were 101.0% for 2008, 93.9% for 2007 and 94.0% for 2006. We try to create some underwriting gain as results are averaged out over many years. We expect this to become increasingly difficult.

Float is the term for money we hold temporarily, and, as long as our insurance underwriting results are break-even or better, it costs us nothing. We expect that the new business venture with NICO will significantly increase Wes-FIC's float, from its yearend 2008 balance of $164 million, thus providing additional opportunities for investment.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small- and medium-sized community banks, is spread throughout 39 mainly Midwestern states. Kansas Bankers offers policies for 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.

Because of recent events in the banking industry, including a number of bank failures, we are less confident in the long-term profitability of Kansas Bankers' long-established line of deposit guarantee bonds than previously. These bonds insure specific customer bank deposits above Federal insurance limits. After sustaining a loss of $4.7 million, after taxes, from a bank failure in the latter half of 2008, Kansas Bankers discontinued writing deposit guarantee bonds, and in September 2008 it began to exit this line of insurance as rapidly as feasible. The aggregate face amount of outstanding deposit guarantee bonds has been reduced, from $9.7 billion, insuring 1,671 institutions at September 30, 2008, to $3.4 billion, insuring 796 institutions at February 15, 2009, the first date that non-renewals and non-voluntary cancellations became effective. It is believed that few of the institutions Kansas Bankers insures are facing significant risk of failure. Because of aggregate limits as well as the purchase of reinsurance, the after-tax risk to Wesco from the failure of any single bank insured by Kansas Bankers is limited to a maximum of $7.6 million. Thus, we believe that Wesco's shareholders' equity is not significantly at risk as Kansas Bankers rapidly exits this line of insurance.

This decrease in exposure to loss, of course, will cause a sharp decline in Kansas Bankers' insurance volume, inasmuch as premiums from guarantee bonds not only approximated half of Kansas Bankers' written premiums for 2008, but also represented the entirety of the business it has recently conducted in 16 of the 39 states in which it is licensed to write insurance.

When Wesco purchased Kansas Bankers, it had been ceding almost half of its premium volume to reinsurers. In 2008 it reinsured only about 14%. And, because it has also restructured the layers of losses reinsured, it is now better protected from the downside risk of large losses. Effective in 2006, insurance subsidiaries of Berkshire Hathaway became KBS's sole reinsurers. Previously, an unaffiliated reinsurer was also involved. The increased volume of business retained comes, of course, with increased irregularity in the income stream. Kansas Bankers' combined ratios were 111.6% for 2008, 55.1% for 2007 and 73.8% for 2006. We continue to expect volatile but favorable long-term results from Kansas Bankers.

CORT Business Services Corporation ("CORT")

In February 2000, Wesco purchased CORT Business Services Corporation ("CORT") for $386 million in cash.

CORT is a very long-established company that is the country's leader in rentals of high-quality furniture that lessees have no intention of buying. In the trade, people call CORT's activity "rent-to-rent" to distinguish it from "lease-to-purchase" businesses that are, in essence, installment sellers of furniture.

However, just as Enterprise, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $410 million for calendar 2008, versus $396 million for calendar 2007. Of these amounts, furniture rental revenues were $340 million and $327 million, furniture sales revenues were $62 million each year, and rental relocation revenues were $8 million and $7 million. CORT operated at after-tax profits of $15.7 million for 2008 and $20.3 million for 2007.

Since its acquisition, CORT has made several "tuck-in" acquisitions, most recently, the residential furniture rental division of Aaron Rents, Inc., and earlier in 2008, the establishment of international operations through the purchase of Roomservice Group, a small regional provider of rental furniture and relocation services in the United Kingdom, now doing business as CORT Business Services UK Ltd. CORT has also started up a nation-wide apartment locator service, originally intended mainly to supplement CORT's furniture rental business by providing apartment locator and ancillary services to relocating individuals. Paul Arnold, long CORT's star CEO, and his management team, have devoted much effort over the past two years, expanding and redirecting CORT's rental relocation services toward the needs of businesses and government agencies who require a skilled and able partner to provide comprehensive and seamless relocation services for the temporary relocation of employees worldwide.

CORT's operating results are subject to economic cycles. When we purchased CORT, its furniture rental business was rapidly growing, reflecting the strong U.S. economy, phenomenal business expansion and explosive growth of IPOs and the high-tech sector. Shortly thereafter, with the burst of the dot-com bubble, followed by the events of September 11 and a protracted slowdown in new business formation, CORT's operations were hammered, reflecting generally bad results in the "rent-to-rent" segment of the furniture rental business. There followed a far-too-short period of improving business conditions which have more recently given way to increasingly difficult recessionary conditions, perhaps the beginning of the worst economic recession in decades.

Under Wesco's ownership, CORT has continuously undertaken to improve its competitive position. With several websites, principally, www.cort.com and www.apartmentsearch.com, professionals in more than 80 domestic metropolitan markets, affiliates servicing more than 50 countries, almost twenty thousand apartment communities referring their tenants to CORT, many ancillary services, and its entrée to the business community as a Berkshire Hathaway company, CORT is better positioned than previously to benefit from an economic turnaround, certain to occur in due course. Near term, we expect more of the difficult business conditions of the recent past.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, operated at after-tax profits of $0.8 million in 2008 and $0.9 million in 2007. These figures reflect after-tax LIFO inventory accounting adjustments decreasing after-tax income by $0.7 million for 2008 and $1.0 million for 2007. Precision Steel's operating results for 2008 also reflect the benefit of $0.2 million, after taxes, from the reversal of a portion of a provision for estimated expenses recorded in prior years in

connection with the environmental cleanup of an industrial park where a Precision Steel subsidiary has operated alongside approximately 15 other manufacturers for many years. Had it not been for the LIFO accounting adjustments or the benefit from the reversal of those environmental-related expenses, Precision Steel would have reported after-tax operating income of $1.3 million for 2008 and $1.9 million for 2007.

Precision Steel is continuing to suffer not only the ongoing effects of a long-term reduction in demand caused by customers' (or former customers') unsuccessful competition with manufacturers outside the United States and a trend towards smaller-sized orders, but also, the difficult effects from deepening recessionary conditions. In 2008, Precision Steel's service center volume was 37 million pounds, down from 39 million pounds in 2007 and 69 million pounds sold as recently as 1999. Volume for the fourth quarter of 2008 was only 6.2 million pounds, down 34% from the corresponding 2007 figure. Apart from the recessionary-caused weakness, the general and ongoing decline in Precision Steel's physical volume is a serious reverse, not likely to disappear in some "bounce back" effect once the economy recovers. Nor do we expect that ongoing price increases like the approximately 111% rise that has occurred since 1999, holding dollar volume roughly level despite a precipitous drop in physical volume, will continue.

We do not consider Precision Steel's recent after-tax operating earnings of approximately $1 million annually to be a satisfactory investment outcome, particularly when compared with its after-tax operating earnings which averaged $2.3 million for the years 1998 through 2000. And, because of the intensifying recession, more difficulty for Precision Steel will surely lie ahead.

Terry Piper, who became Precision Steel's President and Chief Executive Officer in 1999, has done an outstanding job in leading Precision Steel through very difficult years. But he has no magic wand with which to compensate for competitive losses among his best customers or from the deepening recession. He is undertaking the difficult task of paring costs to an endurable level.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. Adjacent to that building is a parcel of land on which our construction of a multi-story luxury condominium building is almost complete. We are also seeking city approval of our plans to build another multi-story luxury condominium building, at a later date, on a vacant parcel of land in the next block. For more information, if you want a very-high-end condominium, simply phone Bob Sahm (626-585-6700). MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within "other operating earnings."

Other Operating Earnings (Loss)

Other operating earnings (loss), net of interest paid and general corporate expenses, amounted to ($0.4 million) in 2008, versus ($0.1) million in 2007. The components of the $0.4 million of other operating loss in 2008 were (1) rents ($4.0 million gross in 2008) principally from Wesco's Pasadena office property (leased almost entirely to outsiders,

including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus expenses involving tag-end real estate.

Consolidated Balance Sheet and Related Discussion

Strategically, we strive to invest in businesses that possess excellent economics, with able and honest management, at sensible prices. We prefer to invest a meaningful amount in each investee, resulting in concentration, exposing the portfolio to more significant market price fluctuations than might be the case were Wesco's investments more diversified. Concentration has worked out very well in the past as evidenced by significant realized investment gains. Details as to Wesco's investments can be found in Note 2 to the accompanying consolidated financial statements. Most equity investments are expected to be held for long periods of time; thus, we are not ordinarily troubled by short-term price volatility with respect to our investments provided that the underlying business, economic and management characteristics of the investees remain favorable. We strive to maintain much liquidity to provide a margin of safety against short-term equity price volatility.

Since the latter part of 2007, Wesco has invested $1.1 billion, at cost, in marketable equity securities, bringing the aggregate cost of Wesco's equity investments to $1.63 billion at yearend 2008, including an aggregate of $650 million, at cost, invested in the common stocks of Wells Fargo & Company and US Bancorp. The timing of our recent investments could not have been much worse. 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 the banking sector, in particular, due significantly to the ongoing liquidity crisis as well as the deterioration of asset quality and earnings reported by the banking industry.

Wesco carries its investments at fair value, with unrealized appreciation or depreciation, after income tax effect, included as a component of shareholders' equity, and related deferred taxes included in income taxes payable, on its consolidated balance sheet. As indicated in the accompanying consolidated financial statements, Wesco's net worth, as accountants compute it under their conventions, decreased to $2.38 billion ($334 per Wesco share) at yearend 2008 from $2.53 billion ($356 per Wesco share) one year earlier. The principal cause of the decrease was the after-tax decline in fair value of Wesco's investments in marketable equity securities. As a result of further declines in fair values of these investments subsequent to yearend 2008, Wesco's shareholders' equity has further declined, by $303 million ($43 per share), through February 24, 2009.

The worldwide economy is currently suffering the effects of a deepening recession, perhaps the worst economic disaster since the Great Depression. We will not attempt to prognosticate the effects that Wesco will suffer or when the economy will recover, but we are certain that in due course, Wesco will prosper. In the mean time, Wesco's operations will bear their share of economic woes. We will continue to practice Ben Franklin's advice, that "a penny saved is a penny earned," as we trim expenses, albeit in higher denominations, to better endure the weakening economic conditions that surely lie ahead.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the

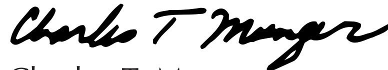
quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

All that said, we make no attempt to appraise relative attractiveness for investment of Wesco versus Berkshire Hathaway stock at present stock-market quotations.

The Board of Directors recently increased Wesco's regular dividend from 38½ cents per share to 39½ cents per share, payable March 5, 2009, to shareholders of record as of the close of business on February 5, 2009.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.



Charles T. Munger
Chairman of the Board
and President

February 25, 2009

WESCO FINANCIAL CORPORATION

Annual Report 2009

Form 10-K Annual Report 2009

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated net "operating" income (i.e., before realized investment gains shown in the table below) for the calendar year 2009 decreased to $54,073,000 ($7.59 per share) from $77,562,000 ($10.89 per share) in the previous year.

Consolidated net income decreased to $54,073,000 ($7.59 per share) from $82,116,000 ($11.53 per share) in 2008. The 2008 figure included realized after-tax investment gains of $4,554,000 ($.64 per share). No investment gains or losses were realized in 2009.

Wesco has four major subsidiaries: (1) Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business, (2) The Kansas Bankers Surety Company ("Kansas Bankers"), owned by Wes-FIC and specializing in insurance products tailored to Midwestern community banks, (3) CORT Business Services Corporation ("CORT"), headquartered in Fairfax, Virginia and engaged principally in the furniture rental business, and (4) Precision Steel Warehouse, Inc. ("Precision Steel"), headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses.

Consolidated net income for the two years just ended breaks down as follows (in thousands except for per-share amounts)[1]:

	Year Ended			
	December 31, 2009		December 31, 2008	
	Amount	Per Wesco Share[2]	Amount	Per Wesco Share[2]
Wesco-Financial and Kansas Bankers insurance businesses —				
Underwriting gain (loss)	$ 7,222	$1.01	$ (2,942)	$ (.42)
Investment income	55,781	7.83	64,274	9.03
CORT furniture rental business	(1,359)	(.19)	15,744	2.21
Precision Steel businesses	(648)	(.09)	842	.12
All other "normal" net operating earnings (loss)[3]	(6,923)	(.97)	(356)	(.05)
	54,073	7.59	77,562	10.89
Realized investment gains	—	—	4,554	.64
Wesco consolidated net income	$54,073	$7.59	$82,116	$11.53

(1) All figures are net of income taxes.

(2) Per-share data are based on 7,119,807 shares outstanding. Wesco has no dilutive capital stock equivalents.

(3) Includes income from ownership of the Wesco headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the insurance subsidiaries, less interest and other corporate expenses, and, in 2009, a $6.2 million (after taxes) writedown of real estate held for sale.

This supplementary breakdown of earnings differs somewhat from that used in audited financial statements which follow standard accounting convention. The foregoing supplementary breakdown is furnished because it is considered useful to shareholders. The total consolidated net income shown above is, of course, identical to the total in our audited financial statements.

Insurance Businesses

Consolidated operating earnings from insurance businesses represent the combination of the results of their insurance underwriting (premiums earned, less insurance losses, loss adjustment expenses and underwriting expenses) with their investment income. Following is a summary of these figures as they pertain to all insurance operations (in 000s).

	Year Ended December 31,	
	2009	2008
Premiums written	$339,191	$316,472
Premiums earned	$323,221	$237,964
Underwriting gain (loss)	$ 11,111	$ (4,527)
Dividend and interest income	67,049	84,920
Income before income taxes	78,160	80,393
Income taxes	15,157	19,061
Total operating income — insurance businesses	$ 63,003	$ 61,332

Following is a breakdown of premiums written (in 000s):

	2009	2008
Wes-FIC reinsurance —		
Swiss Re contract	$294,142	$265,248
Aviation pools	35,085	33,374
Kansas Bankers primary insurance	9,964	17,850
Premiums written	$339,191	$316,472

Following is a breakdown of premiums earned (in 000s):

	2009	2008
Wes-FIC reinsurance —		
Swiss Re contract	$276,681	$183,166
Aviation pools	34,463	34,418
Kansas Bankers primary insurance	12,077	20,380
Premiums earned	$323,221	$237,964

Following is a breakdown of after-tax results (in 000s):

	2009	2008
Underwriting gain (loss) —		
Wes-FIC reinsurance	$ 10,379	$ (1,405)
Kansas Bankers primary insurance	(3,157)	(1,537)
Underwriting gain (loss)	7,222	(2,942)
Net investment income	55,781	64,274
Total operating income — insurance businesses	$ 63,003	$ 61,332

As shown above, operating income includes significant net investment income, representing dividends and interest earned from marketable securities. However, operating income excludes after-tax investment gains of $4.6 million realized in 2008. The discussion below will concentrate on insurance underwriting, not on the results from investments.

Wes-FIC engages in the reinsurance business. At the beginning of 2008, it entered into a retrocession agreement with National Indemnity Company ("NICO"), an insurance subsidiary of Berkshire Hathaway, Wesco's 80%-owning parent. Under the contract, Wes-FIC has assumed 10% of NICO's 20% quota-share reinsurance of Swiss Reinsurance Company and its

principal property-casualty affiliates ("Swiss Re"). Under this agreement, which was enthusiastically approved by Wesco's Board of Directors, Wes-FIC assumed 2% of essentially all Swiss Re property-casualty risks incepting over the five-year period which began on January 1, 2008, on the same terms as NICO's agreement with Swiss Re. Wes-FIC's share of written and earned premiums under the contract were $294.1 million and $276.7 million for 2009 and $265.2 million and $183.2 million for 2008, representing very significant increases in Wes-FIC's reinsurance activities. It is important to keep in mind that premiums assumed under the contract in each of the next three years could vary significantly depending on market conditions and opportunities.

For several years, through yearend 2007, Wes-FIC's principal reinsurance activity consisted only of its participation in several pools managed by a subsidiary of General Reinsurance Corporation ("Gen Re"), another insurance subsidiary of Berkshire Hathaway. The arrangement became effective in 2001 and has covered domestic hull, liability and workers' compensation exposures relating to the aviation industry. For the past three years, Wes-FIC has reinsured 16.67% of the hull and liability pools and 5% of the workers' compensation pool. Since mid-2009 Wes-FIC has also been reinsuring 25% of an international hull and liability pool. Another subsidiary of Gen Re provides a portion of the upper-level reinsurance protection to these aviation risk pools on terms that could result in the Berkshire subsidiary having a different interest from that of Wes-FIC under certain conditions, e.g., in settling a large loss. Premium volume under these pools has approximated $35 million annually.

It is the nature of even the finest property-casualty insurance businesses that in keeping their accounts they must estimate and deduct all future costs and losses from premiums already earned. Uncertainties inherent in this undertaking make financial statements more mere "best honest guesses" than is typically the case with accounts of non-insurance-writing corporations. And the reinsurance portion of the property-casualty insurance business, because it contains one or more extra links in the loss-reporting chain, usually creates more accounting uncertainty than the non-reinsurance portion. Wesco shareholders should remain aware of the inherent imperfections of Wes-FIC's financial reporting, based as it is on forecasts of outcomes over many future years.

Wes-FIC's underwriting results have typically fluctuated from year to year, but have been satisfactory. When stated as a percentage, the sum of insurance losses, loss adjustment expenses and underwriting expenses, divided by premiums, gives the combined ratio. Wes-FIC's combined ratios from reinsurance activities were 94.9% for 2009, 101.0% for 2008 and 93.9% for 2007, much better than average for insurers. We try to create some underwriting gain as results are averaged out over many years. We expect this to become increasingly difficult.

Float is the term for money we hold temporarily. Its major components are unpaid losses and unearned premiums, less premiums and reinsurance receivable, and deferred policy acquisition costs. As long as our insurance underwriting results are break-even or better, float costs us nothing. The new Swiss Re venture with NICO has significantly increased Wes-FIC's float, from $76 million at the end of 2007, to $264 million at yearend 2009, thus providing additional opportunities for investment. We hope to see our float continue to increase, but we make no predictions.

Kansas Bankers was purchased by Wes-FIC in 1996 for approximately $80 million in cash. Its tangible net worth now exceeds its acquisition price, and it has been a very satisfactory acquisition, reflecting the sound management of President Don Towle and his team.

Kansas Bankers was chartered in 1909 to underwrite deposit insurance for Kansas banks. Its offices are in Topeka, Kansas. Over the years its service has continued to adapt to the changing needs of the banking industry. Today its customer base, consisting mostly of small- and medium-sized community banks, is spread throughout 29 mainly Midwestern states. Kansas Bankers offers policies for 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.

Last year we reported that events in the banking industry, including a number of bank failures, caused us to become less confident in the long-term profitability of Kansas Bankers' long-established line of deposit guarantee bonds. These bonds insure specific customer bank deposits above Federal insurance limits. After sustaining a loss of $4.7 million, after taxes, from a bank failure in the latter half of 2008, Kansas Bankers discontinued writing deposit guarantee bonds, and in September 2008 it began to exit this line of insurance as rapidly as feasible. The aggregate face amount of outstanding deposit guarantee bonds has been reduced, from $9.7 billion, insuring 1,671 institutions at September 30, 2008, to $33 million, insuring 10 institutions, currently. We believe that none of the banks whose deposits are currently insured are facing significant risk of failure.

This decrease in exposure to loss, of course, has caused a sharp decline in Kansas Bankers' insurance volume, inasmuch as premiums from guarantee bonds not only approximated half of Kansas Bankers' written premiums for 2008, but also represented the entirety of the business it had conducted in almost half of the states in which it was licensed to write insurance in 2008. The insurance business is highly competitive, with lengthy periods during which competitors offer coverages at prices we do not consider adequate. Kansas Bankers is now licensed to sell insurance in 29 states, down from 39 states one year earlier, with plans soon to withdraw from 4 more. We expect that Kansas Bankers will ultimately expand its premium volume, at prices deemed satisfactory.

When Wesco purchased Kansas Bankers, it had been ceding almost half of its premium volume to reinsurers. In 2009 it reinsured only about 1%. And, because it has also restructured the layers of losses reinsured, it is now better protected from the downside risk of large losses. Effective in 2006, insurance subsidiaries of Berkshire Hathaway became KBS's sole reinsurers. Previously, an unaffiliated reinsurer was also involved. The increased volume of business retained comes, of course, with increased irregularity in the income stream. Kansas Bankers' combined ratios were 140.2% for 2009, 111.6% for 2008 and 55.1% for 2007. Kansas Bankers' business activities require a base of operations supported by significant fixed operating costs which do not lend themselves to downsizing in proportion to the recent decline in premium volume. We continue to expect volatile but favorable long-term results from the now much smaller business remaining in Kansas Bankers.

CORT Business Services Corporation ("CORT")

In February 2000, Wesco purchased CORT Business Services Corporation ("CORT") for $386 million in cash.

CORT is a very long-established company that is the country's leader in rentals of high-quality furniture that lessees have no intention of buying. In the trade, people call CORT's activity "rent-to-rent" to distinguish it from "lease-to-purchase" businesses that are, in essence, installment sellers of furniture.

However, just as Enterprise, as a rent-to-rent auto lessor in short-term arrangements, must be skilled in selling used cars, CORT must be and is skilled in selling used furniture.

CORT's revenues totaled $380 million for calendar 2009, versus $410 million for calendar 2008. Of these amounts, furniture rental revenues were $312 million and $340 million, furniture sales revenues were $61 million and $62 million, and rental relocation revenues were $7 million and $8 million. CORT operated at an after-tax loss of $1.4 million for 2009 versus after-tax profits of $15.7 million for 2008 and $20.3 million for 2007. Headwinds from the "Great Recession" that began in 2008 have caused the shift from moderate profit to the small loss that occurred last year.

CORT has made several "tuck-in" acquisitions since its purchase by Wesco; most recently, the residential furniture rental division of Aaron Rents, Inc., purchased late in 2008. Earlier in 2008, CORT expanded its operations internationally, through the purchase of Roomservice Group, a small regional provider of rental furniture and relocation services in the United Kingdom, now doing business as CORT Business Services UK Ltd. Factoring out the effects of those acquisitions, CORT's core revenues fell by almost 20% in 2009, reflecting the hammering caused by the severe economic recession. So far, CORT's business has been melting away faster than CORT can fix it.

Shortly after its acquisition by Wesco, CORT started up a nation-wide apartment locator service, originally intended mainly to supplement CORT's furniture rental business by providing apartment locator and ancillary services to relocating individuals. Paul Arnold, long CORT's able CEO, and his management team, have devoted much effort in recent years, expanding CORT's rental relocation services, and redirecting them toward the needs of businesses and government agencies who require a skilled and able partner to provide comprehensive and seamless relocation services for the temporary relocation of employees worldwide. These efforts had not yet gained traction when recession hit. CORT is now focusing its efforts more on cost containment than on expansion of services.

Under Wesco's ownership, CORT has continuously undertaken to improve its competitive position. With several websites, principally, www.cort.com and www.apartmentsearch.com, professionals in more than 80 domestic metropolitan markets, affiliates servicing more than 50 countries, almost twenty-one thousand apartment communities referring their tenants to CORT, many ancillary services, and its entrée to the business community as a Berkshire Hathaway company, CORT is better positioned than previously to benefit from an economic turnaround if it occurs in due course. Near term, we expect more of the difficult business conditions of the recent past, but we do not expect another operating loss at CORT in 2010. Instead, we expect disappointing profits.

More details with respect to CORT are contained throughout this annual report, to which your careful attention is directed.

Precision Steel Warehouse, Inc. ("Precision Steel")

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, were pounded by the "Great Recession," exacerbating a long-term reduction in demand resulting from movement of manufacturing outside the United States. Revenues were $38.4 million for 2009 versus $60.9 million for 2008. Sales volume for 2009, in terms of pounds sold, declined by one-third and represented less than half the annual volume that Precision Steel had sold thirty years earlier, when it was acquired by Wesco.

Precision Steel operated at an after-tax loss of $0.6 million in 2009 versus an after-tax profit of $0.8 million in 2008. These figures reflect after-tax LIFO inventory accounting adjustments increasing after-tax income by $1.5 million for 2009 and decreasing after-tax income by $0.7 million for 2008. Had it not been for the LIFO accounting adjustments, Precision Steel would have reported an after-tax operating loss of $2.1 million for 2009 versus after-tax operating income of $1.5 million for 2008. Moreover, the $2.1 million pre-LIFO-effect loss last year would have been about $0.5 million greater without after-tax profits from a couple of Precision Steel's small businesses that are different from conventional steel warehousing.

We do not consider Precision Steel's recent operating results to be a satisfactory investment outcome, particularly when one compares its recent performance with its after-tax operating earnings which averaged $2.3 million for the years 1998 through 2000. And, because of the ongoing recession, more difficulty for Precision Steel will surely lie ahead.

Apart from the recessionary-caused weakness, the general and ongoing decline in Precision Steel's physical volume is a serious reverse, not likely to disappear in some "bounce back" effect once the economy recovers.

Terry Piper, who became Precision Steel's President and Chief Executive Officer in 1999, has done an outstanding job in leading Precision Steel through very difficult years. But he has no magic wand with which to compensate for competitive losses among his best customers or from the weak economic conditions. He is redoubling his efforts to pare costs, which must be his response to conditions faced.

Tag Ends from Savings and Loan Days

All that now remains outside Wes-FIC but within Wesco as a consequence of Wesco's former involvement with Mutual Savings, Wesco's long-held savings and loan subsidiary, is a small real estate subsidiary, MS Property Company, that holds tag ends of appreciated real estate assets consisting mainly of the nine-story commercial office building in downtown Pasadena, where Wesco is headquartered. Adjacent to that building is a multi-story luxury condominium building which MS Property Company has recently built and is in process of marketing. For more information, if you want a very-high-end condominium, simply phone Chris Greco (626-585-6700). MS Property Company's results of operations, immaterial versus Wesco's present size, are included in the breakdown of earnings on page 1 within "other operating earnings."

Other Operating Earnings (Loss)

Other operating earnings (loss), net of interest paid and general corporate expenses, amounted to ($6.9 million) in 2009 and ($0.4 million) in 2008. The 2009 figure includes a $6.2 million after-tax writedown of the book carrying value of a condominium building that was completed in the worst condominium market in decades. Other components of the other operating loss in 2009 were (1) rents ($4.1 million gross) principally from Wesco's Pasadena office property (leased almost entirely to outsiders, including Citibank as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiaries, less (3) general corporate expenses plus expenses involving tag-end real estate and real estate held for sale.

Consolidated Balance Sheet and Related Discussion

Wesco has unusual balance sheet strength, concentrated in security holdings of its insurance subsidiaries. These holdings, in turn, are concentrated in a few securities. Details can be found in Note 2 to the accompanying financial statements.

Wesco carries its investments at fair value. As a result, unrealized appreciation or depreciation, after income tax effect, is included as a component of shareholders' equity and net worth per share.

Affected substantially by changes in market value of securities owned, Wesco's yearend net worth per share has varied only slightly during recent tumultuous years. Figures are as follows:

2006	$337
2007	356
2008	334
2009	358

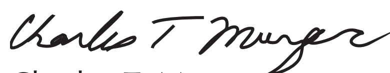
These results are not impressive. Moreover, if net worth per share had been computed at its low point in the recent stock market panic, stability implied by the foregoing figures would have been considerably lessened.

We repeat our standard warning. Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway. Moreover, the quality disparity in book value's intrinsic merits has, in recent years, continued to widen in favor of Berkshire Hathaway.

The Board of Directors recently increased Wesco's regular dividend from 39½ cents per share to 41 cents per share, payable March 4, 2010, to shareholders of record as of the close of business on February 4, 2010. Shareholders can thank Director Elizabeth Peters for the recommendation that Wesco *increase* its next and future dividends to ensure that shareholders are paid in even pennies.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries, as well as audited financial statements bearing extensive footnotes. As usual, your careful attention is sought with respect to these items.

Shareholders can access much Wesco information, including printed annual reports, earnings releases, SEC filings, and the websites of Wesco's subsidiaries and parent, Berkshire Hathaway, from Wesco's website: www.wescofinancial.com.



Charles T. Munger
Chairman of the Board
and President

Dated: February 26, 2010