WESCO FINANCIAL CORP

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10-K

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 1991 Commission file number 1-4720

SEC MAIL FEE REC. MAR 30 1992 WASH. D.C. PROCESSING SECTION

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)

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

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MAR 31 1992
DISCLOSURE INCORPORATED

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......

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of voting stock of the registrant held by non-affiliates of the registrant as of March 16, 1992 was: $89,595,000.

The number of shares outstanding of the registrant's Capital Stock as of March 16, 1992 was: 7,119,807.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Parts of Form 10-K
Proxy Statement for 1992 Annual Meeting of Shareholders	Part III, Items 10, 11, 12 and 13

(Pages 1-8 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 1988. In addition, Wesco has investments in real estate and securities, 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 common and preferred 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. Until recently, institutions with substantial amounts of long-term, low-yielding mortgage loans on their books, funded by short-term borrowings from depositors, saw their cost of funds increase dramatically. The increase in cost of funds was due both to prevailing interest rates at levels much higher than had once been thought normal, and to fundamental changes occurring 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 and money-market funds in providing a wide variety of consumer financial services, including lending. In the early 1980s, most savings and loans suffered operating losses, and, although many have more recently earned profits principally as a result of the moderation of interest rates, hundreds of others, many insolvent and garnering wide publicity, in 1987, drove the Federal Savings and Loan Insurance Corporation ("FSLIC"), the federal agency then insuring savings deposits, into insolvency. (Subsequently, savings deposits in savings and loan associations, including Mutual Savings, have been insured by the Savings Association Insurance Fund, an affiliate of the Federal Deposit Insurance Corporation formed at that time.) 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").

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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 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 1988, it added approximately $65 million to a previous investment in common stock of Federal Home Loan Mortgage Corporation ("Freddie Mac"); the total investment of about $72 million represents 4% of the total shares outstanding, the legal limit for any one holder when the investment was made. Freddie Mac supports housing primarily by purchasing mortgage loans for immediate transmutation into mortgage-backed securities that it guarantees and promptly sells. The 1991 yearend trading value on the New York Stock Exchange of Mutual Savings' Freddie Mac shares was $330 million. Thus, based on 1991 yearend trading prices, Mutual Savings had an unrealized pre-tax profit in Freddie Mac shares of about $258 million. At current tax rates, the potential after-tax profit was about $152 million as of that date.
- In 1990, it began to offer fixed-rate first-mortgage loans to qualified borrowers of low-to-moderate income living within its local community. The loans, which currently bear slightly below-market interest rates and are presently limited to $202,300 each, are pegged to Freddie Mac standards and require borrower equities of at least 20% of property values. 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 has generated about $6 million in loans to date, will continue indefinitely under an agreement with regulatory authorities and is programmed for steady expansion.
- In 1991 it invested approximately $125 million in high-quality, rapidly repaying mortgage-backed securities collateralized by pools of loans backed by Freddie Mac, Federal National Mortgage Association and Government National Mortgage Association. These fixed-rate mortgage securities increased Mutual Savings' mortgage-backed securities holdings to about $130 million as of 1991 yearend, at a combined yield of 7.6%.

Mutual Savings is now relatively small, ranking approximately 50th among California's savings and loan associations in assets at the end of 1991. Because it sold its highest-yielding mortgage loans in 1980 when interest rates were relatively high, and resumed lending and began investing in mortgage-backed securities after rates had fallen, Mutual Savings' entire loan and mortgage-backed securities portfolios bear what may be among the lowest average interest rates (8.0% per annum, combined, at the end of 1991) of all associations in the United States. Although Mutual Savings is presently exposed to detrimental effects should interest rates increase sharply, such exposure is mitigated by the significant unrealized appreciation of its investments in marketable securities. (See gap analysis appearing on page 20 for further information.)

Mutual Savings' entire portfolio of housing-related assets is believed to present almost no risk of significant loss. (See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.)

FIRREA, the latest of several attempts to rejuvenate the ailing savings and loan industry and shore up its deposit-insurance fund, has been described as the most significant banking legislation since the 1930s. 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 1991 yearend, its book net worth amounted to 16.1% of assets, and its risk-weighted capital amounted to 19.8% of risk-weighted assets, well in excess of federal requirements of 3% and 7.2%, respectively), as certain of the FIRREA regulations have become effective, various changes in Mutual Savings' operations have been made or will be required, most notably:

- Prodded by FIRREA, all $41 million of Mutual Savings' public utility preferred stocks were sold in mid-1991, and all $26 million of Mutual Savings' service corporation subsidiary's investment in convertible preferred stock of Salomon Inc was transferred to another of Wesco's wholly owned subsidiaries at cost in December 1990 and May 1991. These investments provided substantial earnings advantage to Mutual Savings because their high dividend yield (10.1% combined) was taxed at a much lower rate than the rate charged on interest-bearing investments allowed under FIRREA. Ignoring the one-time earnings benefit resulting from the $5.6 million gain on sales of these investments, Mutual Savings would be required to replace the investments with $73 million of high-quality interest-bearing investments yielding 13.4% per annum indefinitely merely to break even. As a point of reference, Mutual Savings was earning only 3.65% at 1991 yearend on its overnight Fed Funds investments.
- In Wesco's 1990 annual report it was reported that FIRREA required, beginning July 1, 1991, that savings and loan associations such as Mutual Savings maintain a larger proportion of their assets in a more restrictive list of housing-related assets than regulations then permitted, and that Mutual Savings' investment in common stock of Freddie Mac at cost of $71.7 million would no longer qualify as a housing-related asset under FIRREA as of that date, notwithstanding its continued qualification in a similar asset test for federal income tax purposes. In anticipation of the new restrictions, Mutual Savings, prior to July 1, 1991, liquidated its Wes-Fin Service Corp. subsidiary and increased its investment in high-quality, rapidly liquidating mortgage-backed securities by approximately $117 million. Subsequently, in December 1991, President Bush signed the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), which liberalized the regulatory list of qualifying housing-related assets and provided a formula under which each institution could compute its unique regulatory requirement.

  Under FDICIA, approximately $65 million, at cost, of Mutual Savings' investment in Freddie Mac stock is considered a qualifying housing-related asset for regulatory purposes as of 1991 yearend. FDICIA, however, leaves unchanged the FIRREA requirement, which management hopes will also be revised, that Mutual Savings write down to zero, in stages, the entire $72 million cost of its investment in Freddie Mac common stock (1991 yearend market value $330 million) in computing its regulatory net worth. The regulatory writedown (currently 25% of Mutual Savings' investment in Freddie Mac stock, scheduled to increase to 40% on July 1, 1992, 60% on July 1, 1993 and 100% on July 1, 1994) does not affect net income *per se*. However, Mutual Savings would probably not be able to absorb the 100% writedown scheduled to take effect July 1, 1994 and still comply with regulatory net worth requirements (essentially that it maintain net worth equal to at least 8% of assets after any such writedown), and would, in the absence of relaxation, be required to sell a portion of the Freddie Mac investment, possibly to another Wesco subsidiary, at that time. Such a sale, if required, would probably not affect detrimentally the operating results or shareholders' equity of Mutual Savings or Wesco.

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- Mutual Savings, like other savings and loans, will be required to pay increasing premiums for deposit insurance. However, at the time the FSLIC deposit-insurance fund was declared insolvent in 1987, the Federal Home Loan Bank eliminated the so-called secondary insurance reserve, and the amounts confiscated ($1.9 million after taxes, in Mutual Savings' case) are being slowly credited back against deposit-insurance assessments, with the result that Mutual Savings' after-tax earnings were increased by $217,000 in 1988, $209,000 in 1989, $341,000 in 1990 and $273,000 in 1991. Under FIRREA, the credit is expected to decline 20% annually, until it will have been substantially utilized by the late 1990s.
- Mutual Savings is subject to supervision by more regulatory entities than previously. The amount of nonproductive time and effort spent by management and other employees, previously substantial, has increased accordingly.
- FIRREA generally prohibits a savings and loan association from investing directly in real estate. Mutual Savings is developing 32 residential parcels of largely oceanfront land near Santa Barbara, California, which was acquired by foreclosure in 1966. After many years' delay in obtaining numerous approvals and building permits, Mutual Savings has been proceeding with construction and sale of completed townhouses and lots as quickly as can be responsibly done without violating evolving local building restrictions. Although Mutual Savings is making every reasonable effort to complete divestiture of the project by June 30, 1993, as required by the FDIC, the Association may have to request an extension of time. Management cannot predict whether an extension request would receive favorable consideration, or how great the financial detriment might be if Mutual Savings were required to divest the project prematurely. The property is carried at cost of approximately $22 million at 1991 yearend.

Mutual Savings expects the savings and loan business to continue to be a difficult and competitive business. Altered as it has been as a result of FIRREA, Mutual Savings' business may or may not provide less risk to the insurance fund, but the business will likely prove substantially less rewarding 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.

Compared with other associations, Mutual Savings is believed to have a higher ratio of shareholders' equity to total interest-bearing liabilities, a much higher proportion of assets in short-term, interest-bearing cash equivalents and in Freddie Mac common stock that provides large income tax advantage, and a liquidating value substantially above net book value. (Attention is directed to Mutual Savings' condensed consolidated balance sheet appearing on page 48.)

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 and 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 1998.

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

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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.

In 1985, Wes-FIC entered into an arrangement whereby it reinsured — 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. Wes-FIC will remain liable for its share of unpaid losses and loss expenses, which have been reflected on Wesco's balance sheet, and will continue to invest funds offset by loss reserves until run-off is complete, perhaps many years hence.

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 contract was terminated effective December 31, 1991. Wes-FIC's share of premiums earned during the two years was $7.3 million. In 1992, Wes-FIC will return to Cypress approximately $500,000, representing unearned premiums less related ceding commissions. As with the Fireman's Fund contract, Wes-FIC will remain liable for its share of unpaid losses and loss adjustment expenses, as well as policyholder dividends.

Wes-FIC in 1988 began to write direct business, as distinguished from reinsurance. It is licensed in Nebraska, Utah and Iowa, and wrote $114,000 and earned $120,000 in direct premiums in 1991.

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, shareholder and policyholders' dividend restrictions, reporting requirements, periodic regulatory examinations, and limitations on the size and 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, rating agencies and Congress. As one result, industry participants and the public have been made more aware of the benefits derived from dealing with insurers whose financial resources support their promises, with significant margins of safety against adversity. In this respect Wes-FIC is competitively well positioned, inasmuch as it possesses an above-average level of capital (over $283 million at December 31, 1991) in proportion to the modest amount of insurance business currently being written.

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

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

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$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 sells them under its own brand names nationwide, generally through industrial distributors. This business is highly competitive. Precision Brand's share of the toolroom specialty products market is believed to approximate 0.5%; statistics are not available with respect to its share of the market for hose and muffler clamps.

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 increased to approximately $4.8 million as of December 31, 1991, from $4.1 million as of December 31, 1990.

Approximately 260 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 power outlets and service equipment used in recreational vehicle and mobile home park and marina applications, switches and other disconnects, residential load centers and circuit breakers, commercial metering equipment, and specialty roadway lighting products.

In 1991, New America Electric acquired the product line (including substantially all of the manufacturing, marketing and engineering assets) of The Wadsworth Electric Manufacturing Company, Inc. of Covington, Kentucky, and moved it to its own facilities in Anaheim, California. The transaction has significantly increased New America's access to eastern and midwestern markets.

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 specialty roadway lighting products. It manufactures a limited range of proprietary circuit breakers used in residential load centers under the Wadsworth name, as well as other circuit breakers principally used in its own equipment or sold to other electrical manufacturers.

New America competes in several markets within the electrical equipment industry. In some, including markets for power outlets and specialty service equipment, marina equipment and roadway lighting products, its principal competitors are small and regional in focus. In other markets it competes with well-known, vertically integrated giants of the electrical industry. New America has generally achieved greater success where it has managed to avoid markets dominated by these large companies. However, even in smaller, less competitive markets, the company has encountered reduced demand due to the general economic malaise of the last two-odd years. Two traditional markets, namely mobile home equipment and roadway lighting, have been negatively impacted by a shift from the type of products New America Electric manufactures to alternative types of products it does not. In 1991, New America Electric withdrew from the highly competitive switchgear market, in which it was not able to compete profitably.

New America Electric's backlog of orders amounted to $1.0 million at December 31, 1991, versus $0.9 million one year earlier.

New America Electric employs approximately 100 full-time employees, approximately two-thirds 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 1998. Wesco also owns 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 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 a luxury development consisting of 20 townhomes and 12 residential lots is presently under construction, with several sales having been recorded to date. (*See comments on regulatory matters on pages 12 and 13 hereof.*) Other properties include several buildings in a small shopping center in Upland, California, which are leased to various small businesses, and a single-family residence on 4½ acres in Camarillo, California, presently listed for sale.

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; 63,000 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 April 1991.

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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 1991 and 1990, as well as cash dividends paid by Wesco on each outstanding share.

	1991				1990		
	Sales Price		Dividends Paid		Sales Price		Dividends Paid
Quarter Ended	High	Low		Quarter Ended	High	Low	
March 31	$56⅜	$46½	$0.215	March 31	$62	$50	$0.205
June 30	57¾	54	0.215	June 30	58	55	0.205
September 30	60	53⅞	0.215	September 30	56⅛	44½	0.205
December 31	72⅜	59½	0.215	December 31	49⅝	39¾	0.205
			$0.86				$0.82

There were approximately 900 shareholders of record of Wesco's capital stock as of the close of business on March 16, 1992.

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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 1991 consolidated financial statements appearing elsewhere in this report. (Dollar amounts are in thousands except for amounts per share.)

	Year Ended December 31,				
	1991	1990	1989	1988	1987
Revenues:					
Interest on loans and mortgage-backed securities	$ 15,196	$ 13,183	$ 12,204	$ 11,248	$ 6,528
Insurance premiums earned	5,307	2,003	37,959	62,465	73,384
Sales and service revenues	65,341	65,174	68,691	62,694	54,843
Interest and dividends on investments	34,477	40,008	38,232	38,177	35,399
Gains on securities and foreclosed property	10,714	593	8,972	9,952	2,194
Other	1,811	1,680	2,337	1,677	1,628
	132,846	122,641	168,395	186,213	173,976
Costs and expenses:					
Interest on savings accounts	18,311	21,975	21,261	20,579	20,903
Insurance losses and expenses	6,685	3,759	40,702	65,938	77,641
Cost of services and products sold	53,462	52,286	55,567	50,674	45,333
Selling, general and administrative	14,986	14,073	13,741	11,033	10,715
Interest on notes payable	4,773	4,758	3,939	3,051	3,078
Writeoff of prepaid FSLIC insurance premiums	—	—	—	—	3,618
	98,217	96,851	135,210	151,275	161,288
Income before income taxes	34,629	25,790	33,185	34,938	12,688
Income tax (provision) benefit	(5,107)	(361)	(2,851)	(4,849)	2,525
Net income	$ 29,522	$ 25,429	$ 30,334	$ 30,089	$ 15,213
Amounts per share:					
Net income	$4.15	$3.57	$4.26	$4.22	$2.14
Cash dividends	$ .86	$ .82	$ .78	$ .74	$ .70

	December 31,				
	1991	1990	1989	1988	1987
Assets:					
Cash and temporary cash investments	$ 41,849	$ 84,020	$ 55,096	$ 42,703	$ 61,398
Investments:					
Securities with fixed maturities:					
Mortgage-backed securities	129,510	23,727	34,315	45,367	52,080
Other	210,479	269,493	291,097	309,026	346,380
Marketable equity securities	320,819	205,091	188,211	151,720	36,516
Real estate loans receivable	100,876	107,382	119,448	91,640	87,388
Total assets	871,129	744,081	737,505	706,264	647,396
Liabilities:					
Savings accounts	$286,904	$286,093	$291,592	$286,909	$286,211
Insurance losses and expenses	60,252	71,405	91,151	95,585	79,578
Notes payable	55,429	55,726	56,011	31,786	31,017
Total liabilities	464,766	435,103	456,009	467,676	434,576
Shareholders' equity	$406,363	$308,978	$281,496	$238,588	$212,820
Per share	$57.07	$43.40	$39.54	$33.51	$29.89

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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 upgraded its credit rating of Wesco debt to AA+.

The various investments owned by Wesco and its subsidiaries had an aggregate market value at 1991 yearend that was about $268 million higher than their carrying value in the consolidated balance sheet. Most of the unrecorded appreciation relates to a large investment in Freddie Mac common stock owned by Mutual Savings. It should be noted that under FIRREA Mutual Savings may be required to sell a portion of its Freddie Mac stockholding by July 1, 1994. (See Item 1, Business.) Inasmuch as Mutual Savings has substantial unrecorded appreciation in the Freddie Mac investment, and because it maintains capital and liquidity above regulatory requirements, any such forced sale is 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 Mutual Savings' major risk-sensitive assets and liabilities as of December 31, 1991, and net gaps as of the last three yearends (in thousands):

Gap Analysis

Balance Sheet Category	Amounts Subject to Repricing[1] Within 6 Months	Within 1 Year	Within 3 Years	Within 5 Years	Within 10 Years	Total
Rate-sensitive assets:						
Cash and temporary cash investments	$ 22,878	$ 22,878	$ 22,878	$ 22,878	$ 22,878	$ 22,878
State and municipal bonds[2]	13,500	14,200	14,200	14,200	14,200	14,200
Freddie Mac common stock[3]	—	—	10,000	10,000	10,000	71,729
Loans receivable[4]	43,600	64,800	88,000	93,000	98,000	100,876
Mortgage-backed securities[2]	19,650	49,500	106,000	128,000	128,200	128,881
Total	99,628	151,378	241,078	268,078	273,278	338,564
Rate-sensitive liabilities:						
Interest-bearing checking, passbook and money-market-rate accounts[5]	71,655	71,655	71,655	71,655	71,655	71,655
Certificate accounts[5]	122,990	172,359	216,617	217,360	217,360	217,360
Notes payable – FHLB	—	—	16,900	16,900	16,900	16,900
Total	194,645	244,014	305,172	305,915	305,915	305,915
Net gap at —						
December 31, 1991	$ (95,017)	$ (92,636)	$ (64,094)	$(37,837)	$(32,637)	$ 32,649
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

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

[2] Amounts shown represent par values of bonds and mortgage-backed securities. Differences between such values and book carrying values represent unamortized premiums and discounts.

[3] Amounts shown assume Mutual Savings sells $10 million at book value in 1994 and thus continues to satisfy minimum FIRREA capital requirements (see Item 1, Business). Of course, such a sale would be at then-current market value, which is not subject to estimation but significantly exceeds book value as of 1991 yearend.

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

[5] Attention is directed to Note 5 to Wesco's consolidated financial statements contained in Item 8, Financial Statements, for further information on Mutual Savings' savings accounts.

Although Mutual Savings, and thus Wesco's financial segment, are presently exposed to detrimental effects should interest rates increase sharply, such exposure is mitigated by the liquidity of the investments in marketable securities, whose unrealized appreciation far exceeds 1991 yearend book carrying values.

Mutual Savings has had no loan losses in over ten years — a perhaps unique experience for a mature savings and loan association. However, it is currently suffering increased loan delinquencies. For example, at 1991 yearend, nine loans, with principal balances aggregating $5,432,000, were over 60 days delinquent. However, as this is written, only three such loans, whose principal balances

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amount to $1,104,000, remain past due; these three loans are collateralized by residential properties whose aggregate market values approximate $1,500,000.

Late in 1991, although no specific losses could be identified, Mutual Savings, at the request of regulatory examiners, established a $200,000 general valuation allowance as a cushion against any losses that might materialize in the future with respect to loans, foreclosed property or other assets.

Management attributes Mutual Savings' favorable loan loss experience principally to four factors. First, with immaterial exceptions, it makes only first-mortgage real estate loans on owner-occupied, single-family residences in Southern California. Second, about $26 million of its fixed-rate loans have been seasoned over approximately two decades and thus are now collateralized by properties in which the borrowers have extremely high equity interests. Third, its adjustable-rate first-mortgage loans ($72 million) are collateralized by conservatively appraised, owner-occupied properties in which Mutual Savings has consistently required substantial borrower equities, which have effectively cushioned the deterioration of house resale prices in the recessionary housing market currently affecting Southern California. Fourth, the balance of its loan portfolio not in the foregoing categories ($3 million) is 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 $24 million at 1991 yearend from about $15 million one year earlier, the growth mainly reflects the ongoing construction of a residential development in Santa Barbara, California, and a single-family residential property on 4½ acres that was obtained through foreclosure in 1991 (Mutual Savings' first foreclosure in over eleven years). These properties, plus a small shopping center in Upland, California, represent virtually all of Mutual Savings' foreclosed real estate, and their market values are believed 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. Pending the use of funds 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 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):

	1991	1990	1989	1988	1987
Financial segment:					
"Normal" net operating income of					
Mutual Savings	$ 3,644	$ 4,099	$ 4,191	$ 4,694	$ 2,895
Other operations*	3,960	3,975	3,194	3,609	1,808
	7,604	8,074	7,385	8,303	4,703
Unusual items:					
Securities gains	5,825	—	10	454	1,199
Net gain on sales of foreclosed property	825	—	—	—	—
Writeoff of prepaid FSLIC premiums	—	—	—	—	(1,935)
	6,650	—	10	454	(736)
Net income — financial	14,254	8,074	7,395	8,757	3,967
Insurance segment:					
"Normal" net operating income	13,986	14,924	14,276	12,094	9,459
Securities gains	—	391	5,910	6,071	9
Net income — insurance	13,986	15,315	20,186	18,165	9,468
Industrial segment:					
"Normal" net operating income	1,282	2,040	2,753	3,167	2,450
Flood loss	—	—	—	—	(672)
Net income — industrial	1,282	2,040	2,753	3,167	1,778
Net income — consolidated	$29,522	$25,429	$30,334	$30,089	$15,213

* 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. The following discussion, by business segment, should be read in conjunction with the financial statements beginning on page 33, 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.

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):

	1991	1990	1989	1988	1987
Revenues:					
Interest on loans and mortgage-backed securities	$15,154	$13,158	$12,188	$11,245	$ 6,524
Interest on temporary cash investments	2,967	3,362	2,941	7,230	13,612
Dividends on preferred and common stocks	7,018	10,669	10,669	8,058	4,163
Interest on state and municipal bonds	1,864	1,936	1,983	1,983	2,022
Other	376	333	262	229	255
	27,379	29,458	28,043	28,745	26,576
Expenses:					
Interest on savings accounts	18,340	22,004	21,530	20,840	20,944
Interest on notes payable	1,475	1,475	599	—	—
Operating expenses	5,225	4,672	4,455	4,108	4,241
Provision for losses	200	—	—	—	—
	25,040	28,151	26,584	24,948	25,185
Income before income tax benefit	2,339	1,307	1,459	3,797	1,391
Income tax benefit relating thereto	1,305	2,792	2,732	897	1,504
"Normal" net operating income	$ 3,644	$ 4,099	$ 4,191	$ 4,694	$ 2,895

Mutual Savings' "normal" net operating income has become increasingly dependent on earnings from mortgages and mortgage-related assets, and less dependent on earnings from investments in favorably taxed preferred stocks and state and municipal bonds, particularly as preferred stocks have been sold as required by FIRREA (see Item 1, Business).

Mutual Savings' net operating income has become more dependent on the difference between interest or dividend income and interest expense ("interest rate spread"), and more susceptible to adverse effects from changing interest levels ("interest rate risk"), and thus more like that of the typical savings and loan association. As noted above, however, Mutual Savings' exposure to the detrimental effects of interest rate risk is at present counteracted by substantial unrecorded appreciation in the market value of its investment in Freddie Mac stock.

The following table develops interest rate spread and other ratios for each of the past three years (dollar amounts are in thousands):

	Year Ended December 31, 1991			Year Ended December 31, 1990			Year Ended December 31, 1989		
	Average Balance (1)	Interest/ Dividend Income (2)	Average Yield or Rate (3)	Average Balance (1)	Interest/ Dividend Income (2)	Average Yield or Rate (3)	Average Balance (1)	Interest/ Dividend Income (2)	Average Yield or Rate (3)
Assets earning interest or dividends:									
Real estate loans	$105,356	$ 9,231	8.76%	$113,640	$10,523	9.26%	$ 97,572	$ 8,835	9.05%
Mortgage-backed securities	73,947	5,923	8.01	29,005	2,635	9.08	40,056	3,353	8.35
Temporary cash investments	48,062	2,967	6.17	47,526	3,362	7.07	49,121	2,941	5.99
Common and preferred stocks	94,346	7,018	9.76	138,238	10,669	10.13	139,105	10,669	10.07
State and municipal bonds	15,481	1,864	18.24	17,049	1,936	17.21	17,506	1,983	17.16
Investment in stock of Federal Home Loan Bank ("FHLB")	1,211	79	6.52	1,269	93	7.33	1,209	113	9.35
Total assets earning interest or dividends	338,403	27,082	8.93	346,727	29,218	9.91	344,569	27,894	9.53
Interest-bearing liabilities:									
Savings accounts	(282,984)	(18,340)	6.48	(288,353)	(22,004)	7.63	(294,425)	(21,530)	7.31
Notes payable to FHLB	(16,900)	(1,475)	8.73	(16,900)	(1,475)	8.73	(6,863)	(599)	8.73
Total interest-bearing liabilities	(299,884)	(19,815)	6.61	(305,253)	(23,479)	7.69	(301,288)	(22,129)	7.34
Net interest- or dividend-earning assets	38,519	$ 7,267		41,474	$ 5,739		43,281	$ 5,765	
Net other assets	16,103			8,595			6,550		
Shareholders' equity — substantially restricted	$ 54,622			$ 50,069			$ 49,831		
Interest rate spread for the year[4]			2.32%			2.22%			2.19%
Interest rate spread at yearend[5]			2.54%			1.59%			1.87%
Net interest margin[6]			2.15%			1.66%			1.67%
Return on average assets[7]			1.01%			1.14%			1.19%
Return on average equity[8]			6.67%			8.19%			8.41%
Equity to assets ratio[9]			15.11%			13.98%			14.10%

(1) Average of monthend balances for the year.

(2) Income or expense for the year, before income taxes.

(3) Computed generally by dividing income or expense by average balance. However, interest on state and municipal bonds and dividends on common and preferred stocks are 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.

(4) Represents the difference between the average yield on interest- and dividend-earning assets and the average rate paid on of interest-bearing liabilities.

(5) Computed as in (4) using yearend instead of average balances.

(6) Represents net interest or dividend income divided by average interest- or dividend-earning assets.

(7) Computed by dividing "normal" net operating income per preceding table by average total assets of $361,513, $358,167 and $353,490 for 1991, 1990 and 1989.

(8) Computed as in (7) using average shareholders' equity instead of average total assets.

(9) Computed as in (7) using average shareholders' equity instead of "normal" net operating income.

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The following table analyzes the changes in dollar amounts of interest and dividend income and interest expense set forth in the foregoing table, distinguishing between changes attributable to average balance ("volume") and those caused by yield or rate (in thousands):

	Increase (Decrease) in Interest or Dividends								
	1991 vs. 1990			1990 vs. 1989			1989 vs. 1988		
	Attributable to			Attributable to			Attributable to		
	Volume (1, 4)	Rate (2, 4)	Net (3)	Volume (1, 4)	Rate (2, 4)	Net (3)	Volume (1, 4)	Rate (2, 4)	Net (3)
Assets earning interest or dividends:									
Real estate loans	$ (743)	$ (549)	$(1,292)	$1,484	$ 204	$1,688	$ 1,102	$ 232	$ 1,334
Mortgage-backed securities	3,560	(272)	3,288	(1,039)	321	(718)	(633)	272	(361)
Temporary cash investments	38	(433)	(395)	(91)	512	421	(3,484)	(716)	(4,200)
Common and preferred stocks	(4,125)	474	(3,651)	(87)	87	—	4,631	(2,020)	2,611
State and municipal bonds	(206)	134	(72)	(53)	6	(47)	—	—	—
Investment in stock of Federal Home Loan Bank ("FHLB")	(4)	(10)	(14)	6	(26)	(20)	(10)	30	20
Total assets earning interest or dividends	(1,480)	(656)	(2,136)	220	1,104	1,324	1,606	(2,202)	(596)
Interest-bearing liabilities:									
Savings accounts	(403)	(3,261)	(3,664)	(422)	896	474	192	498	690
Notes payable to FHLB	—	—	—	876	—	876	599	—	599
Total interest-bearing liabilities	(403)	(3,261)	(3,664)	454	896	1,350	791	498	1,289
Net interest- or dividend-earning assets	$(1,077)	$ 2,605	$ 1,528	$ (234)	$ 208	$ (26)	$ 815	$(2,700)	$(1,885)

(1) Change in average balance multiplied by prior year rate.

(2) Change in rate multiplied by average balance of prior year.

(3) Sum of (1) and (2).

(4) Also includes a proportional allocation of the difference between the amounts computed in columns (1) and (2) and the net increase or (decrease) in column (3).

Insurance Segment

Wesco entered into the property and casualty insurance business in September 1985. Substantially all of its insurance business to date has been derived from 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. Wesco also began to write direct insurance business during 1988, and during 1990 and 1991 it reinsured 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 of Wes-FIC (i.e., income 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):

	Year Ended December 31,				
	1991	1990	1989	1988	1987
Premiums written	$ 5,362	$ 2,454	$14,283	$59,227	$71,032
Premiums earned	$ 5,307	$ 2,003	$37,959	$62,465	$73,384
Underwriting loss	$(1,380)	$(1,755)	$(2,743)	$(3,473)	$(4,257)
Interest and dividend income	16,475	17,852	17,398	15,377	11,618
Income before income taxes	15,095	16,097	14,655	11,904	7,361
Income tax (provision) benefit	(1,109)	(1,173)	(379)	190	2,098
"Normal" net operating income	$13,986	$14,924	$14,276	$12,094	$ 9,459

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 for 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 decreased level of activity for both written and earned premiums since 1988 is 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 assumed in 1990 and 1991. Management is hopeful that market conditions will improve, and that attractive opportunities similar to the arrangement with Fireman's Fund will become available.

Wes-FIC remains liable for runoff of its share of the losses and loss expenses covered by the Fireman's Fund and Cypress contracts. As claims are paid over many future years, the liability (approximately $59 million as of December 31, 1991) will decline, as will the funds set aside and invested pending payment of claims ("float").

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Interest and dividend income has been earned by Wes-FIC (1) on insurance premium 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 1989), and (3) on earnings retained and reinvested. Following is a summary, at cost, of the components of Wes-FIC's investment portfolio (in thousands):

	December 31,				
	1991	1990	1989	1988	1987
Taxable, interest-bearing cash equivalents	$ 9,709	$ 11,214	$ 10,340	$ 1,017	$ 21,073
State and municipal bonds	61,278	73,044	94,101	154,455	138,191
Equity securities	168,256	154,778	138,727	65,702	33,020
	$239,243	$239,036	$243,168	$221,174	$192,284

The income tax provision or benefit of Wes-FIC has fluctuated as a percentage of its pre-tax income in each of the periods presented in the table on the preceding page. These fluctuations have been caused by fluctuations in the relationship of substantially tax-exempt components of income to total pre-tax income, and a reduction in the statutory federal income tax rate from 40% for 1987 to 34% for years beginning with 1988.

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. However, Wes-FIC maintains a capital position strong enough not only to absorb adverse estimation corrections but also to enable it to accept other insurance contracts.

Industrial Segment

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

	Year Ended December 31,				
	1991	1990	1989	1988	1987
Revenues, principally sales and services	$65,409	$65,199	$69,484	$62,936	$55,054
Income before income taxes	$ 2,168	$ 3,470	$ 4,641	$ 5,173	$ 4,325
Income tax provision	(900)	(1,397)	(1,873)	(2,006)	(1,875)
Minority interest	14	(33)	(15)	—	—
"Normal" net operating income	$ 1,282	$ 2,040	$ 2,753	$ 3,167	$ 2,450

Revenues of the industrial segment remained relatively unchanged in 1991 as compared with the 1990 figure principally as a result of the inclusion of $2.0 million of sales of the Wadsworth product line, acquired by New America Electric in 1991 (see Item 1, Business). Had it not been for this new product line, sales revenues would have declined in 1991, as in 1990, due primarily to continued weak economic conditions, combined with increased competition for sales at prices management has periodically declined to match, and secondarily to the discontinuation of sales by New America Electric of the switchgear product line, which contibuted sales volume of approximately $0.5 million in 1991 vs. $1.4 million in 1990.

Cost of products sold, as a percentage of sales, amounted to 81.8%, 80.2% and 80.9% for 1991, 1990, and 1989. 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 1991 figure was somewhat higher than normal due to additional costs associated with New America Electric's discontinuation of its switchgear line.

The decrease in "normal" net operating income of the industrial segment for 1991 was attributable principally to the increased cost of products sold, while the decrease for 1990 was attributable largely to the decline in volume of sales and services revenues.

* * * * * * *

Management's long-term economic goal is to maximize gain in Wesco's intrinsic business value, with little regard to earnings recorded in any given year. There is no particular strategy as to the timing of sales of investments or the realization of securities gains. Securities may be sold for a variety of reasons, including (1) the belief that prospects for future appreciation of a particular investment are less attractive than the prospects for reinvestment of the after-tax proceeds from its sale, (2) the desire for funds for an acquisition or repayment of debt, or (3) regulatory requirements.

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 $5.8 million, $0.4 million and $5.9 million after income taxes in 1991, 1990 and 1989.

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. Revenues for 1991 also included a tax-free gain on sale of foreclosed property. Fluctuations in the proportion of these 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 14.7%, 1.4%, 8.6% and 13.9% in 1991, 1990, 1989 and 1988, and a tax benefit of 19.9% in 1987. (See Note 6 to the accompanying consolidated financial statements for further information on income taxes.)

In 1990, the Financial Accounting Standards Board (the "FASB") issued Statement No. 106, which will require employers to accrue in advance the cost of health benefits for their retired employees. This statement, which becomes effective in 1993, will have little, if any, effect on Wesco's consolidated financial statements.

In 1992, the FASB issued Statement No. 109, which requires a change in accounting for income taxes beginning in 1993. Management believes that if the required changes had been made as of 1991 yearend, the effects on Wesco's 1991 consolidated earnings and yearend shareholders' equity data contained in Item 6, Selected Financial Data, and in the consolidated financial statements beginning on page 33, 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 divest a real estate development, presently under construction, by mid-1993 and maintain a specified level of regulatory net worth, which may necessitate sale of a portion or portions of the investment in Freddie Mac stock by mid-1994 (see Item 1, Business). The changes required by FIRREA will continue to impact Mutual Savings; however, the full effect is not possible to quantify. Such an effect, while possibly materially beneficial or detrimental to Mutual Savings in terms of net income that might be reported for any single year, is not expected to have a significant detrimental effect on either the results of Wesco's operations over the long term or its shareholders' equity.

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. Changes in and Disagreements with Accountants 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 1992 annual meeting of shareholders (the "1992 Proxy Statement") is incorporated herein by reference.

Item 11. Management Remuneration and Transactions

The information set forth in the section "Compensation of Directors and Executive Officers" in the 1992 Proxy Statement 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 1992 Proxy Statement 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 1992 Proxy Statement 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, 1991.

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
Chairman of the Board and President
(principal executive officer) — March 26, 1992

By:

Jeffrey L. Jacobson
Vice President and Chief Financial Officer
(principal financial officer) — March 26, 1992

By:

Jeanne G. Leach
Treasurer
(principal accounting officer) — March 26, 1992

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 Director	March 26, 1992
Robert H. Bird Director	March 26, 1992
Carolyn H. Carlburg Director	March 26, 1992
William T. Caspers Director	March 26, 1992
James N. Gamble Director	March 26, 1992
Charles T. Munger Director	March 26, 1992
Elizabeth Caspers Peters Director	March 26, 1992
David K. Robinson Director	March 26, 1992

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, 1991 and 1990, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1991. 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, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, 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
Deloitte & Touche

Los Angeles, California
March 9, 1992

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

ASSETS	December 31, 1991	December 31, 1990
Cash and temporary cash investments	$ 41,849	$ 84,020
Investments:		
Securities with fixed maturities:		
Mortgage-backed securities	129,510	23,727
Other	210,479	269,493
Marketable equity securities	320,819	205,091
Real estate loans receivable	100,876	107,382
Accounts receivable	11,989	12,961
Real estate held for sale	24,037	15,424
Property and equipment	14,310	8,545
Other assets	17,260	17,438
	$871,129	$744,081

LIABILITIES AND SHAREHOLDERS' EQUITY		
Savings accounts	$286,904	$286,093
Insurance losses and loss adjustment expenses	60,252	71,405
Income taxes payable, principally deferred	52,789	14,022
Notes payable	55,429	55,726
Other liabilities	9,392	7,857
Total liabilities	464,766	435,103
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	100,952	26,966
Retained earnings — partially restricted	274,972	251,573
Total shareholders' equity	406,363	308,978
	$871,129	$744,081

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, 1991	1990	1989
Revenues:			
Interest on loans and mortgage-backed securities	$ 15,196	$ 13,183	$ 12,204
Insurance premiums earned	5,307	2,003	37,959
Sales and service revenues	65,341	65,174	68,691
Interest and dividends on investments other than mortgage-backed securities	34,477	40,008	38,232
Gains on sales of securities and foreclosed property	10,714	593	8,972
Other	1,811	1,680	2,337
	132,846	122,641	168,395
Costs and expenses:			
Interest on savings accounts	18,311	21,975	21,261
Insurance losses, loss adjustment and underwriting expenses	6,685	3,759	40,702
Cost of services and products sold	53,462	52,286	55,567
Selling, general and administrative expenses	14,986	14,073	13,741
Interest on notes payable	4,773	4,758	3,939
	98,217	96,851	135,210
Income before income taxes	34,629	25,790	33,185
Income tax provision	(5,107)	(361)	(2,851)
Net income	29,522	25,429	30,334
Retained earnings — beginning of year	251,573	231,981	207,201
Cash dividends declared and paid	(6,123)	(5,837)	(5,554)
Retained earnings — end of year	$274,972	$251,573	$231,981
Amounts per share based on 7,119,807 shares outstanding throughout each year:			
Net income	$4.15	$3.57	$4.26
Cash dividends	$ .86	$ .82	$ .78

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 1991	1990	1989
Cash flows from operating activities:			
Net income	$ 29,522	$ 25,429	$ 30,334
Adjustments to reconcile net income with net cash, including temporary cash investments, provided by operating activities —			
Gains on sales of securities and foreclosed property, before taxes	(10,714)	(593)	(8,972)
Provision for depreciation and amortization, including amortization of bond premiums of $1,343, $1,494 and $2,214	2,113	2,680	3,471
Net decrease in liabilities for losses and loss adjustment expenses of insurance business	(11,153)	(19,746)	(4,434)
Return of unearned premiums, less ceding commissions, on expiration of reinsurance contract	—	—	(15,657)
Increase (decrease) in income taxes payable currently	653	205	(2,838)
Other, net	2,804	2,336	12,580
Net cash provided by operating activities	13,225	10,311	14,484
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(200,882)	—	(75,259)
Proceeds from sales of securities with fixed maturities	80,445	17,231	63,148
Proceeds from maturities and redemptions of securities with fixed maturities	33,144	14,089	19,101
Proceeds from sales of marketable equity securities	46,356	4,544	27,239
Purchases of marketable equity securities	(479)	(9,740)	(28,948)
Real estate loan originations	(12,785)	(7,698)	(45,515)
Principal collections on real estate loans	17,010	18,471	19,449
Other, net	(12,596)	(6,663)	(4,343)
Net cash provided (used) by investing activities	(49,787)	30,234	(25,128)
Cash flows from financing activities:			
Net increase (decrease) in passbook and money-market-rate savings accounts and interest-bearing checking accounts	4,187	(755)	(11,772)
Net increase (decrease) in certificate accounts	(3,376)	(4,744)	16,455
Increase in notes payable	—	—	49,500
Redemption of notes payable	—	—	(25,000)
Payment of cash dividends	(6,123)	(5,837)	(5,554)
Other, net	(297)	(285)	(592)
Net cash provided (used) by financing activities	(5,609)	(11,621)	23,037
Increase (decrease) in cash, including temporary cash investments	(42,171)	28,924	12,393
Cash, including temporary cash investments — beginning of year	84,020	55,096	42,703
Cash, including temporary cash investments — end of year	$ 41,849	$ 84,020	$ 55,096
Supplementary disclosures:			
Interest paid during year	$ 23,112	$ 26,845	$ 24,727
Income taxes paid (recovered), net, during year	4,454	(92)	5,689
Real estate acquired through foreclosure during year	1,185	—	—

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, including mortgage-backed securities, are carried on the consolidated balance sheet at cost, adjusted for accretion of discount or amortization of premium using a method that produces approximately level yield. 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. None of these investments are held for trading purposes, and management's present intent is to hold them indefinitely.

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

	1991			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Temporary cash investments:				
Obligations of the Federal Home Loan Bank	$ 19,400	$ —	$ —	$ 19,400
Corporate obligations	9,546	10	—	9,556
Other	5,800	—	—	5,800
	$ 34,746	$ 10	$ —	$ 34,756
Securities with fixed maturities:				
Mortgage-backed securities	$129,510	$2,669	$ —	$132,179
Preferred stocks —				
Salomon Inc, 9%	100,000	2,000	—	102,000
Champion International Corporation, 9¼%	23,000	—	—	23,000
Other	12,000	—	(4,200)	7,800
State and municipal bonds	75,479	3,990	—	79,469
	$339,989	$8,659	$(4,200)	$344,448

	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
Securities with fixed maturities:				
Mortgage-backed securities	$ 23,727	$ 890	$ —	$ 24,617
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
Other	16,524	141	(4,907)	11,758
State and municipal bonds	89,969	3,776	(23)	93,722
	$293,220	$12,807	$(4,930)	$301,097

Market quotations at the respective yearends 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, 199[illegible] if not previously called or converted.

Dollar amounts in thousands except for amounts per share

The state and municipal bonds set forth above are owned by subsidiaries of Wesco. As of 1991 yearend, they are expected to mature as follows:

	Amortized Cost	Estimated Market Value
In one year or less	$41,361	$42,129
After one year through five years	18,462	19,218
After five years through ten years	8,779	10,891
After ten years	6,877	7,231
	$75,479	$79,469

Estimated maturities, including prepayments, of the mortgage-backed securities, as of 1991 yearend, are as follows:

	Amortized Cost	Estimated Market Value
In one year or less	$ 49,750	$ 50,250
After one year through five years	78,500	80,550
After five years	1,260	1,379
	$129,510	$132,179

Following is a summary of marketable equity securities:

	December 31, 1991			December 31, 1990		
	Cost	Market	Carrying Value	Cost	Market	Carrying Value
Federal Home Loan Mortgage Corp. ("Freddie Mac") common stock	$ 71,729	$330,000	$ 71,729	$ 71,729	$117,000	$ 71,729
The Coca-Cola Company common stock	40,761	144,562	144,562	40,761	83,765	83,765
The Gillette Company common stock	40,000	89,800	89,800	—	—	—
Preferred stocks of public utilities	—	—	—	36,852	45,719	36,852
Other	15,370	15,172	14,728	14,892	13,185	12,745
	$167,860	$579,534	$320,819	$164,234	$259,669	$205,091

At 1991 yearend, the portfolio of marketable equity securities contained aggregate unrealized gains of $413,641 and losses of $1,967.

In Wesco's 1990 yearend financial statements it was reported that the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") required, effective July 1, 1991, that savings and loan associations such as Mutual Savings maintain a larger proportion of their assets in a more restrictive list of housing-related assets than regulations then permitted, and that Mutual Savings' investment in common stock of Freddie Mac at cost of $71.7 million would no longer qualify as a housing-related asset under FIRREA as of that date, notwithstanding its continued qualification in a similar asset test for federal income tax purposes. In anticipation of the new restrictions, Mutual Savings, prior to July 1, 1991, liquidated its Wes-Fin Service Corp. subsidiary and increased its investment in high-quality, rapidly liquidating mortgage-backed securities by approximately $117 million. Subsequently, in December 1991, President Bush signed the Federal Deposit Insurance Corporation Improvement Act ("FDICIA"), which liberalized the regulatory list of qualifying housing-related

Dollar amounts in thousands except for amounts per share

assets and provided a formula under which each institution could compute its unique regulatory requirement.

Under FDICIA, approximately $65 million, at cost, of Mutual Savings' investment in Freddie Mac stock is considered a qualifying housing-related asset for regulatory purposes as of 1991 yearend. FDICIA, however, leaves unchanged the FIRREA requirement, which management hopes will also be revised, that Mutual Savings write down to zero, in stages, the entire $72 million cost of its investment in Freddie Mac common stock (1991 yearend market value $330 million) in computing its regulatory net worth. The regulatory writedown (currently 25% of Mutual Savings' investment in Freddie Mac stock, scheduled to increase to 40% on July 1, 1992, 60% on July 1,1993 and 100% on July 1, 1994) does not affect net income *per se*. However, Mutual Savings would probably not be able to absorb the 100% writedown scheduled to take effect July 1, 1994 and still comply with regulatory net worth requirements (essentially that it maintain net worth equal to at least 8% of assets after any such writedown), and would, in the absence of relaxation, be required to sell a portion of the Freddie Mac investment, possibly to another Wesco subsidiary, at that time. Such a sale, if required, would probably not 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:

	1991	1990
Residential property of one to four units	$ 98,210	$102,899
Residential property of more than four units	1,600	2,917
Commercial property and vacant land	1,213	1,375
Other	53	191
	101,076	107,382
Less allowance for losses	(200)	—
	$100,876	$107,382
Average interest rate	8.53%	9.20%

Of the above loans, all of which were originated by Mutual Savings in Southern California, $72,429 and $74,941 at 1991 and 1990 yearends bear adjustable rates of interest. Estimated fair market value of Mutual Savings' real estate loan portfolio as of 1991 yearend is approximately equal to its cost. Loans receivable are stated at unpaid principal balances, less allowance for losses, if any.

The allowance for losses of $200 as of December 31, 1991 was established during the year through a charge against income as a cushion against any losses that might materialize in the future with respect to loans, foreclosed property or other assets. Management's periodic evaluation of the adequacy of the allowance is based on various factors, including past loan loss experience, known and inherent risks in the loan portfolio, the estimated values of properties or other assets, current economic conditions and regulatory pressure.

Interest income on loans is recognized under the accrual method of accounting. Such accrued interest amounted to $870 and $810 at 1991 and 1990 yearends.

Various loans whose 1991 yearend balances aggregate $32,834 collateralize certain debt. (See Note 7.)

Note 4. Real Estate Held for Sale

Real estate held for sale consists principally of Mutual Savings' cost of developing a 22-acre parcel of largely oceanfront foreclosed land in Santa Barbara, California. In 1991, Mutual Savings made its first three sales of parcels, one of them including a house, at a total gain of $825. The cost of the

Dollar amounts in thousands except for amounts per share

project — $22,525 at 1991 yearend, up from $15,074 at the prior yearend — is expected to be ultimately recovered without loss.

The balance of real estate held for sale, $1,512 at 1991 yearend, represents principally Mutual Savings' only loan foreclosure in many years.

Note 5. Savings Accounts

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

Type of Account	Interest Rate(a)	1991	1990	1989
Interest-bearing checking accounts(b)	3.00%	$ 5,725	$ 5,079	$ 4,806
Passbook accounts(b)	4.00	15,652	12,481	13,691
Money-market-rate accounts(b)	3.98	48,167	47,797	47,615
Certificate accounts:				
32 days-6 months	5.29	49,673	47,493	46,959
7 months-1 year	5.85	23,072	26,885	26,989
13 months-2 years	6.62	41,501	37,889	25,580
25 months-4 years	7.26	15,276	19,232	19,216
Over 4 years	8.66	19,589	14,263	18,420
IRA/Keogh accounts, 18 months(c)	7.30	36,943	37,816	30,377
IRA/Keogh accounts, 4 years(c)	8.82	6,226	5,096	6,860
Jumbo certificates of deposit	5.66	25,080	32,062	51,079
		$286,904	$286,093	$291,592

(a) Weighted average annual interest rate at 1991 yearend.

(b) No stated maturity.

(c) Other IRA/Keogh accounts included in the various certificate acccounts amounted to $3,158, $91[illegible] and $3,763 at 1991, 1990 and 1989 yearends.

The weighted average interest rates on all accounts at 1991, 1990 and 1989 yearends were 5.88%, 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 1991 yearend, certificate accounts mature as follows: 1992, $172,359; 1993, $39,334; 1994, $4,924, and 1995, $743.

Note 6. 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:

	1991	1990
Payable (recoverable) currently	$ 1,208	$ (352)
Payable in the future	51,581	14,374
	$52,789	$14,022

Dollar amounts in thousands except for amounts per share

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

	1991	1990	1989
Recoverable (payable) currently—			
Federal	$(3,088)	$(725)	$(4,157)
State	(2,844)	355	(822)
	(5,932)	(370)	(4,979)
Recoverable (payable) in the future—			
Federal	686	111	1,770
State	139	(102)	358
	825	9	2,128
Total income tax provision	$(5,107)	$(361)	$(2,851)

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

	1991	1990	1989
State income taxes deducted under different methods	$ 572	$ (58)	$ (194)
Deferred insurance premium acquisition costs	5	—	2,730
Amortization of unearned insurance premiums	336	363	(1,278)
Discounting of losses and loss adjustment expense reserves of insurance business	(353)	(709)	297
Loan fees recognized under different methods	235	256	536
Other, net	30	157	37
Income taxes (payable) recoverable in the future	$ 825	$ 9	$ 2,128

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

	1991	1990	1989
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
Increase (decrease) resulting from:			
Tax-exempt interest income	(7.0)	(24.5)	(12.8)
Exclusion from taxable income of a significant portion of dividend income	(15.3)	(11.3)	(14.9)
State income taxes, less federal tax benefit	3.5	2.3	0.9
Other differences, net	(0.5)	0.9	1.4
Effective income tax provision rate	14.7 %	1.4 %	8.6 %

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 such member.

Federal income tax returns through 1985 have been examined by and settled with the Internal Revenue Service. The California Franchise Tax Board (the "FTB") has raised state tax issues which affect years 1980 through 1987 (it is likely the FTB will raise similar issues in subsequent years). Wesco has protested the FTB's proposed tax adjustments and believes that the ultimate resolution of these matters will not have a materially adverse effect on its consolidated financial statements.

Statement No. 109, issued by the Financial Accounting Standards Board in 1992, requires a change in the method of accounting for income taxes beginning in 1993. Management believes that, if the required changes had been made as of 1991 yearend, the effects on 1991 consolidated earnings and yearend shareholders' equity would not have been significant.

Dollar amounts in thousands except for amounts per share

Note 7. Notes Payable

Following is a list of notes payable, at yearend:

	1991	1990
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%	4,394	4,524
Industrial revenue bonds due December 2014, bearing interest at 7.75% payable semiannually	[illegible]0	2,600
Industrial revenue bonds, due in quarterly installments through December 1994 of $42 plus interest at 6½%	500	667
Note payable, due December 1998, bearing interest at 10% payable monthly	1,035	1,035
	$55,429	$55,726

Notes payable at 1991 yearend mature as follows: 1992, $308; 1993, $318; 1994, $17,231; 1995, $182; 1996, $199; thereafter, $37,191.

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.

Dollar amounts in thousands except for amounts per share

Note 8. Quarterly Financial Information

Unaudited quarterly financial information for 1991 and 1990 follows:

	Quarter Ended			
	December 31, 1991	September 30, 1991	June 30, 1991	March 31, 1991
Total revenues	$29,760	$31,409	$40,442	$31,235
Net income	5,401	6,858	10,872	6,391
Per share	.77	.96	1.52	.90
Gains (losses) on sales of securities and foreclosed property, net of income taxes, included [redacted] income above	(75)	1,076	5,849	—
Per share	—	.15	.79	—

	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
Gains (losses) on sales of securities and foreclosed property, net of income taxes, included in net income above	—	5	386	—
Per share	—	—	.05	—

Note 9. Retained Earnings

Retained earnings of Wesco include $48,139 of undistributed retained earnings of Mutual Savings, $47,314 of 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 were not related to amounts of losses actually anticipated and were not charged against income for financial reporting purposes. Also included in the $48,139 figure is $825 representing gains to date on Mutual Savings' sales of foreclosed real estate. 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 is currently limited to approximately $11,000, plus its future earnings on a tax-return basis. (Dividends of $4,000 and $5,000 were declared by Mutual Savings in 1990 and 1989, and none in 1991.)

Under FIRREA, each savings and loan association is required to maintain specified levels of net worth. Although Mutual Savings' net worth (16.1% of assets) is far in excess of its regulatory requirements as of December 31, 1991, its ability to pay dividends in future years may be dependent on sale, by mid-1994, of a portion of its investment in Freddie Mac common stock, whose 1991 yearend market value far exceeds its book carrying cost. (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 health benefits for their retired employees. This

Dollar amounts in thousands except for amounts per share

statement, which becomes effective in 1993, will have little, if any, effect on Wesco's consolidated financial statements.

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 the latter's service subsidiary, 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.

	1991	1990	1989
Revenues:			
Financial	$ 45,615	$ 36,953	$ 34,555
Insurance	21,822	20,489	64,356
Industrial	65,409	65,199	69,484
	$132,846	$122,641	$168,395
Operating profit before taxes:			
Financial	$ 22,249	$ 10,693	$ 9,069
Insurance	15,095	16,689	23,610
Industrial	2,373	3,461	4,840
Corporate expenses	(315)	(295)	(395)
Interest expense on notes payable	(4,773)	(4,758)	(3,939)
	$ 34,629	$ 25,790	$ 33,185

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

	1991	1990	1989
Financial	$ 10,714	$ —	$ 17
Insurance	—	593	8,955
	$ 10,714	$ 593	$ 8,972

Additional business segment data follow:

	1991	1990	1989
Capital expenditures, excluding expenditures in connection with business acquisitions:			
Financial	$ 2,255	$ 606	$ 211
Industrial	4,681	697	1,267
	$ 6,936	$ 1,303	$ 1,478
Depreciation and amortization of tangible assets:			
Financial	$ 347	$ 361	$ 358
Industrial	824	749	823
	$ 1,171	$ 1,110	$ 1,181
Identifiable assets at yearend:			
Financial	$445,073	$436,593	$438,441
Insurance	396,095	283,924	275,735
Industrial	29,961	23,564	23,329
	$871,129	$744,081	$737,505

Dollar amounts in thousands except for amounts per share

WESCO FINANCIAL CORPORATION
SCHEDULE I — MARKETABLE SECURITIES — OTHER INVESTMENTS
DECEMBER 31, 1991
(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:				
Mortgage-backed securities guaranteed by Federal Home Loan Mortgage Corporation ("Freddie Mac"), Federal National Mortgage Association and Government National Mortgage Association	$ 128,881	$129,510	$132,179	$129,510
Convertible preferred stock of Salomon Inc*	100,000 shares	100,000	102,000	100,000
Convertible preferred stock of Champion International Corporation*	23,000 shares	23,000	23,000	23,000
State and municipal bonds	$ 76,070	75,479	79,469	75,479
Other	12,000 shares	12,000	7,800	12,000
		$339,989	$344,448	$339,989
Marketable equity securities (common stocks):				
Freddie Mac	2,400,000 shares	$ 71,729	$330,000	$ 71,729
The Coca-Cola Company	1,801,400 shares	40,761	144,562	144,562
The Gillette Company	1,600,000 shares	40,000	89,800	89,800
Other	275,700 shares	15,370	15,172	14,728
		$167,860	$579,534	$320,819
REGISTRANT ONLY				
Convertible preferred stock of Salomon Inc*	50,000 shares	$ 50,000	$ 51,000	$ 50,000
Convertible preferred stock of Champion International Corporation*	8,000 shares	8,000	8,000	8,000
		$ 58,000	$ 59,000	$ 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, 1991	December 31, 1990
ASSETS		
Cash and temporary cash investments (including savings accounts at Mutual Savings of $2,058 and $229)	$ 2,541	$ 1,149
Convertible preferred stocks	58,000	58,000
Investment in subsidiaries, at equity:		
Mutual Savings	59,244	48,950
Precision Steel	24,660	22,714
Wes-FIC	283,801	200,029
New America Electric	8,377	8,417
Other	165	151
Property and equipment	5,125	3,163
Other assets	967	2,933
	$442,880	$345,506
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	$ 35,429	$ 35,559
Accounts payable and accrued expenses	427	507
Income taxes payable	661	462
Total liabilities	36,517	36,528
Shareholders' equity (see consolidated balance sheet)	406,363	308,978
	$442,880	$345,506

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

	Year Ended December 31, 1991	1990	1989
Revenues:			
Dividends on preferred stocks	$ 5,240	$ 5,240	$ 4,553
Interest on temporary cash investments	27	27	318
Rental of office, store and garage premises, less expenses	2,092	2,064	2,007
Dividends from subsidiaries	—	4,000	5,000
Other	81	47	25
	7,440	11,378	11,903
Expenses:			
Interest on notes payable	3,262	3,232	3,269
General and administrative	777	692	769
	4,039	3,924	4,038
Income before items shown below	3,401	7,454	7,865
Income tax provision	(114)	(138)	(65)
Equity in undistributed earnings of subsidiaries	26,235	18,113	22,534
Net income	29,522	25,429	30,334
Retained earnings — beginning of year	251,573	231,981	207,201
Cash dividends declared and paid	(6,123)	(5,837)	(5,554)
Retained earnings — end of year	$274,972	$251,573	$231,981

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,		
	1991	1990	1989
Cash flows from operating activities:			
Net income	$ 29,522	$ 25,429	$ 30,334
Adjustments to reconcile net income with net cash, including temporary cash investments, provided by operating activities —			
Increase (decrease) in income taxes payable	199	(80)	269
Equity in undistributed earnings of subsidiaries	(24,235)	(20,113)	(22,534)
Other, net	(1,792)	919	173
Net cash provided by operating activities	3,694	6,155	8,242
Cash flows from investing activities:			
Purchases of securities	—	—	(8,000)
Other, net	(249)	(691)	(189)
Net cash used by investing activities	(249)	(691)	(8,189)
Cash flows from financing activities:			
Repayment of advance by subsidiary	4,200	—	—
Issuance of 8⅞% Notes due 1999	—	—	30,000
Redemption of 10⅛% Notes due 1991	—	—	(25,000)
Payment of cash dividends	(6,123)	(5,837)	(5,554)
Other, net	(130)	(119)	(424)
Net cash used by financing activities	(2,053)	(5,956)	(978)
Increase (decrease) in cash, including temporary cash investments	1,392	(492)	(925)
Cash, including temporary cash investments — beginning of year	1,149	1,641	2,566
Cash, including temporary cash investments — end of year	$ 2,541	$ 1,149	$ 1,641

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)

ASSETS	December 31, 1991	December 31, 1990
Cash and temporary cash investments	$ 22,878	$ 62,328
State and municipal bonds, at cost (market $14,576 and $18,084)	14,202	16,925
Mortgage-backed securities (market $132,179 and $24,617)	129,510	23,727
Real estate loans receivable, yielding 8.53% and 9.20%	100,874	107,375
Marketable equity securities owned by Mutual Savings, at cost:		
Federal Home Loan Mortgage Corp. common stock (market $330,000 and $117,000)	71,729	71,729
Public utility preferred stocks (1990 market $45,719)	—	36,852
Other marketable securities, at cost (1990 market $4,558)	—	4,524
Investment in preferred stock of Salomon Inc, by service subsidiary	—	13,000
Real estate held for sale	24,037	15,424
Investment in stock of Federal Home Loan Bank	1,219	1,287
Other assets	3,046	3,430
	$367,495	$356,601

LIABILITIES AND SHAREHOLDER'S EQUITY	1991	1990
Savings accounts, paying 5.88% and 7.43%	$289,015	$286,363
Accounts payable, accrued expenses and other liabilities	837	2,689
Income taxes payable, principally deferred	1,499	1,699
Notes payable to Federal Home Loan Bank, 8.73%, due August 10, 1994	16,900	16,900
	308,251	307,651
Shareholder's equity:		
Guarantee stock and additional paid-in capital	100	100
Retained earnings — substantially restricted	59,144	48,850
Total shareholder's equity	59,244	48,950
	$367,495	$356,601
Cash dividends declared during year	$ —	$ 4,000

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, 1991

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	

DISCLOSURE®
Information Services, Inc.

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

EXHIBITS FOLLOW

Exhibit 22 to
Wesco Financial Corporation
Form 10-K
For Year Ended
December 31, 1991

WESCO FINANCIAL CORPORATION
SUBSIDIARIES OF WESCO FINANCIAL CORPORATION

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