WESCO FINANCIAL CORP W 340470

10-K

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1990 — Commission file number 1-4720

WESCO FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-2109453 (I.R.S. Employer Identification No.)
315 East Colorado Boulevard, Pasadena, California (Address of principal executive offices)	91101-1954 (Zip Code)

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DISCLOSURE INFORMATION SERVICES, INC.
L4A

Registrant's telephone number, including area code: (818) 449-2345

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Capital Stock, $1 par value	American Stock Exchange and Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months and (2) has been subject to such filing requirements for the past 90 days. YES...X ...NO......

The aggregate market value of voting stock of the registrant held by non-affiliates of the registrant as of March 15, 1991 was: $69,227,000.

The number of shares outstanding of the registrant's Capital Stock as of March 15, 1991 was: 7,119,807.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Parts of Form 10-K
Proxy Statement for 1991 Annual Meeting of Shareholders	Part III, Items 10, 11, 12 and 13

PAGES 3 THROUGH 19

NOT USED

PART I

Item 1. Business

GENERAL

Wesco Financial Corporation ("Wesco") was incorporated in Delaware on March 19, 1959. The principal businesses of Wesco, conducted by wholly owned subsidiaries, are the savings and loan business, through Mutual Savings and Loan Association ("Mutual Savings"), which was incorporated in California in 1925, the property and casualty insurance business, through Wesco-Financial Insurance Company ("Wes-FIC"), which was incorporated in 1985, and the steel service center business, through Precision Steel Warehouse, Inc. ("Precision Steel"), which was begun in 1940 and acquired by Wesco in 1979. Wesco's operations also include the manufacture of electrical equipment through New America Electrical Corporation ("New America Electric"), which was organized in 1982, and which has been 80%-owned by Wesco since December 22, 1988. In addition, Wesco has investments in real estate and securities held for investment, and owns a small insurance agency.

Since 1973, Wesco has been 80.1%-owned by Blue Chip Stamps (or its predecessor by the same name), a wholly owned subsidiary of Berkshire Hathaway Inc. ("Berkshire"). Wesco and its subsidiaries are thus controlled by Blue Chip Stamps and Berkshire. All of these companies may also be deemed to be controlled by Warren E. Buffett, who is Berkshire's chairman and chief executive officer and owner of 41.8% of its stock.

Wesco's activities fall into three business segments — financial, insurance, and industrial. The financial segment includes (a) the savings and loan business, (b) operation of a business block in Pasadena, California, and (c) investments, principally in preferred and common stocks. The insurance segment comprises the property and casualty insurance business. The industrial segment includes steel service center operations and the manufacture and sale of various commercial and residential electrical products. The amounts of revenue, operating profit and identifiable assets attributable to each of these three business segments are included in Note 11 to Wesco's consolidated financial statements contained in Item 8, Financial Statements.

FINANCIAL SEGMENT

The savings and loan business has been a difficult business since the late 1970s, as institutions with substantial amounts of long-term, low-yielding mortgage loans on their books, funded by short-term borrowings from depositors, have seen their cost of funds increase dramatically. The increase in cost of funds has been due both to prevailing interest rates at levels much higher than were once thought normal, and to fundamental changes that have occurred in the savings and loan industry. As a result of changes in federal regulations affecting savings and loan associations (and other depository institutions such as banks), regulations limiting rate competition for depositors' accounts were eliminated in 1986. Other regulations and regulatory attitudes were modified to enable savings and loan associations and banks to compete more directly with each other and with other financial institutions in providing a wide variety of consumer financial services. In the early 1980s, most savings and loans suffered operating losses, and although many have more recently earned profits principally as a result of more moderate interest rates, hundreds of others, many insolvent and garnering wide publicity, have driven the Federal Savings and Loan Insurance Corporation ("FSLIC"), the federal agency then insuring savings deposits, into insolvency. (Savings deposits in savings and loan associations, including Mutual Savings, are now insured by the Savings Associations Insurance Fund, an affiliate of the Federal Deposit Insurance Corporation.) Changes in the statutory and regulatory framework were enacted in August 1989 when President Bush, reiterating that the full faith and credit of the U.S. government would continue to back deposit insurance, signed into law the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA" — see below).

Mutual Savings, which has retained its financial strength and is not expected to burden the insurance fund, anticipated the pre-FIRREA changes in the savings and loan business by substantially reducing the size and scope of its business and altering the nature of its business activities as it pondered an operating plan that would provide a socially constructive service while operating with acceptable profits accompanied by an acceptable level of risk. Mutual Savings took the following steps:

- In 1979, it substantially curtailed its real estate loan originations because of the high cost of savings deposits, the reduction in net savings inflow, and uncertainty as to the future direction of loan interest rates.
- In December 1980, it sold fifteen offices in Southern California (retaining only its Pasadena headquarters office and a satellite office in a shopping mall across the street) and approximately $307 million of net branch savings accounts together with an equal book value of its highest-yielding mortgage loans to another association.
- In 1986, it resumed real estate lending in Southern California, offering a fully adjustable-rate mortgage loan. Loans made under this program beginning in late 1987 have borne a 25% interest-rate cap. These loans yield a spread of about 2% above the rate available from one-year U.S. Treasury notes. Approximately $100 million has been lent since the inception of this program.
- In 1987, it invested approximately $51 million in mortgage obligations collateralized by pools of Government National Mortgage Association- and Federal Home Loan Mortgage Corporation ("Freddie Mac")-backed loans. These fixed-rate mortgage securities, whose 1990 yearend balance is $24 million, yield approximately 9% over their expected average lives of 3 years.
- In 1988, it invested approximately $65 million in common stock of Freddie Mac, increasing its total investment to about $72 million, representing 4% of the total shares outstanding, the legal limit for any one holder. Freddie Mac supports housing primarily by purchasing mortgage loans for immediate transmutation into mortgage-backed securities that it guarantees and promptly sells. The 1990 yearend trading value on the New York Stock Exchange of Mutual Savings' Freddie Mac shares was $117 million. Thus, based on 1990 yearend trading prices, Mutual Savings had an unrealized pre-tax profit in Freddie Mac shares of about $45 million. At current tax rates, the potential after-tax profit was about $27 million as of that date.
- In October 1990, it began to offer fixed-rate first-mortgage loans to qualified low-to-moderate-income borrowers living within its local community. The loans, which currently bear slightly below-market interest rates and are presently limited to $191,250, are pegged to Freddie Mac standards and require borrower equities of at least 20% of house value. Mutual Savings designed and instituted this program in response to increasing regulatory pressure on financial institutions to increase lending to less-advantaged homeowners. The program, which generated about $750,000 in loans through 1990 yearend, will continue indefinitely under an agreement with regulatory authorities.

Mutual Savings is now relatively small, ranking approximately 70th among California's savings and loan associations in assets at the end of 1990. Because it sold its highest-yielding mortgage loans in 1980, and it resumed lending in 1986 and investing in mortgage-backed securities in 1987 after interest rates had fallen from the higher levels which generally prevailed since 1980, Mutual Savings' entire loan portfolio, including about $24 million invested in mortgage-backed loans as of 1990 yearend, bears what may be one of the lowest average interest rates (9.2% per annum at the end of 1990) of all associations in the United States. The fixed-rate pre-1980 portion of the portfolio, which bears an average interest rate of 7.4%, and which is carried on Mutual Savings' books at the end of 1990 at about $31 million, consists of rapidly repaying, seasoned loans, all collateralized by properties in which the borrowers have large equity positions. The whole portfolio of housing-related assets is believed to present almost no risk of loss to Mutual Savings.

Compared with other associations, Mutual Savings is believed to have a higher ratio of shareholders' equity to total interest-bearing liabilities and a much higher proportion of assets in short-term, interest-bearing cash equivalents and in intermediate-term state and municipal bonds and preferred and common stocks that provide large income tax advantage. Reference is made to Mutual Savings' condensed consolidated balance sheet appearing on the last page of this annual report.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), the latest of several attempts to rejuvenate the ailing savings and loan industry and shore up the deposit-insurance fund, has been described as the most significant banking legislation in nearly a decade. It is expected to involve federal spending of at least $200 billion over the next ten years.

Although Mutual Savings complies with the current requirements of FIRREA (at 1990 yearend, its book net worth amounted to 13.7% of assets, over 1½ times the most stringent regulatory net worth requirement), as certain of the FIRREA regulations are phasing in, various changes in its operations have become or will be required, most notably:

- State-chartered associations such as Mutual Savings are no longer allowed to invest a portion of their assets in equity securities. Further, Mutual Savings and its service subsidiary will be required to complete their program, begun in 1990, of selling their investments in high-quality public utility preferred stocks (1990 yearend cost $41 million versus market value of $50 million) and convertible preferred stock of Salomon Inc (1990 yearend cost and estimated market value, $13 million — $13 million having been sold, at book value in December 1990 to Wesco-Financial Insurance Company), income from which is taxed at a favorable effective rate (see Item 7, Management's Discussion and Analysis). Management is hopeful that it will be able to persuade the regulatory authorities to allow the sales to be made in stages through June 30, 1994. A plan for the sales of these investments has been submitted to the Federal Deposit Insurance Corporation.

- In computing its regulatory net worth, Mutual Savings will be required to write down to zero, in stages, the cost of its $72 million investment in Freddie Mac stock (1990 yearend market value, $117 million). Although such a regulatory writedown would not affect reported net income *per se*, as Mutual Savings becomes unable to absorb such a writedown and still comply with FIRREA net worth requirements, it will likely be required to sell some part or all of this investment, possibly to another Wesco subsidiary.

- There has been a change in the definition of assets that qualify in determining whether an association is a "qualified thrift lender." As the definition is currently drafted, Mutual Savings, beginning July 1, 1991, will no longer be able to take into account: investments in overnight obligations of the Federal Home Loan Bank (1990 yearend balance, $58 million); real estate held for sale (1990 yearend balance, $15 million); and Freddie Mac stock (1990 yearend balance, $72 million). Unless these assets continue to be qualified, Mutual Savings will be required to, and intends to, maintain a larger proportion of its assets in mortgage loans and mortgage-backed securities. Had the definition, as drafted, been effective as of 1990 yearend, Mutual Savings would have been required to increase its holdings of such mortgage-related assets, and reduce its investment in other assets, by approximately $100 million.

- Mutual Savings, like other savings and loans, will be required to pay increasing costs for deposit insurance. However, as a result of the elimination of its "secondary insurance reserve" by the Federal Home Loan Bank at the time the FSLIC deposit-insurance fund was declared insolvent in 1987, at a cost to Mutual Savings of $1.9 million after taxes, this amount is in process of being slowly credited back to Mutual Savings against its deposit-insurance assessment, with the result that after-tax earnings were increased by $217,000 in 1988, $209,000 in 1989 and $341,000 in 1990. Under FIRREA, the credit is expected to approximate $300,000 annually, net of income tax effect, until it will have been fully utilized in the mid-1990s.

- Mutual Savings is subject to supervision by more regulatory entities than previously.

FIRREA generally prohibits a savings and loan association from directly investing in real estate. Mutual Savings is in process of building out a 22-acre parcel of largely oceanfront land near Santa

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Barbara, California, which was acquired by foreclosure in 1966, and as to which over 15 years have been consumed in obtaining the numerous necessary approvals and building permits. The property is carried at cost of approximately $15 million at 1990 yearend. Mutual Savings believes that FIRREA does not prohibit it from completing the project, and has been proceeding with construction as quickly as can feasibly be done in accordance with local building restrictions. Mutual Savings has applied to the regulatory authorities for permission to complete the project. Management cannot yet determine whether the regulators will ultimately agree with its interpretation of FIRREA, or whether they will order Mutual Savings to divest the property prior to the completion of development, with a financial result that management is not presently able to determine.

Mutual Savings expects the savings and loan business to continue to be a difficult and competitive business. After Mutual Savings' future operations have been altered as a result of FIRREA, Mutual Savings' business may or may not provide less risk to the insurance fund, but it will surely provide substantially less potential reward to the shareholders of Wesco. Mutual Savings intends to preserve its options by retaining its financial strength and remaining as flexible as possible with respect to expansion (including possible acquisition) or contraction. Management has not yet determined what course of action will ultimately be taken as a result of the passage of FIRREA. Whatever action is ultimately taken is not expected to result in significant detrimental effect to Wesco in terms of either the net income it would report for any single year or its shareholders' equity.

Wesco, while it seeks suitable businesses to acquire and expansion of its existing operations, invests in marketable securities, including common stocks of unaffiliated companies. (See Note 2 to the accompanying consolidated financial statements for a summary of these investments and Schedule I accompanying such statements for further information.) Wesco owns a business block in Pasadena, California, which includes the nine-story office building in which its headquarters and the main offices of Mutual Savings, Wes-Fin and WSC Insurance Agency (a small insurance agency wholly owned by Wesco) are located, a multistory garage structure, and a parking lot across the street from the parking garage. The office building is nearly fully leased under agreements expiring at various dates to 1995.

Approximately 65 full-time employees are engaged in the savings and loan business and other financial segment activities.

INSURANCE SEGMENT

Wesco-Financial Insurance Company ("Wes-FIC") was incorporated in 1985 to engage in the property and casualty insurance and reinsurance business. Wesco contributed approximately $103 million to Wes-FIC's capital from September 1985 to January 1989.

Wes-FIC's principal insurance activity to date was to reinsure — through a Berkshire Hathaway insurance company subsidiary, National Indemnity Company ("NICO"), as intermediary-without-profit — 2% of the entire book of insurance business of the long-established Fireman's Fund Insurance Companies ("Fireman's Fund"). Wes-FIC thus assumed the benefits and burdens of Fireman's Fund's prices, costs and losses under a contract covering all insurance premiums earned by Fireman's Fund during a four-year coverage period that expired on August 31, 1989. The arrangement put Wes-FIC in virtually the same position it would have been in if it, instead of Fireman's Fund, had directly written the business reinsured. Differences in results have occurred principally from the investment side of insurance, as Wes-FIC, instead of Fireman's Fund, has invested funds from "float" generated.

In mid-September 1989, Wes-FIC returned to Fireman's Fund approximately $15.6 million, representing unearned insurance premiums less the related ceding commissions. The return of such unearned premiums had no effect on Wes-FIC's net income. Wes-FIC will remain liable for runoff of its share of the losses and loss expenses covered by the contract, reserves for which have been reflected on Wesco's consolidated balance sheet, and will continue to invest funds offset by loss reserves until runoff is complete, which may be many years hence. But there will be no further earned premiums from the contract.

Wes-FIC in 1988 began to write direct business, as distinguished from reinsurance. It is now licensed in Nebraska, Utah and Iowa. In 1990 it wrote $132,000 and earned $133,000 in direct premiums, principally on a surplus-lines basis in Alabama.

Effective January 1, 1990, Wes-FIC began to reinsure 50% of the book of workers' compensation insurance business of Cypress Insurance Company ("Cypress"), a wholly owned subsidiary of Berkshire Hathaway, under a contract patterned generally after that with Fireman's Fund. The arrangement is continuous, but subject to 60 days' notice of termination by either party. In 1990, Wes-FIC's share of written and earned premiums were $2.2 million and $1.8 million.

Wes-FIC is interested in other arrangements, including those similar to the Fireman's Fund and Cypress contracts, if attractive opportunities arise.

Insurance companies are subject to regulation by the departments of insurance of the various states in which they operate. Regulations relate to, among other things, capital requirements, loss reserve requirements, reporting requirements, periodic regulatory examinations, and limitations on the types of investments that can be made.

In recent years, financial failures in the insurance industry have received considerable attention from news media, regulatory authorities and rating agencies. As one result, industry participants and the public have been made more aware of the benefits derived from dealing with insurers whose financial resources supported their promises, with significant margins of safety against adversity. In this respect Wes-FIC is competitively well positioned, inasmuch as it possesses above-average financial strength. Expiration of the reinsurance contract with Fireman's Fund has left Wes-FIC, on a temporary basis, with capital (over $200 million as of 1990 yearend) which is large in proportion to the modest amount of insurance business currently being written.

Wes-FIC is operated by personnel employed by Berkshire and NICO; it has no employees of its own.

INDUSTRIAL SEGMENT

Precision Steel, acquired in 1979 for approximately $15 million, operates a well-established steel service center business in two locations: one in Franklin Park, Illinois, near Chicago; the other, operated by a wholly owned subsidiary, in Charlotte, North Carolina. The service centers buy low carbon sheet and strip steel, coated metals, spring steels, stainless steel, brass, phosphor bronze, aluminum and other metals, cut these metals to order, and sell them to a wide variety of customers.

The service center business is highly competitive. Precision Steel's annual sales volume of approximately $60 million compares with the steel service industry's annual volume of over $20 billion. Precision Steel competes not only with other service centers but also with mills which supply metal to the service centers. Competition exists in the areas of price, quality, availability of products and speed of delivery. Because it is willing to sell in relatively small quantities, Precision Steel has been able to compete in geographic areas distant from its service center facilities. Competitive pressure is intensified by imports and by a tendency of domestic manufacturers to substitute less costly components for parts traditionally made of steel.

Precision Brand Products, Inc. ("Precision Brand"), a wholly owned subsidiary of Precision Steel, manufactures shim stock and other tool room specialty items, as well as hose and muffler clamps, and distributes them under its own brand names nationwide, using both salesmen and manufacturers' representatives. This business is highly competitive.

Steel service raw materials are obtained principally from major domestic steel mills, and their availability is considered good. Precision Steel's service centers maintain extensive inventories in order to meet customer demand for prompt deliveries. Typically, an order is filled and the processed metals delivered to the customer within one week. Precision Brand normally maintains inventories adequate to allow for off-the-shelf service to customers.

The steel service businesses are subject to economic cycles. These businesses are not dependent on a few large customers. Steel service backlog of orders decreased to approximately $4.1 million as of December 31, 1990, from $4.3 million as of December 31, 1989.

Approximately 265 full-time employees are engaged in the steel service business, almost half of whom are members of unions. Management considers labor relations to be good.

New America Electric, 80%-owned by Wesco, was purchased just prior to 1988 yearend for about $8 million and is located in Anaheim, California. It manufactures electrical power distribution equipment including low- and medium-voltage switchgear, circuit breakers, ballasts and starters for commercial lighting, commercial service pedestals, and electrical equipment for marinas and mobile home and recreational vehicle parks.

New America Electric's principal raw materials are galvanized low- and medium-carbon steel, in sheets and coils; aluminum and copper busing and wire; a urea plastic compound and a silver composite contact for circuit breakers; various plastic materials for marina products; and various purchased parts including fuses, breakers, switches, transformers, receptacles and meters.

The steel and plastic are fabricated or molded into housings which are assembled with various purchased and fabricated parts into finished products. New America Electric fabricates its own ballasts and starters and holds a number of patents on these products. It manufactures a limited range of small and medium-sized commercial circuit breakers which are principally used either in its production of marina and park products or sold to other electrical manufacturers.

Competition in the electrical products business is intense and the industry is dominated by large firms doing business worldwide. New America Electric targets its selling efforts to specific market niches where competition is relatively less severe and where it can offer package proposals on specific projects. Examples would include ballasts and starters for municipal series lighting systems; custom switchgear, unit substations and pedestals for mobile home and recreational vehicle parks; and dock hardware, including dock boxes and power pedestals for marina developments. Competitive pressure recently has become even more intense, resulting mainly from the entry of several new manufacturers into New America Electric's traditional markets and a decline in overall market potential. Sales volume and earnings suffered in 1989 and 1990 as a result of several factors, including (1) a softening of economic conditions, (2) an overall decline in New America Electric's traditional markets, and (3) increased competition. It is much too early to estimate the probable future effect of these factors. Meanwhile New America Electric is expanding its sales efforts geographically and developing new products in an effort to resuscitate its operating results.

New America Electric's 1990 sales approximated $8.2 million, and its backlog of orders amounted to $ 0.9 million at December 31, 1990, versus $1.3 million one year earlier.

New America Electric employs approximately 100 full-time employees, approximately 65 of whom are union members. Management considers labor relations to be good.

Item 2. Properties

Wesco owns a business block in downtown Pasadena, California, which is improved with a nine-story office building that was constructed in 1964 and has approximately 125,000 square feet of net rentable area, as well as three commercial store buildings and a multistory garage with space for 425 automobiles. Approximately 22,000 square feet of the office building are used by Wesco as its headquarters or leased to Mutual Savings for use as its main office, while the balance is leased to outside parties under agreements expiring at various dates to 1995. Wesco, in January 1991, completed the purchase of a parking lot with space for approximately 100 automobiles across the street from its multistory garage. Mutual Savings leases its 1,700-square-foot satellite office in the Plaza

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Pasadena shopping center located across the street from its main office; this lease expires in 1995 and may be extended under a five-year option.

Wes-FIC uses as its place of business the Omaha, Nebraska headquarters office of National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., Wes-FIC's ultimate parent.

Mutual Savings holds real estate which has been acquired by foreclosure. The most valuable parcel consists of 22 acres of largely oceanfront land near Santa Barbara, California, where residential development is presently in progress. (See comments on regulatory matters on pages 22 and 23 hereof.) Other properties include several buildings in a small shopping center in Upland, California, which are leased to various small businesses.

Precision Steel and its subsidiaries own three buildings housing their plant and office facilities having usable area approximately as follows: 138,000 square feet in Franklin Park, Illinois; 42,000 square feet in Charlotte, North Carolina; and 59,000 square feet in Downers Grove, Illinois.

New America Electric's production, warehousing and office facilities are situated in an 83,200-square-foot building, which it leases in Anaheim, California. The lease expires in October 1994 and may be extended under a five-year option.

Item 3. Legal Proceedings

Wesco and its subsidiaries are not involved in any legal proceedings which are expected to result in material loss.

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

No matters were submitted to a vote of Wesco's shareholders subsequent to the annual meeting held in May 1990.

PART II

Item 5. Market for the Registrant's Capital Stock and Related Stockholder Matters

Wesco's common stock is traded on the American Stock Exchange and the Pacific Stock Exchange.

The following table sets forth the ranges of stock prices reported in *The Wall Street Journal* for Wesco's shares trading on the American Stock Exchange, by quarter, for 1990 and 1989, as well as cash dividends paid by Wesco on each outstanding share.

	1990				1989		
	Sales Price		Dividends Paid		Sales Price		Dividends Paid
Quarter Ended	High	Low		Quarter Ended	High	Low	
March 31	$62	$50	$0.205	March 31	$46¼	$41⅜	$0.195
June 30	58	55	0.205	June 30	55½	49⅛	0.195
September 30	56⅛	44½	0.205	September 30	73⅝	62¼	0.195
December 31	49⅝	39¾	0.205	December 31	65	60	0.195
			$0.82				$0.78

There were approximately 1,000 shareholders of record of Wesco's capital stock as of the close of business on March 15, 1991.

Item 6. Selected Financial Data

Set forth below and on the following pages are selected consolidated financial data for Wesco and its subsidiaries. For additional financial information, attention is directed to Wesco's audited 1990 consolidated financial statements appearing elsewhere in this report. (Dollar amounts are in thousands except for amounts per share.)

	Year Ended December 31,				
	1990	1989	1988	1987	1986
Revenues:					
Interest on loans	$ 13,183	$ 12,204	$ 11,248	$ 6,528	$ 5,982
Insurance premiums earned	2,003	37,959	62,465	73,384	67,515
Sales and service revenues	65,174	68,691	62,694	54,843	52,304
Interest and dividends on investments	40,008	38,232	38,177	35,399	32,227
Securities gains	593	8,972	9,952	2,194	8,282
Other	1,680	2,337	1,677	1,628	2,154
	122,641	168,395	186,213	173,976	168,464
Costs and expenses:					
Interest on savings accounts	21,975	21,261	20,579	20,903	22,275
Insurance losses and expenses	3,759	40,702	65,938	77,641	70,234
Cost of services and products sold	52,286	55,567	50,674	45,333	42,836
Selling, general and administrative	14,073	13,741	11,033	10,715	10,082
Interest on notes payable	4,758	3,939	3,051	3,078	3,114
Writeoff of prepaid FSLIC insurance premiums	—	—	—	3,618	—
	96,851	135,210	151,275	161,288	148,541
Income before income taxes	25,790	33,185	34,938	12,688	19,923
Income tax (provision) benefit	(361)	(2,851)	(4,849)	2,525	(3,399)
Net income	$ 25,429	$ 30,334	$ 30,089	$ 15,213	$ 16,524
Amounts per share:					
Net income	$3.57	$4.26	$4.22	$2.14	$2.32
Cash dividends	$ .82	$ .78	$ .74	$ .70	$ .66

	December 31,				
	1990	1989	1988	1987	1986
Assets:					
Cash, temporary cash investments, investments with fixed maturities and marketable equity securities	$558,604	$534,404	$503,449	$444,294	$466,715
Real estate loans receivable	131,109	153,763	137,007	139,468	78,657
Total assets	744,081	737,505	706,264	647,396	611,199
Liabilities:					
Savings accounts	$286,093	$291,592	$286,909	$286,211	$282,358
Insurance losses and loss adjustment expenses	71,405	91,151	95,585	79,578	49,202
Notes payable	55,726	56,011	31,786	31,017	31,273
Total liabilities	435,103	456,009	467,676	434,576	408,608
Shareholders' equity	$308,978	$281,496	$238,588	$212,820	$202,591
Per share	$43.40	$39.54	$33.51	$29.89	$28.45

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

FINANCIAL CONDITION

The financial condition of Wesco Financial Corporation ("Wesco") continues to be very sound. Wesco and its subsidiaries are believed to have not only capital resources for all operational needs, but above-normal liquidity in each of the industries in which they operate. Business operations of the various enterprises have continued to provide a positive cash flow, and earnings have been principally retained and reinvested.

Borrowings from banks and others have been available to Wesco and its subsidiaries under increasingly attractive terms. In October 1989, in connection with a $30 million Wesco note offering, Standard and Poor's Corporation announced an upgrade to AA+ in the credit rating assigned to Wesco debt.

The various investments owned by Wesco and its subsidiaries had an aggregate market value at 1990 yearend that was about $62 million higher than their carrying value in the consolidated balance sheet. At date of preparation of this report on Form 10-K, the excess of market value over carrying value had recovered to well over $100 million — its approximate level at 1989 yearend. Most of the unrecorded appreciation relates to marketable equity securities owned by Wesco's Mutual Savings subsidiary. It should be noted that under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") Mutual Savings and its Wes-Fin Service Corporation subsidiary will be required to sell certain investments by July 1, 1994. (See Item 1, Business.) Inasmuch as Mutual Savings has substantial unrecorded appreciation in its investments, and because, as a matter of practice, it maintains capital and liquidity above regulatory requirements, any such forced sales are not considered likely to jeopardize Mutual Savings' financial condition.

A key component of a savings and loan association's earnings is its net interest income, the spread between the yield earned on its assets and the cost of its liabilities. Its dependable generation not only requires the management of yields, costs and maturities of assets and liabilities, but also a limitation, consistent with the ratio of net worth to total interest-bearing liabilities, on the margin, or "gap," between interest-sensitive assets and interest-sensitive liabilities. Regulatory policies require that savings and loan associations monitor this gap and structure maturities of assets and liabilities with a view toward minimizing interest rate risk. The table below sets forth the major balance sheet categories and dollar amounts of items for Mutual Savings and its consolidated subsidiary which are rate-sensitive as of December 31, 1990, and the resulting net gaps as of the last three yearends (amounts are in thousands of dollars):

Cap Analysis

Balance Sheet Category	Within 6 Months	Within 1 Year	Within 3 Years	Within 5 Years	Within 10 Years	Total
	Amounts Subject to Repricing*					
Rate-sensitive assets:						
Cash and temporary cash investments	$ 62,328	$ 62,328	$ 62,328	$ 62,328	$ 62,328	$ 62,328
State and municipal bonds	1,475	2,175	11,475	16,875	16,875	16,875
Common and preferred stocks**	15,069	15,069	19,207	54,376	54,376	126,105
Loans receivable***	48,400	65,300	112,600	118,100	126,200	131,102
Total	127,272	144,872	205,610	251,679	259,779	336,410
Rate-sensitive liabilities:						
Savings accounts	192,378	238,171	282,782	286,363	286,363	286,363
Notes payable – FHLB	—	—	—	16,900	16,900	16,900
Total	192,378	238,171	282,782	303,263	303,263	303,263
Net gap at —						
December 31, 1990	$ (65,106)	$ (93,299)	$ (77,172)	$(51,584)	$(43,484)	$ 33,147
December 31, 1989	$(143,072)	$(163,250)	$(114,374)	$(51,398)	$(39,498)	$ 35,786
December 31, 1988	$ (72,916)	$(106,155)	$(105,988)	$(80,474)	$(34,136)	$ 89,139

* Amounts are *cumulative;* for example, loans that can be repriced in one year include ioans which can be repriced in six months.

** Amounts shown in the first five columns represent the carrying values of stocks expected to be sold before July 1, 1994 in order to satisfy minimum FIRREA requirements.

*** Amounts shown in the first five columns include estimated principal prepayments as well as normal principal amortization.

FIRREA requires, effective July 1, 1991, that savings and loan associations, in order to continue to be "qualified thrift lenders," maintain a larger proportion of their assets in a more restrictive list of housing-related assets than current regulations permit. Management has been informed that the more restrictive regulations identifying which assets will qualify have not yet been finalized. As presently drafted, the list of qualifying assets does not include Mutual Savings' investments in Freddie Mac common stock, obligations of the Federal Home Loan Bank, or real estate held for sale, notwithstanding the inclusion of each in a similar list of housing-related assets set forth in federal income tax regulations. Thus, Mutual Savings, in order to remain a qualified thrift lender, may be required to reduce its liquidity and sell part or all of its investment in Freddie Mac common stock, whose market value substantially exceeds its carrying value. Such a sale, if required, may significantly impact Mutual Savings' gap, but is not expected to affect detrimentally the operating results or shareholders' equity of Mutual Savings or Wesco.

Although Mutual Savings, and thus Wesco's financial segment, are presently exposed to detrimental effects should interest rates sharply increase, such exposure is mitigated by the liquidity of the appreciated investments in marketable securities.

Mutual Savings is believed to have had one of the lowest loan delinquency rates of any savings and loan association for the past several years. Although at 1990 yearend monthly payments were past due over 60 days on eleven loans whose outstanding principal balances aggregated $3.2 million, at the date this is written only five such loans, whose outstanding principal balances aggregate $575,000, remain past due. These five loans are collateralized by property whose market values aggregate approximately $1.1 million. Management attributes Mutual Savings' favorable loan loss experience (no loan losses have been recorded or required to be reserved for during the past five years) principally to four factors. First, it makes only first-mortgage real estate loans on owner-occupied, single-family residences. Second, about $32 million of its fixed-rate loans are well seasoned and collateralized by properties in which the borrowers have large equity interests. Third, its adjustable-rate first-mortgage loans ($75 million) are collateralized by conservatively appraised, owner-occupied properties. Fourth, the balance of its loan portfolio not in the foregoing categories ($24 million) is backed by government guarantees or is otherwise of extremely high quality.

Mutual Savings has no "troubled" assets. Although the carrying value of its "real estate held for sale" has increased to about $15 million at 1990 yearend from about $9 million one year earlier, the growth reflects the ongoing construction of a residential development in Montecito, near Santa Barbara, California. This development, plus a small shopping center in Upland, California, represent virtually all of Mutual Savings' foreclosed real estate, and the market values of both are believed substantially to exceed book carrying values.

Wesco's financial, insurance and industrial segments are not now suffering significantly from inflation, but each segment has potential exposure. The gap figures contained in the foregoing table indicate that Mutual Savings and the financial segment are exposed to detrimental effects should interest rates rapidly rise in the near future. Very large unanticipated changes in the rate of inflation could adversely impact the insurance business, because premium rates are established well in advance of incurrence of the related costs. The steel service and electrical equipment manufacturing businesses are competitive and operate on tight gross profit margins, and thus their earnings are susceptible to inflationary cost increases.

RESULTS OF OPERATIONS

The savings and loan industry has been in considerable turmoil for many years. In response to perceived uncertainties in that industry Wesco, in the 1970s, began to diversify its operations; and the savings and loan business has declined, both in size and in relative importance to Wesco's consolidated operations. As funds have become available pending their use in expansion or acquisition, the portfolio of investment securities has grown, and dividend and interest income and gains on securities transactions have increased in importance to Wesco's consolidated net income. Steel service operations were added in 1979, property and casualty insurance operations were added in September 1985, and electrical equipment manufacturing operations were added at 1988 yearend. (See Item 1, Business, for further discussion of the changes in the savings and loan industry and of Wesco's other operations.)

The following summary indicates the contribution to consolidated net income of each of Wesco's three business segments — financial, insurance and industrial — and demonstrates the prevalence and effect on consolidated net income of unusual items in recent years (amounts are in thousands of dollars, all after income tax effect):

	1990	1989	1988	1987	1986
Financial segment:					
"Normal" net operating income of Mutual Savings	$ 4,099	$ 4,191	$ 4,694	$ 2,895	$ 2,159
Other operations*	3,975	3,194	3,609	1,808	1,459
	8,074	7,385	8,303	4,703	3,618
Unusual items:					
Securities gains	—	10	454	1,199	4,238
Writeoff of prepaid FSLIC insurance premiums	—	—	—	(1,935)	—
	—	10	454	(736)	4,238
Net income — financial	8,074	7,395	8,757	3,967	7,856
Insurance segment:					
"Normal" net operating income	14,924	14,276	12,094	9,459	6,615
Securities gains	391	5,910	6,071	9	352
Net income — insurance	15,315	20,186	18,165	9,468	6,967
Industrial:					
"Normal" net operating income	2,040	2,753	3,167	2,450	1,701
Flood loss	—	—	—	(672)	—
Net income — industrial	2,040	2,753	3,167	1,778	1,701
Net income — consolidated	$25,429	$30,334	$30,089	$15,213	$16,524

* *Comprises net commercial real estate rental income, plus interest and dividend income from cash equivalents and investment securities held outside Mutual Savings and Wes-FIC, less interest and other corporate expenses.*

The foregoing summary contains consolidated *after-tax* earnings data. Reference is made to the following: Wesco's consolidated financial statements beginning on page 39, including in particular Note 11, which provides information as to operating profit *before taxes* for each of Wesco's business segments for the past three years; and the condensed consolidated balance sheet of Mutual Savings as of 1990 and 1989 yearends, appearing on page 56. The following discussion, by business segment, should be read in conjunction with all these data.

Financial Segment

The stability of Mutual Savings' consolidated "normal" net operating income for each of the past five years has resulted significantly, but to a varying degree, from income tax benefits available principally because of the presence of interest income on state and municipal bonds and dividend income on preferred and common stocks, which are substantially exempt from income taxation. Following is a summary of the components of Mutual Savings' consolidated "normal" net operating income (in thousands of dollars):

	1990	1989	1988	1987	1986
Revenues:					
Interest on loans, including mortgage-backed securities	$13,158	$12,188	$11,245	$ 6,524	$ 5,978
Interest on temporary cash investments and miscellaneous other revenues	3,695	3,203	7,459	13,867	12,576
Dividends on preferred and common stocks	10,669	10,669	8,058	4,163	4,238
Interest on state and municipal bonds	1,936	1,983	1,983	2,022	2,348
	29,458	28,043	28,745	26,576	25,140
Expenses:					
Interest on savings accounts	22,004	21,530	20,840	20,944	22,396
Interest on notes payable	1,475	599	—	—	—
Operating expenses	4,672	4,455	4,108	4,241	3,902
	28,151	26,584	24,948	25,185	26,298
Income (loss) before income tax benefit	1,307	1,459	3,797	1,391*	(1,158)
Income tax benefit relating thereto	2,792	2,732	897	1,504	3,317
"Normal" net operating income	$ 4,099	$ 4,191	$ 4,694	$ 2,895*	$ 2,159

* *These figures are before writeoff of premiums prepaid to FSLIC amounting to $3,618 before taxes and $1,935 after taxes.* (See Item 1, Business.)

Mutual Savings' "normal" net operating income has become increasingly dependent on earnings from mortgages and mortgage-related assets, and less dependent on earnings from temporary cash investments, following Mutual Savings' resumption of real estate lending in 1986, and its investments in mortgage-backed securities in December 1987 and in common stock of Freddie Mac in 1988. As Mutual Savings and its service corporation subsidiary sell their investments in preferred stocks over the next several years and increase their concentration of assets in mortgages and mortgage-backed securities, as required by FIRREA (see Item 1, Business), and as the investments in state and municipal bonds mature (see gap analysis above), Mutual Savings' net operating income will very likely become more dependent on the traditional "interest rate spread" of the typical savings and loan association, and more subject to interest rate risk, than ever before.

Mutual Savings has generally earned a positive rate spread on its real estate loans and mortgage-backed securities. Interest on state and municipal bonds and dividends on preferred and common stocks, which are substantially tax-exempt, have significantly benefited its rate spread. Details for each of the past three years are set forth in the following table:

	1990	1989	1988
Yield on loans and mortgage-backed securities	9.32%	8.86%	8.44%
Yield on investments*	9.96	10.12	10.63
Combined yield on loans and investments	9.70	9.61	9.74
Cost of savings	(7.43)	(7.55)	(7.14)
Cost of borrowings	(8.73)	(8.73)	—
Combined cost of savings and borrowings	(7.50)	(7.60)	(7.14)
Rate spread**	2.20	2.01	2.60

* Interest on short-term investments, interest on state and municipal bonds and dividends on common and preferred stocks, all stated on a so-called tax-equivalent basis, i.e., on a pre-tax basis as if fully subject to income taxes at maximum corporate rates.

** The difference between the combined yield on loans and investments and the combined cost of savings and borrowings.

Mutual Savings' rate spreads of 2.20% for 1990, 2.01% for 1989 and 2.60% for 1988 were well above the spreads of 1.43% for 1987, 0.95% for 1986 and 1.13% for 1985. The improvement in rate spread in recent years has been attributable principally to the increased level of dividend income and to the increase in real estate loans and mortgage-backed securities since 1987 yearend. The decline in the spread for 1989 was attributed to several factors. First, widely publicized turmoil in the savings and loan industry caused associations to pay higher rates in order to retain savings deposits. Second, in August 1989, Mutual Savings borrowed $16.9 million from the Federal Home Loan Bank, at 8.73% fixed, a rate that was quite favorable at the time, alternatives considered. Third, the dividend yield on Mutual Savings' investment in common stock of Freddie Mac did not match the yield previously earned on the funds invested in this asset. A decline in competitive pressures and a general decline in market rates of interest combined to allow Mutual Savings to reduce rates on savings accounts during 1990, resulting in improved interest rate spread.

Mutual Savings has earned returns on average assets of 1.14% in 1990, 1.22% in 1989 and 1.39% in 1988, and returns on average shareholder's equity of 8.18% in 1990, 8.41% in 1989 and 9.42% in 1988. These returns do not include the changes in unrealized appreciation of Mutual Savings' investments, which amounts have been significant and have fluctuated from year to year.

"Normal" net operating income for financial operations other than Mutual Savings, as set forth in the table on page 31, amounted to $4.0 million, $3.2 million and $3.6 million in 1990, 1989 and 1988. This category of net operating income contains interest and dividend income on investments held outside the savings and loan and insurance businesses. The increase in 1990 resulted mainly from a change in mix of the investment portfolio and an increase in the amount invested. The decrease in 1989 resulted mainly from Wesco's contribution of funds to Wesco-Financial Insurance Company ("Wes-FIC") in January of that year; interest and dividend income earned on these funds is now classified as income of the insurance segment.

Insurance Segment

Wesco entered into the property and casualty insurance business in September 1985. Substantially all of its insurance business to date has been an arrangement under which it reinsured 2% of the property and casualty insurance business of Fireman's Fund Insurance Companies ("Fireman's Fund") during a four-year coverage period that expired on August 31, 1989. It also began to write direct insurance business during 1988, and, effective January 1, 1990, it entered into an arrangement for the reinsurance of 50% of the workers' compensation insurance business of Cypress Insurance Company ("Cypress"). (See Item 1, Business, for further information on Wes-FIC.)

The "normal" net operating income or loss of Wes-FIC (i.e., income or loss before securities gains) represents the combination of its underwriting results with the interest and dividend income from its investment activities. Following is a summary of such data, in thousands of dollars:

	Year Ended December 31,				
	1990	1989	1988	1987	1986
Premiums written	$ 2,454	$14,283	$59,227	$71,032	$70,506
Premiums earned	$ 2,003	$37,959	$62,465	$73,384	$67,515
Underwriting loss	$(1,755)	$(2,743)	$(3,473)	$(4,257)	$(2,719)
Interest and dividend income	17,852	17,398	15,377	11,618	9,685
Income before income taxes	16,097	14,655	11,904	7,361	6,966
Income tax (provision) benefit	(1,173)	(379)	190	2,098	(351)
"Normal" net operating income	$14,924	$14,276	$12,094	$ 9,459	$ 6,615

Underwriting results in the property and casualty insurance business are necessarily based on estimates and actuarial assumptions, and tend to be cyclical. Results were disastrous to many insurers for several years prior to Wes-FIC's entry into the insurance business, as price competition, inflation and new judicial notions tended to extend insurance coverages beyond limits contemplated when policies were issued. Several financial failures had occurred in the industry. The result was a decrease in the industry's insuring capacity (basically a multiple of its capital). This decreased capacity enabled insurers beginning in 1985 to increase prices (premium rates) significantly, as well as to become more selective in their underwriting. When Wes-FIC entered into the four-year Fireman's Fund reinsurance contract, the cycle appeared to have become favorable for property and casualty insurers. But shortly thereafter, as price competition increased, Fireman's Fund management became more selective in its underwriting, and, as a result, growth in premium volume slowed in 1987 and declined in 1988. The significant decreases reflected above for both written and earned premiums for 1989 and 1990 were principally the result of expiration of the reinsurance arrangement with Fireman's Fund as of August 31, 1989, offset only slightly by the Cypress business added in 1990. Management is hopeful that market conditions will shortly improve, and that attractive opportunities similar to the arrangements with Fireman's Fund and Cypress will become available. Wes-FIC remains liable for runoff of its share of the losses and loss expenses covered by the Fireman's Fund contract, and will continue to invest funds offsetting the reserves until the runoff is complete many years hence.

Insurance losses and loss expenses, and the related liabilities reflected on Wesco's consolidated balance sheet, because they are based in large part upon estimates, are subject to estimation error. Revisions of such estimates in future periods could significantly affect the results of operations reported for future periods.

Interest and dividend income has been earned by Wes-FIC (1) from its investment of net insurance premium proceeds, or "float," (2) on capital contributed to the insurance business by Wesco ($45 million in 1985, $36.2 million in 1986, $9 million in 1987 and $13 million in January 1989), and (3) on earnings retained and reinvested. Following is a summary, at cost, of the components of Wes-FIC's investment portfolio, as of yearend, in thousands of dollars:

	December 31,				
	1990	1989	1988	1987	1986
Taxable, interest-bearing cash equivalents	$ 11,214	$ 10,340	$ 1,017	$ 21,073	$ 6,675
State and municipal bonds	73,044	94,101	154,455	138,191	141,853
Equity securities	154,778	138,727	65,702	33,020	—
	$239,036	$243,168	$221,174	$192,284	$148,528

The income tax provision or benefit of Wes-FIC has fluctuated as a percentage of its pre-tax income or loss in each of the periods presented in the table on the preceding page. These fluctuations have been caused by the following: reductions in the statutory federal income tax rate from 46% for 1986 to 40% for 1987 and 34% for years beginning with 1988; differences, beginning in 1987, in the method of computing income taxes as a result of the Tax Reform Act of 1986; and fluctuations in the relationship of substantially tax-exempt components of income to total pre-tax income.

As noted above, although Wes-FIC's arrangement for the reinsurance of 2% of Fireman's Fund's property and casualty insurance business expired August 31, 1989, the liability for losses and loss adjustment expenses (approximately $68 million as of 1990 yearend), which represents float, will continue to be invested, in declining amounts, as claims are paid over many future years. Wes-FIC maintains a strong capital position which provides it the opportunity to accept other insurance contracts.

Industrial Segment

Following is a summary of the operating results of the industrial segment, whose operations include Precision Steel Warehouse, Inc. and its subsidiaries ("Precision Steel") and New America Electrical Corporation ("New America Electric"), 80%-owned by Wesco since 1988 yearend. (Amounts are in thousands.)

	Year Ended December 31,				
	1990	1989	1988	1987	1986
Revenues, principally sales and services	$65,200	$69,470	$62,936	$55,054	$52,502
Pre-tax income	3,470	4,641	5,173	4,325	3,361
Income tax provision	(1,397)	(1,873)	(2,006)	(1,875)	(1,660)
Minority interest	(33)	(15)	—	—	—
"Normal" net operating income	$ 2,040	$ 2,753	$ 3,167	$ 2,450	$ 1,701

Revenues of the industrial segment declined in 1990 due principally to continued weakening of economic conditions and reduced industrial activity, combined with increased competition for sales at prices management has periodically declined to match. Had it not been for the inclusion of the newly acquired New America Electric's sales of $8.2 million in 1990 and $9.3 million in 1989, revenues of the industrial segment would have declined in 1990 and 1989 from 1988, which was an extraordinary year for Precision Steel.

Cost of products sold, as a percentage of sales, amounted to 80.2%, 80.9% and 80.8% for 1990, 1989, and 1988. The cost percentage typically fluctuates slightly from year to year as a result of changes in product mix, price competition among suppliers and at the retail level, and the availability of favorable quantity order prices on materials purchased.

The decreases in "normal" net operating income of the industrial segment for 1990 and 1989 were attributable largely to the declines in volume of sales and services revenues. Another factor affecting the comparability of net operating income was the inclusion in 1989 of an after-tax gain of $337,000 on termination of Precision Steel's pension plan.

* * * * * *

Realized securities gains have been an element of Wesco's net income for each of the past several years. The amounts of these gains, recorded when appreciated securities are sold, tend to fluctuate significantly from period to period. The varying effect upon Wesco's pre-tax income is evident on the face of the consolidated statement of income. The amount of realized gain for any period has no predictive value, and variations in amount from period to period have no practical analytical value, given the preexistence of substantial unrealized price appreciation in Wesco's consolidated investment portfolio from time to time. Realized securities gains amounted to $0.4 million, $5.9 million and $6.5 million after income taxes in 1990, 1989 and 1988.

Wesco's consolidated revenues include significant amounts of fully tax-exempt interest on state and municipal bonds, substantially exempt dividend income from preferred and common stocks, and gains and losses on sales of stocks which, through 1987, were subject to favorable income tax rates. Fluctuations in the proportion of these investment components to total consolidated pre-tax income have resulted in tax provisions and benefits expressed as percentages of pre-tax income, as follows: tax provisions of 1.4%, 8.6% and 13.9% in 1990, 1989 and 1988, a tax benefit of 19.9% in 1987, and a tax provision of 17.1% in 1986. (See Note 5 to the accompanying consolidated financial statements for further information on income taxes.)

In December 1987 the Financial Accounting Standards Board issued Statement No. 96 ("FASB 96") which requires a change in accounting for income taxes. The date by which this statement must be implemented has been deferred several times; and, although it is currently required to be implemented not later than in 1992, the Financial Accounting Standards Board has announced its intention to defer the date again. Uncertainties exist with respect to the most appropriate means of implementing the changes, and Wesco management has not determined precisely how it will accomplish the newly prescribed methods. Management believes that if changes expected under FASB 96 had been made as of 1990 yearend, the effects on Wesco's 1990 consolidated earnings and shareholders' equity data contained in Item 6, Selected Financial Data, and in the consolidated financial statements beginning on page 40, would not have been significant.

Consolidated revenues, expenses and earnings set forth in Item 6, Selected Financial Data, and in Wesco's consolidated statement of income, are not necessarily indicative of future revenues, expenses and earnings, in that they are subject to significant variations in amount and timing of securities gains and losses, the possible occurrence of other unusual items and significant changes in the interest rate spread. In addition, FIRREA requires that Mutual Savings increase its investment in housing-related assets beginning July 1, 1991, and that it sell certain of its equity securities investments by mid-1994 (see Item 1, Business). Although management expects that the changes required by FIRREA will impact Mutual Savings, the full effect is not yet possible to quantify. Such an effect, while possibly materially detrimental to Mutual Savings in terms of net income that might be reported for any single year, is not expected to significantly affect the results of Wesco's operations over the long term or detrimentally affect its net worth.

Item 8. Financial Statements

Following is an index to financial statements and related schedules appearing in this report:

The data appearing on the financial statement schedules listed below should be read in conjunction with the consolidated financial statements and notes of Wesco Financial Corporation and the independent auditors' report referred to above. Schedules not included with these financial statement schedules have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Item 9. Disagreements on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information set forth in the section entitled "Election of Directors" appearing in the definitive combined notice of annual meeting and proxy statement of Wesco Financial Corporation for its 1991 annual meeting of shareholders is incorporated herein by reference.

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Item 11. Management Remuneration and Transactions

The information set forth in the section "Compensation of Directors and Executive Officers" in the definitive combined notice of annual meeting and proxy statement of Wesco Financial Corporation for its 1991 annual meeting of shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth in the section "Voting Securities and Holders Thereof" in the definitive combined notice of annual meeting and proxy statement of Wesco Financial Corporation for its 1991 annual meeting of shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information set forth in the section "Transactions with Management and Others" in the definitive combined notice of annual meeting and proxy statement of Wesco Financial Corporation for its 1991 annual meeting of shareholders is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

The following exhibits (listed by numbers corresponding to Table 1 of Item 601 of Regulation S-K) are filed as part of this Annual Report on Form 10-K or are incorporated herein by reference:

- 3a. Articles of Incorporation and By-Laws of Wesco Financial Corporation (incorporated by reference to Exhibit 3a to Annual Report on Form 10-K of Wesco Financial Corporation for year ended December 31, 1989).
- 4.1 Form of Indenture dated October 2, 1989 (incorporated by reference to Exhibit 4.1 to report on Form 8-K of Wesco Financial Corporation dated October 31, 1989, File No. 33-31290).
- 4.2 Form of Supplemental Indenture dated October 15, 1989 (incorporated by reference to Exhibit 4.1 to report on Form 8-K of Wesco Financial Corporation dated October 31, 1989, File No. 33-31290).
- 22. Subsidiaries.

The index to financial statements and related schedules set forth in Item 8 of this report is incorporated herein by reference.

No reports on Form 8-K were filed during the quarter ended December 31, 1990.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESCO FINANCIAL CORPORATION

By:
Charles T. Munger — March 28, 1991
Chairman of the Board and President
(principal executive officer)

By:
Jeffrey L. Jacobson — March 28, 1991
Vice President and Chief Financial Officer
(principal financial officer)

By:
Jeanne G. Leach — March 28, 1991
Treasurer
(principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Robert D. Aston — March 28, 1991
Director

Robert H. Bird — March 28, 1991
Director

James N. Gamble — March 28, 1991
Director

Charles T. Munger — March 28, 1991
Director

David K. Robinson — March 28, 1991
Director

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5161 River Road
Bethesda, MD 20816
(301) 951-1300

EXHIBITS FOLLOW

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Wesco Financial Corporation

We have audited the accompanying consolidated balance sheets of Wesco Financial Corporation and subsidiaries as of December 31, 1990 and 1989, the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1990. Our audits also included financial statement schedules listed in the index at Item 8. These financial statements and financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Wesco Financial Corporation and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

Deloitte & Touche

Los Angeles, California
March 1, 1991

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

ASSETS	December 31, 1990	December 31, 1989
Cash and temporary cash investments	$ 84,020	$ 55,096
Investments:		
Securities with fixed maturities	269,493	291,097
Marketable equity securities	205,091	188,211
Real estate loans receivable	131,109	153,763
Accounts receivable	12,961	13,050
Property and equipment	8,545	8,352
Other assets	32,862	27,936
	$744,081	$737,505

LIABILITIES AND SHAREHOLDERS' EQUITY	1990	1989
Savings accounts	$286,093	$291,592
Insurance losses and loss adjustment expenses	71,405	91,151
Income taxes payable, principally deferred	14,022	9,752
Notes payable	55,726	56,011
Other liabilities	7,857	7,503
Total liabilities	435,103	456,009
Shareholders' equity:		
Capital stock, $1 par value — authorized, 7,500,000 shares; issued and outstanding, 7,119,807 shares	7,120	7,120
Capital surplus arising from stock dividends	23,319	23,319
Unrealized appreciation of marketable equity securities of insurance business	26,966	19,076
Retained earnings — partially restricted	251,573	231,981
Total shareholders' equity	308,978	281,496
	$744,081	$737,505

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(Dollar amounts in thousands except for amounts per share)

	Year Ended December 31, 1990	1989	1988
Revenues:			
Interest on loans	$ 13,183	$ 12,204	$ 11,248
Insurance premiums earned	2,003	37,959	62,465
Sales and service revenues	65,174	68,691	62,694
Interest and dividends on investments	40,008	38,232	38,177
Securities gains	593	8,972	9,952
Other	1,680	2,337	1,677
	122,641	168,395	186,213
Costs and expenses:			
Interest on savings accounts	21,975	21,261	20,579
Insurance losses and loss adjustment expenses	2,115	27,811	44,335
Insurance underwriting expenses	1,644	12,891	21,603
Cost of services and products sold	52,286	55,567	50,674
Selling, general and administrative expenses	14,073	13,741	11,033
Interest on notes payable	4,758	3,939	3,051
	96,851	135,210	151,275
Income before income taxes	25,790	33,185	34,938
Income tax provision	(361)	(2,851)	(4,849)
Net income	25,429	30,334	30,089
Retained earnings — beginning of year	231,981	207,201	182,381
Cash dividends declared and paid	(5,837)	(5,554)	(5,269)
Retained earnings — end of year	$251,573	$231,981	$207,201
Amounts per share based on 7,119,807 shares:			
Net income	$3.57	$4.26	$4.22
Cash dividends	$ .82	$ .78	$ .74

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

	Year Ended December 31,		
	1990	1989	1988
Cash flows from operating activities:			
Net income	$ 25,429	$ 30,334	$ 30,089
Adjustments to reconcile net income with net cash, including temporary cash investments, provided by operating activities —			
Gain on sales of securities, before taxes	(593)	(8,972)	(9,952)
Provision for depreciation and amortization, including amortization of bond premiums of $1,494, $2,214, and $2,278	2,680	3,471	3,229
Net increase (decrease) in liabilities for losses and loss adjustment expenses of insurance business	(19,746)	(4,434)	16,007
Return of unearned premiums, less ceding commissions, on expiration of reinsurance contract	—	(15,657)	—
Increase (decrease) in income taxes payable	205	(2,838)	(2,072)
Other, net	2,336	12,580	(7,769)
Net cash provided by operating activities	10,311	14,484	29,532
Cash flows from investing activities:			
Proceeds from sales of investments with fixed maturities	17,231	63,148	76,367
Proceeds from maturities and redemptions of investments with fixed maturities	3,500	9,300	—
Proceeds from sales of marketable equity securities	4,544	27,239	86,420
Purchases of investments with fixed maturities	—	(75,259)	(35,449)
Purchases of marketable equity securities	(9,740)	(28,948)	(167,364)
Real estate loan originations	(7,698)	(45,515)	(16,716)
Principal collections on real estate loans and mortgage-backed securities	29,060	29,250	19,730
Other, net	(6,663)	(4,343)	(7,414)
Net cash provided (used) by investing activities	30,234	(25,128)	(44,426)
Cash flows from financing activities:			
Net decrease in passbook, money-market-rate and interest-bearing checking accounts	(755)	(11,772)	(4,928)
Net increase (decrease) in certificate accounts	(4,744)	16,455	5,626
Increase in notes payable	—	49,500	—
Redemption of notes payable	—	(25,000)	—
Payment of cash dividends	(5,837)	(5,554)	(5,269)
Other, net	(285)	(592)	770
Net cash provided (used) by financing activities	(11,621)	23,037	(3,801)
Increase (decrease) in cash, including temporary cash investments	28,924	12,393	(18,695)
Cash, including temporary cash investments — beginning of year	55,096	42,703	61,398
Cash, including temporary cash investments — end of year	$ 84,020	$ 55,096	$ 42,703
Supplementary information:			
Interest paid during year	$ 26,845	$ 24,727	$ 23,630
Income taxes paid (recovered), net, during year	(92)	5,689	6,921

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands except for amounts per share)

Note 1. Presentation and Consolidation

Wesco Financial Corporation ("Wesco") is 80.1%-owned by Blue Chip Stamps ("Blue Chip"), which in turn is wholly owned by Berkshire Hathaway Inc. ("Berkshire").

The consolidated financial statements of Wesco include the accounts of Wesco and its subsidiaries, which are all either directly or indirectly wholly owned, except for New America Electrical Corporation ("New America Electric"), which is 80% owned. These subsidiaries — most importantly Mutual Savings and Loan Association ("Mutual Savings"), Wesco-Financial Insurance Company ("Wes-FIC") and Precision Steel Warehouse, Inc. ("Precision Steel") — are engaged in several diverse businesses. See Note 11 for Wesco's consolidated financial information classified by business segment.

All material intercompany balances and transactions have been eliminated in the preparation of the accompanying consolidated financial statements.

Note 2. Investments

Temporary cash investments include federal funds deposits, U.S. Treasury bills, money-market accounts, and other highly liquid investments maturing in less than three months from date acquired.

Investments in securities with fixed maturities are carried on the consolidated balance sheet principally at cost, adjusted for accretion of discount or amortization of premium. None of these investments are held for trading purposes. Marketable equity securities, except for those held in the insurance and savings and loan businesses, are carried at cost, which is not in excess of market. Marketable equity securities held in the insurance business are carried at market value, with any resulting gain or loss added to or deducted from shareholders' equity, net of deemed applicable income taxes, without effect on net income. Those held in the savings and loan business are carried at the lower of aggregate cost or market.

Following is a summary of temporary cash investments and investments with fixed maturities, at yearend:

	1990			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Temporary cash investments:				
Obligations of the Federal Home Loan Bank..	$ 58,400	$ —	$ —	$ 58,400
Corporate obligations	10,962	—	—	10,962
Other	9,463	—	—	9,463
	$ 78,825	$ —	$ —	$ 78,825
Investments with fixed maturities:				
Preferred stocks —				
Salomon Inc, 9%	$100,000	$ —	$ —	$100,000
The Gillette Company, 8¾%	40,000	8,000	—	48,000
Champion International Corporation, 9¼%	23,000	—	—	23,000
State and municipal bonds	89,969	3,776	(23)	93,722
Other	16,524	141	(4,907)	11,758
	$269,493	$11,917	$(4,930)	$276,480

	1989			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Temporary cash investments:				
Obligations of the Federal Home Loan Bank..	$ 30,900	$ —	$ —	$ 30,900
Corporate obligations	10,230	23	—	10,253
Other	9,116	—	—	9,116
	$ 50,246	$ 23	$ —	$ 50,269
Investments with fixed maturities:				
Preferred stocks —				
Salomon Inc, 9%	$100,000	$ —	$ —	$100,000
The Gillette Company, 8¾%	40,000	—	—	40,000
Champion International Corporation, 9¼%	23,000	—	—	23,000
State and municipal bonds	111,573	3,810	—	115,383
Other	16,524	79	(29)	16,574
	$291,097	$ 3,889	$ (29)	$294,957

Market quotations at the respective year ends with respect to the preferred stocks were not available. Charles T. Munger, Chairman of the Board and President of Wesco, acting on behalf of the board of directors of Wesco, in consultation with Warren E. Buffett, Chairman of the Board and Chief Executive Officer of Berkshire, determined the fair values of such stocks.

The preferred stocks listed above were acquired by Wesco and its subsidiaries, in conjunction with purchases made by other subsidiaries of Berkshire, and are all convertible into common stock and subject to various contractual terms and conditions. Salomon Inc must redeem 20% of its preferred stock on October 31 each year commencing in 1995, to the extent still outstanding. Champion International Corporation must redeem its preferred stock by December 6, 1999 if not previously called or converted. The Gillette Company ("Gillette") possessed under certain circumstances the right to redeem its preferred shares for cash, at original issue price, if not converted by a date fixed by notice. Gillette gave notice of its exercise of that right on February 28, 1991, and the date of April 1, 1991 was fixed as the date for conversion of the preferred shares owned by Wesco into 800,000 shares of Gillette common stock, whose 1990 yearend market value approximated $50.2 million. The conversion will not result in realized gain or loss to Wesco. The current dividend paid by Gillette on its common stock approximates only 2½% annually, based on Wesco's cost, compared to 8¾% on the preferred.

The state and municipal bonds set forth above are owned by subsidiaries of Wesco. As of 1990 yearend, they are expected to mature as follows:

	Amortized Cost	Estimated Market Value
In one year or less	$ 7,142	$ 7,182
After one year through five years	61,761	63,994
After five years through ten years	9,882	11,096
After ten years	11,184	11,450
	$89,969	$93,722

Dollar amounts in thousands except for amounts per share

Mutual Savings owns various mortgage-backed securities, classified as real estate loans receivable on the accompanying consolidated balance sheet, at year end:

1990			1989		
Amortized Cost	Gross Unrealized Gains	Estimated Market Value	Amortized Cost	Gross Unrealized Gains	Estimated Market Value
$23,727	$ 890	$24,617	$34,315	$ 824	$35,139

Estimated maturities, including prepayments, of the mortgage-backed securities, as of 1990 yearend, are as follows:

	Amortized Cost	Estimated Market Value
In one year or less	$11,650	$12,100
After one year through five years	11,350	11,775
After five years	727	742
	$23,727	$24,617

Following is a summary of marketable equity securities:

	December 31, 1990			December 31, 1989		
	Cost	Market	Carrying Value	Cost	Market	Carrying Value
Federal Home Loan Mortgage Corp. ("Freddie Mac") common stock	$ 71,729	$117,000	$ 71,729	$ 71,729	$161,100	$ 71,729
The Coca-Cola Company common stock	42,637	86,080	85,640	40,761	69,579	69,579
Preferred stocks of public utilities	36,852	45,719	36,852	36,852	45,467	36,852
Other	13,016	10,870	10,870	9,966	10,051	10,051
	$164,234	$259,669	$205,091	$159,308	$286,197	$188,211

At 1990 yearend, the portfolio of marketable equity securities contained aggregate unrealized gains of $97,660 and losses of $2,225.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") limits investment activities of state-chartered savings and loan associations such as Mutual Savings essentially to those allowed for federally chartered associations. FIRREA requires that certain equity investments be sold by July 1, 1994; prior thereto, if aggregate market value of such investments were to drop to less than aggregate cost, the aggregate unrealized loss would be deducted from net income and net worth, net of deemed applicable income taxes. The accompanying yearend 1990 consolidated balance sheet of Wesco includes redeemable and non-redeemable preferred stocks of public utilities, carried at $41,376, and convertible preferred stock of Salomon Inc., carried at $13,000, which must be sold pursuant to FIRREA.

FIRREA also requires, effective July 1, 1991, that savings and loan associations maintain a larger proportion of their assets in a more restrictive list of housing-related assets than current regulations permit. Management has been informed that the more restrictive regulations identifying qualifying assets have not yet been finalized. As presently drafted, the list does not include Mutual Savings' investments in Freddie Mac common stock or obligations of the Federal Home Loan Bank, notwithstanding their inclusion in a similar list of housing-related assets under federal income tax regulations. Nevertheless, Mutual Savings may be required to reduce its liquidity and sell part or all of its investment in Freddie Mac common stock, whose market value as of February 28, 1991 has increased to about $169 million, possibly to another of Wesco's wholly owned subsidiaries. Such a sale, if

Dollar amounts in thousands except for amounts per share

required, is not expected to affect detrimentally the operating results or shareholders' equity of Mutual Savings or Wesco.

Note 3. Real Estate Loans Receivable

Following is a summary of real estate loans receivable by type of collateral, at yearend:

	1990	1989
Residential property of one to four units	$102,899	$112,807
Residential property of more than four units	2,917	3,701
Residential mortgage-backed securities	23,727	34,315
Commercial property and vacant land	1,375	1,516
Other	191	1,424
	131,109	153,763
Less unearned loan fees	—	—
	$131,109	$153,763
Average interest rate	9.20%	9.23%

The foregoing figures as of 1990 and 1989 yearends include $107,191 and $118,024 of Southern California real estate loans originated by Mutual Savings. Of these loans, $74,941 and $79,635 bear adjustable rates of interest.

Interest income on loans is recognized under the accrual method of accounting. Such accrued interest amounted to $1,167 and $1,281 at 1990 and 1989 yearends.

Various loans whose 1990 yearend balances aggregate $36,609 collateralize certain debt. See Note 6.

Note 4. Savings Accounts

Following is a summary of savings accounts by type of account, at yearend:

Type of Account	Interest Rate(a)	1990	1989
Interest-bearing checking accounts(b)	4.85%	$ 5,079	$ 4,806
Passbook accounts(b)	5.00	12,481	13,691
Money-market-rate accounts(b)	5.61	47,797	47,615
Certificate accounts:			
32 days-6 months	7.56	47,493	46,959
7 months-1 year	7.89	26,885	26,989
13 months-2 years	8.14	37,889	25,580
25 months-4 years	8.50	19,232	19,216
Over 4 years	8.58	14,263	18,420
IRA/Keogh accounts, 18 months(c)	8.27	37,816	30,377
IRA/Keogh accounts, 4 years(c)	8.87	5,096	6,860
Jumbo certificates of deposit	7.82	32,062	51,079
		$286,093	$291,592

(a) Weighted average annual interest rate at 1990 yearend.

(b) No stated maturity.

(c) Other IRA/Keogh accounts included in the various certificate accounts amounted to $914 and $3,763 at 1990 and 1989 yearends.

Dollar amounts in thousands except for amounts per share

The weighted average interest rates on all accounts at 1990 and 1989 yearends were 7.43% and 7.90%. These rates are based upon stated interest rates without giving consideration to daily compounding of interest or forfeiture of interest due to premature withdrawals.

At 1990 yearend, certificate accounts mature as follows: 1991, $172,814; 1992, $32,259; 1993, $12,352, and 1994, $3,311.

Note 5. Taxes on Income

Certain items of income and expense are recognized in the financial statements in periods that differ from the periods in which these items are recognized on the income tax returns, giving rise to the recognition in the financial statements of deferred and prepaid income taxes. The liability for deferred income taxes is included on the accompanying consolidated balance sheet, net of prepaid income taxes, in income taxes payable. Following is a breakdown of the liability for income taxes reflected on the accompanying consolidated balance sheet:

	1990	1989
Recoverable currently	$ (352)	$ (441)
Payable in the future	14,374	10,193
	$14,022	$ 9,752

The consolidated statement of income contains an income tax (provision) benefit as follows:

	1990	1989	1988
Recoverable (payable) currently—			
Federal	$ (725)	$(4,157)	$(6,515)
State	355	(822)	(1,121)
	(370)	(4,979)	(7,636)
Recoverable (payable) in the future—			
Federal	111	1,770	2,928
State	(102)	358	(141)
	9	2,128	2,787
Total income tax provision	$ (361)	$(2,851)	$(4,849)

Following is a summary of the tax effects of timing differences:

	1990	1989	1988
Deferred insurance premium acquisition costs	$ —	$ 2,730	$ 167
Amortization of unearned insurance premiums	(363)	(1,278)	112
Discounting of losses and loss adjustment expense reserves of insurance business	709	297	2,221
Loan fees recognized under different methods	(256)	(536)	(360)
State income taxes deducted on cash basis for tax return purposes vs. accrual basis for financial reporting purposes	58	(194)	4
Other, net	(139)	1,109	643
Income taxes recoverable in the future	$ 9	$ 2,128	$ 2,787

Dollar amounts in thousands except for amounts per share

A reconciliation of the statutory federal income tax rate with the effective income tax rate resulting in the income tax provision (benefit) appearing on the accompanying consolidated statement of income follows:

	1990	1989	1988
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from:			
Tax-exempt interest income	(24.5)	(12.8)	(11.9)
Exclusion from taxable income of a significant portion of dividend income	(11.3)*	(14.9)	(10.0)
State income taxes, less federal tax benefit	2.3	0.9	1.6
Other differences, net	0.9	1.4	0.2
Effective income tax provision rate	1.4 %	8.6 %	13.9 %

Wesco and its subsidiaries join with other Berkshire subsidiaries in the filing of consolidated federal income tax returns for the Berkshire group. The consolidated federal tax liability is apportioned among group members pursuant to methods that result in each member of the group paying or receiving an amount that approximates the increase or decrease in consolidated taxes attributable to each member.

Federal income tax returns through 1985 have been examined by and settled with the Internal Revenue Service.

Statement No. 96, issued by the Financial Accounting Standards Board (the "FASB") in 1987, requires a change in the method of accounting for income taxes. The FASB has recently announced its intention to delay the implementation date beyond 1992, and Wesco plans to comply when required. Management believes that, if the required changes had been made as of 1990 yearend, the effects on 1990 consolidated earnings and yearend shareholders' equity would not have been significant.

Dollar amounts in thousands except for amounts per share

Note 6. Notes Payable

Following is a list of notes payable, at yearend:

	1990	1989
Notes due November 1999, bearing interest at 8⅞% payable semiannually ...	$30,000	$30,000
Federal Home Loan Bank ("FHLB") notes, collateralized by mortgage loans and FHLB stock, due August 1994, bearing interest at 8.73% payable monthly	16,900	16,900
Notes payable, collateralized by land, buildings and assignment of leases, due in monthly installments through February 2007 of $45 including interest at 9¼%	4,524	4,643
Industrial revenue bonds due December 2014, bearing interest at 7.75% payable semiannually	2,600	2,600
Industrial revenue bonds, due in quarterly installments through December 1994 of $42 plus interest at 6½%	667	833
Note payable, due December 1998, bearing interest at 10% payable monthly	1,035	1,035
	$55,726	$56,011

Notes payable at 1990 yearend mature as follows:

Year	
1991	$ 296
1992	309
1993	322
1994	17,208
1995	156
Thereafter	37,435
	$55,726

Agreements relating to the 8⅞% notes contain covenants, among others, enabling the lenders to require Wesco to redeem the notes at par in the event Wesco ceases to be controlled by Berkshire. Wesco is in compliance with all of the covenants.

Note 7. Writeoff of Prepaid FSLIC Insurance Premiums

In 1987, Wesco's consolidated results of operations included a charge of $1,935 ($.27 per share) representing the after-tax effect of a writeoff of prepaid Federal Savings and Loan Insurance Corporation ("FSLIC") insurance premiums. Wesco's subsidiary, Mutual Savings, was required to take this charge because FSLIC had eliminated the savings and loan industry's secondary reserve in an attempt to strengthen its financial condition in order to cover future losses associated with troubled financial institutions. FSLIC and its successor subsequently have been in process of slowly crediting healthy financial institutions up to the amounts of their writeoffs, and net income benefited accordingly to the extent of $341 in 1990, $209 in 1989 and $217 in 1988.

Dollar amounts in thousands except for amounts per share

Note 8. Quarterly Financial Information

Unaudited quarterly financial information for 1990 and 1989 follows:

	Quarter Ended			
	December 31, 1990	September 30, 1990	June 30, 1990	March 31, 1990
Total revenues	$29,510	$30,601	$30,584	$31,946
Net income	6,042	6,163	6,469	6,755
Per share	.85	.86	.91	.95
Securities gains net of income taxes, included in net income above	—	5	386	—
Per share	—	—	.05	—

	Quarter Ended			
	December 31, 1989	September 30, 1989	June 30, 1989	March 31, 1989
Total revenues	$31,286	$44,696	$45,710	$46,703
Net income	7,839	9,087	6,121	7,287
Per share	1.10	1.28	.86	1.02
Securities gains net of income taxes, included in net income above	1,083	3,877	—	960
Per share	.15	.55	—	.13

Note 9. Retained Earnings

Retained earnings of Wesco include $47,314 of undistributed retained earnings of Mutual Savings which were taken as special bad debt deductions for income tax purposes through 1968, after which such deductions were no longer available to Mutual Savings due to its having reached certain limitations. These deductions are not related to amounts of losses actually anticipated and have not been charged against income for financial reporting purposes. If, in the future, any portion of such retained earnings is used for any purpose other than to absorb loan losses, including payment of dividends to Wesco or distribution in liquidation, such withdrawal will necessitate accrual and payment of income taxes.

Because of the special bad debt deductions, and other differences in reporting items for tax return and financial statement purposes, Mutual Savings' ability to pay dividends to Wesco without being subject to tax has been limited to approximately its earnings on a tax-return basis. (Dividends of $4,000, $5,000 and $11,800 were declared by Mutual Savings in 1990, 1989 and 1988.)

Under FIRREA, each savings and loan association is required to maintain a specified level of net worth. Although Mutual Savings' net worth (13.7% of assets) is far in excess of its regulatory requirement as of December 31, 1990, its ability to pay dividends in future years may be dependent on the timing of its sales of various investments (see Note 2).

Note 10. Postretirement Benefit Plans

In December 1990 the Financial Accounting Standards Board issued a statement which will require employers to accrue in advance the cost of medical benefits for their retired employees. This statement will have little, if any, effect on Wesco's consolidated financial statements.

Dollar amounts in thousands except for amounts per share

Note 11. Business Segment Data

Consolidated financial information for each of the three most recent years is presented below, broken down as to Wesco's three business segments — financial, insurance and industrial.

The *financial segment includes the accounts of* Wesco, Mutual Savings and Wes-Fin Service Corporation, as well as temporary cash investments and other investments of Precision Steel and its subsidiaries and of New America Electric, together with related interest and dividend income and gain or loss on related sales. The insurance segment includes the accounts of Wes-FIC. The industrial segment includes the operating accounts of Precision Steel and its subsidiaries and of New America Electric.

	1990	1989	1988
Revenues:			
Financial	$ 36,953	$ 34,555	$ 36,236
Insurance	20,489	64,356	87,041
Industrial	65,199	69,484	62,936
	$122,641	$168,395	$186,213
Operating profit before taxes:			
Financial	$ 10,693	$ 9,069	$ 11,849
Insurance	16,689	23,610	21,103
Industrial	3,461	4,840	5,257
Corporate expenses	(295)	(395)	(220)
Interest expense on notes payable	(4,758)	(3,939)	(3,051)
	$ 25,790	$ 33,185	$ 34,938

The above revenue and operating profit data include securities gains before taxes, as follows:

	1990	1989	1988
Financial	$ —	$ 17	$ 753
Insurance	593	8,955	9,199
	$ 593	$ 8,972	$ 9,952

Additional business segment data follow:

	1990	1989	1988
Capital expenditures, excluding expenditures in connection with business acquisitions:			
Financial	$ 606	$ 211	$ 71
Industrial	697	1,267	556
	$ 1,303	$ 1,478	$ 627

Depreciation and amortization of tangible assets:

	1990	1989	1988
Financial	$ 361	$ 358	$ 362
Industrial	749	823	589
	$ 1,110	$ 1,181	$ 951

Identifiable assets at yearend:

	1990	1989	1988
Financial	$436,593	$438,441	$434,307
Insurance	283,924	275,735	246,154
Industrial	23,564	23,329	25,803
	$744,081	$737,505	$706,264

Dollar amounts in thousands except for amounts per share

WESCO FINANCIAL CORPORATION
SCHEDULE I — MARKETABLE SECURITIES — OTHER INVESTMENTS
DECEMBER 31, 1990
(Dollar amounts in thousands)

Name of Issuer and Title of Each Issue	Number of Shares of Stock or Principal Amount of Notes	Cost	Market Value	Balance Sheet Carrying Value
CONSOLIDATED				
Securities with fixed maturities:				
Convertible preferred stock of Salomon Inc*	100,000 shares	$100,000	$100,000	$100,000
Convertible preferred stock of The Gillette Company*	40,000 shares	40,000	48,000	40,000
Convertible preferred stock of Champion International Corporation*	23,000 shares	23,000	23,000	23,000
State and municipal bonds	$ 89,030	89,969	93,722	89,969
Other	108,500 shares	16,524	11,758	16,524
		$269,493	$276,480	$269,493
Marketable equity securities:				
Common Stocks —				
Federal Home Loan Mortgage Corporation ("Freddie Mac")	2,400,000 shares	$ 71,729	$117,000	$ 71,729
The Coca-Cola Company	1,801,400 shares	40,761	83,765	83,765
Wells Fargo & Company	168,300 shares	11,284	9,740	9,300
Preferred stocks —				
Various public utilities	1,087,004 shares	36,852	45,719	36,852
Other	96,400 shares	3,608	3,445	3,445
		$164,234	$259,669	$205,091
Freddie Mac mortgage-backed securities	$ 25,171	$ 23,727	$ 24,617	$ 23,727
REGISTRANT ONLY				
Convertible preferred stock of Salomon Inc*	50,000 shares	$ 50,000	$ 50,000	$ 50,000
Convertible preferred stock of Champion International Corporation*	8,000 shares	8,000	8,000	8,000
		$ 58,000	$ 58,000	$ 58,000

* Market quotations are not available. Charles T. Munger, Chairman of the Board and President of Wesco, acting on behalf of the board of directors of Wesco, in consultation with Warren E. Buffett, Chairman of the Board and Chief Executive Officer of Berkshire Hathaway Inc., Wesco's ultimate parent, has determined the fair values of the convertible preferred stocks.

See notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
SCHEDULE III — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET
(Dollar amounts in thousands)

	December 31, 1990	December 31, 1989
ASSETS		
Cash and temporary cash investments (including savings accounts at Mutual Savings of $229 and $1,452)	$ 1,149	$ 1,641
Convertible preferred stocks	58,000	58,000
Investment in subsidiaries, at equity:		
Mutual Savings	48,950	48,851
Precision Steel	22,714	20,186
Wes-FIC	200,029	176,724
New America Electric	8,417	8,259
Other	151	139
Property and equipment	3,163	2,868
Other assets	2,933	1,420
	$345,506	$318,088
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	$ 35,559	$ 35,678
Accounts payable and accrued expenses	507	587
Income taxes payable	462	327
Total liabilities	36,528	36,592
Shareholders' equity (see consolidated balance sheet)	308,978	281,496
	$345,506	$318,088

STATEMENT OF INCOME AND RETAINED EARNINGS
(Dollar amounts in thousands)

	Year Ended December 31, 1990	1989	1988
Revenues:			
Dividends on preferred stocks	$ 5,240	$ 4,553	$ 4,500
Interest on temporary cash investments	27	318	427
Rental of office, store and garage premises, less expenses	2,064	2,007	1,875
Dividends from subsidiaries	4,000	5,000	11,800
Other	47	25	32
	11,378	11,903	18,634
Expenses:			
Interest on notes payable	3,232	3,269	2,980
General and administrative	692	769	631
	3,924	4,038	3,611
Income before items shown below	7,454	7,865	15,023
Income tax provision	(138)	(65)	(222)
Equity in undistributed earnings of subsidiaries	18,113	22,534	15,288
Net income	25,429	30,334	30,089
Retained earnings — beginning of year	231,981	207,201	182,381
Cash dividends declared and paid	(5,837)	(5,554)	(5,269)
Retained earnings — end of year	$251,573	$231,981	$207,201

See notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
SCHEDULE III — CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)

	Year Ended December 31,		
	1990	1989	1988
Cash flows from operating activities:			
Net income	$ 25,429	$ 30,334	$ 30,089
Adjustments to reconcile net income with net cash, including temporary cash investments, provided by operating activities —			
Increase (decrease) in income taxes payable	(80)	269	(423)
Equity in undistributed earnings of subsidiaries	(20,113)	(22,534)	(15,288)
Other, net	919	173	(150)
Net cash provided by operating activities	6,155	8,242	14,228
Cash flows from investing activities:			
Purchases of securities	—	(8,000)	—
Investment in subsidiaries	—	—	(8,200)
Other, net	(691)	(189)	(64)
Net cash used by investing activities	(691)	(8,189)	(8,264)
Cash flows from financing activities:			
Issuance of 8⅞% Notes due 1999	—	30,000	—
Redemption of 10⅛% Notes due 1991	—	(25,000)	—
Payment of cash dividends	(5,837)	(5,554)	(5,269)
Other, net	(119)	(424)	937
Net cash used by financing activities	(5,956)	(978)	(4,332)
Increase (decrease) in cash, including temporary cash investments	(492)	(925)	1,632
Cash, including temporary cash investments — beginning of year	1,641	2,566	934
Cash, including temporary cash investments — end of year	$ 1,149	$ 1,641	$ 2,566

See notes to consolidated financial statements.

SCHEDULE V — SUPPLEMENTARY INSURANCE INFORMATION

(Dollar amounts in thousands)

Segment	Deferred Policy Acquisition Costs	Future Claim and Loss Expenses	Unearned Premiums	Earned Premiums	Net Investment Income	Loss and Loss Adjustment Expenses Incurred	Amortized Deferred Policy Acquisition Costs	Other Underwriting Expenses	Written Premiums
Property and casualty insurance —									
1990	$ —	$71,405	$ 500	$ 2,003	$17,852	$ 2,115	$ 571	$ 10	$ 2,454
1989	—	91,151	50	37,959	17,398	27,811	12,673	—	14,283
1988	8,030	95,585	23,727	62,465	15,377	44,335	20,833	—	59,227

See notes to consolidated financial statements.

MUTUAL SAVINGS AND LOAN ASSOCIATION
(A Wholly Owned Subsidiary of Wesco Financial Corporation)
CONDENSED CONSOLIDATED BALANCE SHEET
(Dollar amounts in thousands)

	December 31, 1990	December 31, 1989
ASSETS		
Cash and temporary cash investments	$ 62,328	$ 35,427
State and municipal bonds, at cost (market $18,084 and $19,288)	16,925	17,473
Marketable equity securities owned by Mutual Savings, at cost:		
Federal Home Loan Mortgage Corp. common stock (market $117,000 and $161,100)	71,729	71,729
Public utility preferred stocks (market $45,719 and $45,467)	36,852	36,852
Other marketable securities, at cost (market $4,558 and $4,574)	4,524	4,524
Investment in preferred stock of Salomon Inc, by service subsidiary	13,000	26,000
Real estate loans receivable, yielding 9.20% and 9.23%	131,102	153,755
Real estate held for sale	15,424	8,751
Investment in stock of Federal Home Loan Bank	1,287	1,008
Other assets	3,430	5,456
	$356,601	$360,975
LIABILITIES AND SHAREHOLDER'S EQUITY		
Savings accounts, paying 7.43% and 7.90%	$286,363	$293,073
Accounts payable, accrued expenses and other liabilities	2,689	670
Income taxes payable, principally deferred	1,699	1,481
Notes payable to Federal Home Loan Bank, 8.73%, due August 10, 1994	16,900	16,900
	307,651	312,124
Shareholder's equity:		
Guarantee stock and additional paid-in capital	100	100
Retained earnings — substantially restricted	48,850	48,751
Total shareholder's equity	48,950	48,851
	$356,601	$360,975
Cash dividends declared during year	$ 4,000	$ 5,000

See notes to consolidated financial statements of Wesco Financial Corporation.

WESCO FINANCIAL CORPORATION

COMMISSION FILE NUMBER 1-4720

EXHIBITS TO FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1990

Description	Filed	Incorporated By Reference
3a. Articles of Incorporation and By-Laws of Wesco Financial Corporation (incorporated by reference to Exhibit 3a to Annual Report on Form 10-K of Wesco Financial Corporation for year ended December 31, 1989).		X
4.1 Form of Indenture dated October 2, 1989 (incorporated by reference to Exhibit 4.1 to report on Form 8-K of Wesco Financial Corporation dated October 31, 1989, File No. 33-31290).		X
4.2 Form of Supplemental Indenture dated October 15, 1989 (incorporated by reference to Exhibit 4.1 to report on Form 8-K of Wesco Financial Corporation dated October 31, 1989, File No. 33-31290).		X
22. List of subsidiaries	X	

Exhibit 22 to Form 10-K
Wesco Financial Corporation
For year Ended
December 31, 1990

WESCO FINANCIAL CORPORATION

SUBSIDIARIES

Name of Subsidiary	Percentage Owned by Registrant	State of Incorporation
WSC Insurance Agency	100%	California
Mutual Savings and Loan Association	100%	California
Wes-Fin Service Corp.	100%	California
Montecito Sea Meadow Mutual Water Company, Inc.	100%	California
Wesco Holdings Midwest, Inc.	100%	Nebraska
Precision Steel Warehouse, Incorporated	100%	Illinois
Precision Steel Warehouse, Inc., Charlotte Service Center	100%	Delaware
Precision Brand Products	100%	Delaware
Wesco-Financial Insurance Company	100%	Nebraska
New America Electrical Corporation	80%	California