WESCO FINANCIAL CORPORATION

Annual Report 1998

Form 10-K Annual Report 1998

Office building owned by Wesco's property subsidiary, with Pasadena city hall in the background

WESCO FINANCIAL CORPORATION

BOARD OF DIRECTORS

Charles T. Munger
Chairman of the Board, Wesco Financial Corporation; Chairman of the Board, Blue Chip Stamps (trading stamps, parent of Wesco Financial Corporation); Vice Chairman of the Board, Berkshire Hathaway Inc. (insurance, and reinsurance, flight training, fractional aircraft owner ship, manufacturing and/or retailing of boxed chocolates, jewelry and footwear, newspaper and encyclopedia publishing, parent of Blue Chip Stamps); Chairman of the Board, Daily Journal Corporation (publisher of specialty newspapers in California); Director, Costco Companies, Inc. (operator of a large chain of membership warehouses)

Robert H. Bird
President, Wesco Financial Corporation, Director and President, Blue Chip Stamps;

Carolyn H. Carlburg*
Executive Director,
Community Housing Services, Inc., Pasadena, California

William T. Caspers*
Personal investments

James N. Gamble*
Gamble, Jones, Morphy & Bent, investment counseling and trust administration

Elizabeth Caspers Peters
Personal investments

David K. Robinson*
Of counsel to Hahn & Hahn, attorneys at law

*Audit Committee member

OFFICERS

Charles T. Munger
Chaifman of the Board

Robert H. Bird
President

Jeffrey L. Jacobson
Vice President and Chief Financial Officer

Robert E. Sahm
Vice President

Margery Patrick
Secretary

LISTED ON

American Stock Exchange
Pacific Stock Exchange

TRANSFER AGENT AND REGISTRAR

ChaseMellon Shareholder Services
400 South Hope Street 4th Floor, Los Angeles, CA 90071-2899
Shareholder Relations Department: (800) 356-2017

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

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

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

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

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

(1) All figures are net of income taxes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Precision Steel

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

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

Tag Ends from Savings and Loan Days

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

Of course, the main tag end from Wesco's savings and loan days is 28,800,000 shares of Freddie Mac, purchased by Mutual Savings for $72 million at a time when Freddie Mac shares could be lawfully owned only by a savings and loan association. This holding, with a market value of $1.9 billion at yearend 1998, now reposes in Wes-FIC.

All Other "Normal" Net Operating Income or Loss

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

Net Securities Gains and Losses

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

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

Convertible Preferred Stockholdings

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

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

Consolidated Balance Sheet And Related Discussion

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

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

The foregoing $312-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than two or three dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) containing only 125,000 net rentable square feet, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

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

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

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

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

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

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

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

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

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

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

Charles T. Munger
Chairman of the Board

March 8, 1999

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 1998 or

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

For the Transition period from ____________ to ____________

Commission file number 1-4720

WESCO FINANCIAL CORPORATION

(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of incorporation or organization)	95-2109453 (I.R.S. Employer Identification No.)
301 East Colorado Boulevard, Suite 300, Pasadena, California (Address of Principal Executive Offices)	91101-1901 (Zip Code)

(626) 585-6700
(Registrant's Telephone Number, Including Area Code)

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
(Title of Class)

(Title of Class)

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 12 months (or for such shorter period that the registrant was required to file such reports), 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 19, 1999 was: $439,361,000.

The number of shares outstanding of the registrant's Capital Stock as of March 19, 1998 was: 7,119,807.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Parts of Form 10-K
Proxy Statement for 1999 Annual Meeting of Shareholders	Part III, Items 10, 11, 12 and 13

PART I

Item 1. Business

GENERAL

Wesco Financial Corporation (''Wesco'') was incorporated in Delaware on March 19, 1959. Wesco, through wholly owned subsidiaries, engages in two principal businesses: (1) the insurance business, through Wesco-Financial Insurance Company (''Wes-FIC''), which was incorporated in 1985 and engages in the property and casualty insurance business, and The Kansas Bankers Surety Company (''KBS''), which was incorporated in 1909, was purchased by Wes-FIC in mid-1996 and provides specialized insurance coverages for banks; and (2) the steel service center business, through Precision Steel Warehouse, Inc. (''Precision Steel''), which was begun in 1940 and acquired by Wesco in 1979. Until late 1993, Wesco also engaged in the savings and loan business, through another wholly owned subsidiary, Mutual Savings and Loan Association (''Mutual Savings''), which was incorporated in California in 1925, gave up its status as a regulated thrift institution after disposing of its savings accounts and most of its real estate loans in October 1993, and, in a statutory merger effective January 1, 1994, merged into Wes-FIC.

Wesco's operations also include, through MS Property Company (''MS Property''), the ownership and management of commercial real estate transferred to MS Property by Wesco, and the development and liquidation of foreclosed real estate transferred to MS Property by Mutual Savings, all in December 1993, when MS Property, a wholly owned subsidiary of Wesco, began its operations. Wesco's operations, until mid-1993, also included the manufacture of electrical equipment through New America Electrical Corporation, which was organized in 1982 and was approximately 80%-owned by Wesco from December 1988 through mid-1993.

Since 1973, Wesco has been 80.1% owned by Blue Chip Stamps (''Blue Chip''), a wholly owned subsidiary of Berkshire Hathaway Inc. (''Berkshire''). Wesco and its subsidiaries are thus controlled by Blue Chip 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 approximately 35% of its stock. Charles T. Munger, the chairman of Wesco, is also vice chairman of Berkshire, and consults with Mr. Buffett with respect to Wesco's investment decisions and major capital allocations, but Mr. Buffett has no active participation in Wesco's management other than as a director of Wes-FIC and Precision Steel.

Wesco's activities fall into two business segments — insurance and industrial. The insurance segment consists of the operations of Wes-FIC and KBS. The industrial segment comprises Precision Steel's steel service center operations. Wesco is also engaged in several relatively insignificant activities not identified with either business segment; these include (1) investment activity unrelated to the insurance segment, (2) management of owned commercial real estate, (3) development and liquidation of foreclosed real estate formerly owned by Mutual Savings, and (4) parent company operations.

INSURANCE SEGMENT

Wes-FIC was incorporated in 1985 to engage in the property and casualty insurance and reinsurance business. Its insurance operations are managed by National Indemnity Company (''NICO''), headquartered in Omaha, Nebraska. To simplify discussion, the term ''Berkshire Insurance Group,'' as used in this report, refers to NICO and certain other wholly owned insurance subsidiaries of Berkshire (excluding, notably, GEICO Corporation and General Re Corporation), individually or collectively, although Berkshire includes in its insurance group GEICO Corporation, General Re Corporation and the insurance subsidiaries 80.1%-owned through Berkshire's ownership of Wesco.

At the beginning of 1994, Wes-FIC's net worth increased from $329 million to $569 million as a result of its absorption, through merger, of Mutual Savings' remaining net assets (essentially, the market value of Freddie Mac common stock and mortgage-backed securities, less the taxes due if sold). Primarily due to appreciation of investments, Wes-FIC's shareholder's equity has increased to $2.2 billion as of 1998 yearend. (The foregoing figures have been computed under generally accepted accounting principles. Wes-FIC's regulatory net worth as of yearend 1998 was $3.1 billion. The difference represents mainly the absence in the regulatory figure of income taxes associated with unrealized appreciation of investments.)

In 1985, Wes-FIC entered into an arrangement whereby it effectively reinsured — through the Berkshire Insurance Group, 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 underwriting results under a contract covering virtually all of the property and casualty insurance business of Fireman's Fund during a four-year coverage period that expired in 1989. The arrangement put Wes-FIC in essentially the same position it would have been in if it, instead of Fireman's Fund, had directly written the business reinsured. Differences in results under this arrangement have occurred principally from the investment of premiums, as Wes-FIC, instead of Fireman's Fund, has invested funds from ''float'' (funds set aside and invested pending payment of claims). Wes-FIC will remain liable for its share of remaining unpaid losses and loss adjustment expenses, an estimate of which is reflected as a liability on Wesco's consolidated balance sheet, and will continue to invest the related float until all liabilities are settled, perhaps many years hence.

In 1990 and 1991, Wes-FIC reinsured 50% of the workers' compensation insurance business written by a member of the Berkshire Insurance Group. As with the similar Fireman's Fund contract, Wes-FIC remains liable for its share of unpaid losses and loss adjustment expenses.

Wes-FIC entered into the business of ''super-catastrophe reinsurance'' through subcontracts retroceded by the Berkshire Insurance Group, beginning in 1994; most of these subcontracts were renewed in 1995 but none were renewed in 1996. In 1996, Wes-FIC accepted 3% participations in two super-catastrophe reinsurance policies covering hurricane risk in Florida: (1) a 12-month policy effective June 1, 1996, not renewed upon policy expiration in mid-1997; and (2) a three-year policy effective January 1, 1997 with exposure not significant to Wes-FIC's capital base. There has been no other super-catastrophe reinsurance business to date.

Throughout this report, ''catastrophe reinsurance'' refers to the insurance purchased by insurance and reinsurance companies to protect themselves against the accumulation of property losses arising from a single major event or a series of major events. ''Super-catastrophe reinsurance'' refers to a catastrophe contract which subjects the reinsurer to especially large amounts of losses from a mega-catastrophe such as a hurricane or earthquake. The super-catastrophe policies in which Wes-FIC has participated have indemnified the ceding companies for all or part of covered losses in excess of large, specified retentions; reinsurance of this type is referred to as ''excess-of-loss'' reinsurance (as contrasted with ''quota share'' reinsurance, under which a ceding company is indemnified in proportion to its own loss). Management believes that an insurer in this business must maintain large net worth in relation to annual premiums in order to remain solvent when called upon to pay claims when a super catastrophe occurs. In this regard, the Berkshire Insurance Group and Wes-FIC are believed to operate differently from other reinsurers in that risks they write are kept in house, while other reinsurers may retrocede portions of the risks to other reinsurers, thereby assuming contingent risks that such reinsurers will not remain adequately solvent if called upon to pay off on risks reinsured.

Berkshire has indicated that it may from time to time be offered super-catastrophe reinsurance business that is somewhat larger than it wishes to have a wholly owned subsidiary retain and may make a portion of the business available to Wes-FIC. Wesco's and Wes-FIC's boards of directors have authorized automatic acceptance of retrocessions of reinsurance offered by the Berkshire Insurance

Group provided the following guidelines and limitations are complied with: (1) in order not to delay the acceptance process, the retrocession is to be accepted without delay in writing in Nebraska by agents of Wes-FIC who are salaried employees of the Berkshire Insurance Group; (2) the Berkshire Insurance Group is to receive a ceding commission of 3% of premiums, probably less than the Berkshire Insurance Group could get in the marketplace; (3) Wes-FIC is to assume 20% or less of the risk (before taking into account effects of the ceding commission); (4) the Berkshire Insurance Group must retain at least 80% of the identical risk (again, before taking into account effects of the ceding commission); and (5) the aggregate premiums from this type of business in any twelve-month period cannot exceed 10% of Wes-FIC's net worth.

Wes-FIC, in Nebraska, Utah and Iowa, is also licensed to write ''direct'' insurance business (as distinguished from reinsurance), but the volume written to date has been very small.

In July 1996, Wes-FIC purchased KBS for approximately $80 million in cash. KBS provides specialized insurance coverage to more than 20% of the banks in the United States, mostly small and medium-size banks in the Midwest. It is regulated by insurance departments in 25 states and by the Department of the Treasury. Its product line for financial institutions includes policies for crime insurance, check kiting fraud indemnification, directors and officers liability, bank employment practices, and professional errors and omissions indemnity, as well as deposit guaranty bonds, which insure deposits in excess of federal deposit insurance limits. KBS, which for many years had minimized its risks arising from large losses by ceding almost half of its business to third party reinsurers, restructured its reinsurance program effective January 1, 1998, with the result that in 1998 only about 6% of its gross insurance business was ceded to third party reinsurers, including 2% ceded to a wholly owned Berkshire subsidiary, versus about 42% ceded to unaffiliated, third party reinsurers in 1997. Wesco's management anticipates that KBS's new program will improve operating results over the long term in return for greater short-term volatility.

KBS markets its products in some states by exclusive, commissioned agents, and in others by salaried, traveling employees. Inasmuch as the number of small midwestern banks is declining as banks are merging, KBS relies for growth on an extraordinary level of service provided by its dedicated employees and agents, and on new products such as bank deposit guaranty bonds, which were introduced in 1993 and currently account for approximately 18% of premiums written.

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 and KBS are competitively well positioned, inasmuch as their net premiums written for calendar 1998 amounted to less than .7% of their combined statutory surplus, compared to an industry average of about 90% based on figures reported for 1997.

Standard & Poor's Corporation, in 1994, recognized Wes-FIC's strong competitive position as a member of Berkshire's family of wholly and substantially owned insurance subsidiaries and its unusual capital strength, and assigned its highest rating, AAA, to Wes-FIC's claims-paying ability. This rating recognized the commitment of Wes-FIC's management to a disciplined approach to underwriting and reserving, as well as Wes-FIC's extremely strong capital base.

Wesco's and Wes-FIC's boards are hopeful, but have no assurance, that the businesses of Wes-FIC and KBS will grow. They welcome the opportunity to participate in additional attractive super-catastrophe reinsurance retrocessions, and other insurance arrangements such as the one with Fireman's Fund, as well as acquisitions of other insurance companies.

Insurance companies are subject to regulation by the departments of insurance of the various states in which they write policies as well as the states in which they are domiciled, and, if applicable, as is the case with KBS, by the Department of the Treasury. Regulations relate to, among other things, capital requirements, shareholder and policyholder dividend restrictions, reporting requirements, annual audits by independent accountants, periodic regulatory examinations, and limitations on the size and types of investments that can be made.

Wes-FIC, which is operated by NICO, has no employees of its own. KBS has 16 employees.

INDUSTRIAL SEGMENT

Precision Steel, acquired in 1979 for approximately $15 million, and a subsidiary operate steel service centers at or near Chicago, Illinois and 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 30 thousand tons compares with the steel service industry's annual volume of over 20 million tons. 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 use less costly materials in making parts.

Precision Brand Products, Inc. (''Precision Brand''), a wholly owned subsidiary of Precision Steel, also located in the Chicago area, 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 tool room specialty products market is believed to approximate .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 two weeks. Precision Brand normally maintains inventories adequate to allow for off-the-shelf service to customers within 24 hours.

The industrial segment businesses are subject to economic cycles. These businesses are not dependent on a few large customers. The backlog of steel service orders increased to approximately $6.5 million at December 31, 1998 from $6.1 million at December 31, 1997.

Approximately 250 full-time employees are engaged in the industrial segment businesses, about 40% of whom are members of unions. Management considers labor relations to be good.

ACTIVITIES NOT IDENTIFIED WITH A BUSINESS SEGMENT

Through 1993, Wesco's business activities included a financial segment, whose principal activities consisted mainly of savings and loan operations. In late 1993, several events occurred that resulted in a major restructuring of the consolidated enterprise. Mutual Savings transferred its savings accounts and certain other liabilities (totaling about $220 million), offset by substantially all of its real estate loans and certain other non-cash assets (about $86 million, combined) and cash (about $134 million), to CenFed Bank. Mutual Savings transferred to MS Property all real estate it was in process of developing and liquidating as well as the few real estate loans that were not sold to CenFed Bank. Wesco transferred its commercial real estate property in Pasadena, California to MS Property. Finally, Mutual Savings merged into Wes-FIC by statutory merger, effective January 1, 1994.

After completion of the restructuring, the financial segment no longer served a useful purpose. The activities that remained had previously been included in the financial segment only because they were indirectly related to operation of the savings and loan association and were relatively insignificant. Accordingly, effective with the beginning of 1994, these activities were removed from the financial segment and are no longer identified with any segment as they do not in any way relate to the two remaining segments. These extraneous, relatively insignificant operations include (1) investment activity unrelated to the insurance segment, (2) management of commercial real estate property in Pasadena, (3) development and liquidation of foreclosed real estate, now virtually completed, and (4) parent company operations.

Wesco, while it seeks suitable businesses to acquire and explores ways to expand its existing operations, also causes its insurance subsidiaries to invest in marketable securities of unaffiliated companies. (See Note 2 to the accompanying consolidated financial statements for summaries of investments.)

Seven full-time employees are engaged in the activities of Wesco and MS Property.

Item 2. Properties

MS Property owns a business block situated between the city hall and a troubled indoor shopping mall in downtown Pasadena, California. The block's principal improvements are a nine-story office building that was constructed in 1964 and has approximately 125,000 square feet of net rentable area, and a multistory garage with space for 425 automobiles. Of the 125,000 square feet of space in the office building, approximately 5,000 square feet are used by MS Property or leased to Blue Chip or Wesco. Most of the remaining space is leased to outside parties, including California Federal Bank (successor to CenFed Bank), law firms and others, under agreements expiring at dates extending to 2008. In addition to the office building and garage, the business block has contained a row of small, blighted commercial retail buildings; MS Property is in process of demolishing this portion of the block and is exploring options for redeveloping it, together with a parcel of land it owns in the next block which it has been using as a 100-car parking lot.

MS Property also owns a small amount of real estate in Southern California acquired by Mutual Savings through foreclosure. This consists of several buildings that are leased to various small businesses in a small shopping center, a single-family residence and a residential lot.

Wes-FIC's place of business is the Omaha, Nebraska headquarters office of NICO.

KBS leases 5,100 square feet of office space in a multistory office building in Topeka, Kansas under a lease that expires July 1, 2002. KBS has an option to renew the lease for an additional five-year term.

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.

Item 3. Legal Proceedings

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

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

None.

PART II

Item 5.

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

The following table sets forth quarterly ranges of composite prices for American Stock Exchange trading of Wesco shares for 1998 and 1997, based on data reported by the American Stock Exchange, as well as cash dividends paid by Wesco on each outstanding share:

	1998				1997		
	Sales Price		Dividends		Sales Price		Dividends
Quarter Ended	High	Low	Paid	Quarter Ended	High	Low	Paid
March 31	$377	$285	$0.285	March 31	$214	$180	$0.275
June 30	395	346	0.285	June 30	331	197	0.275
September 30	392	280	0.285	September 30	332	262	0.275
December 31	365	290	0.285	December 31	339⅞	300	0.275
			$1.140				$1.100

There were approximately 750 shareholders of record of Wesco's capital stock as of the close of business on March 23, 1999. It is estimated that approximately 5,000 additional Wesco shareholders held shares of Wesco's capital stock in street name at that date.

Item 6. Selected Financial Data

Set forth below and on the following page are selected consolidated financial data for Wesco and its subsidiaries. For additional financial information, attention is directed to Wesco's audited 1998 consolidated financial statements appearing elsewhere in this report. (Amounts are in thousands except for amounts per share.)

	Year Ended December 31,				
	1998	1997	1996	1995	1994
Revenues:					
Sales and service revenues	$ 66,137	$ 67,557	$ 63,654	$ 62,271	$62,143
Insurance premiums earned	15,923	11,507	10,060	9,294	1,133
Dividend and interest income	40,543	36,552	33,313	30,273	29,017
Realized gains (losses), net, on securities and foreclosed property	52,672	102,348	(152)	7,428	323
Other	904	1,087	1,144	1,791	2,842
	176,179	219,051	108,019	111,057	95,458
Costs and expenses:					
Cost of products and services sold	51,527	52,710	50,054	50,019	49,459
Insurance losses and expenses	8,174	860	4,264	1,501	(571)
Selling, general and administrative	11,156	9,393	10,849	11,142	13,411
Interest on notes payable	3,016	3,320	3,352	3,371	3,394
Decline in value of investment	—	—	—	—	9,000
	73,873	66,283	68,519	66,033	74,693
Income before income taxes	102,306	152,768	39,500	45,024	20,765
Provision for income taxes	(30,503)	(50,959)	(8,881)	(10,483)	(1,793)
Net income	$ 71,803	$101,809	$ 30,619	$ 34,541	$18,972
Amounts per capital share:					
Net income	$ 10.08	$ 14.30	$ 4.30	$ 4.85	$ 2.66
Cash dividends	1.14	1.10	1.06	1.02	.98

	December 31,				
	1998	1997	1996	1995	1994
Assets:					
Cash and cash equivalents	$ 320,034	$ 10,687	$ 23,039	$ 87,981	$ 15,800
Investments —					
Securities with fixed maturities	66,619	279,697	176,885	119,575	183,089
Marketable equity securities	2,778,595	2,224,848	1,533,009	1,102,221	696,261
Accounts receivable	7,707	7,148	7,940	6,680	6,501
Real estate held for sale	2,327	5,240	15,831	19,021	23,414
Property and equipment	12,193	13,229	13,297	13,967	14,279
Excess of cost of KBS over net assets acquired	29,338	30,121	30,903	—	—
Other assets	11,593	17,142	17,501	16,282	22,417
Total assets	$3,228,406	$2,588,112	$1,818,405	$1,365,727	$961,761
Liabilities:					
Insurance losses and expenses	$ 36,731	$ 41,437	$ 45,491	$ 34,195	$ 39,785
Notes payable	33,635	33,635	37,162	37,369	37,557
Income taxes payable, principally deferred	920,035	733,488	468,370	324,341	191,858
Other liabilities	14,249	15,260	16,367	12,193	14,414
Total liabilities	$1,004,650	$ 823,820	$ 567,390	$ 408,098	$283,614
Shareholders' equity:					
Capital stock and surplus	$ 30,439	$ 30,439	$ 30,439	$ 30,439	$ 30,439
Unrealized appreciation of investments, net of taxes	1,686,716	1,290,939	871,640	601,326	349,122
Retained earnings	506,601	442,914	348,936	325,864	298,586
Total shareholders' equity	$2,223,756	$1,764,292	$1,251,015	$ 957,629	$678,147
Per capital share	$ 312.33	$ 247.80	$ 175.71	$ 134.50	$ 95.25

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

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

FINANCIAL CONDITION

Wesco's shareholders' equity at December 31, 1998 was $2.2 billion or $312.33 per share, up $.5 billion or $64.53 per share for the year. This increase was due principally to appreciation in market value of investments, which under accounting convention is credited directly to shareholders' equity, net of taxes, without being reflected in earnings. Because unrealized appreciation is recorded using current market quotations, which are subject to fluctuation, the net gains ultimately realized could differ substantially from recorded unrealized appreciation, which constituted 76% of shareholders' equity at December 31, 1998, compared to 51% at December 31, 1994.

Over 95% of the Wesco group's unrealized appreciation of securities at December 31, 1998 was concentrated in three common stocks (see Note 2 to the consolidated financial statements appearing elsewhere herein). However, as demonstrated in the section on market risk beginning on page 22, even if all appreciation of the Wesco group is ignored, there has been a steady increase in shareholders' equity over the past five years.

Wesco's management believes the group has adequate liquidity and capital resources, including the ability to borrow, to minimize the impact of a downturn in its fortunes. Borrowings from banks and others have been available to Wesco and its subsidiaries under attractive terms for a number of years. In recognition of the sound financial condition of Wesco and of its Wes-FIC insurance subsidiary, Wesco's $30 million of Notes due November 1, 1999 and Wes-FIC's claims-paying ability have since 1994 been assigned Standard & Poor Corporation's highest rating, AAA.

RESULTS OF OPERATIONS

The following summary sets forth the contribution to Wesco's consolidated net income of each business segment, insurance and industrial, as well as nonsegment activities. In each case realized gains or losses are shown separately from ''normal'' net operating income. (Amounts are in thousands, *all after income tax effect*.)

	Year Ended December 31,		
	1998	**1997**	**1996**
Insurance segment:			
''Normal'' net operating income	$34,654	$ 33,507	$27,249
Realized securities gains (losses)	33,609	32,843	(115)
Segment net income	68,263	66,350	27,134
Industrial segment net income (all ''normal'' net operating income)	3,154	3,622	3,033
Other than identified business segments:			
''Normal'' net operating income (loss)	(186)	1,133	438
Gains, net, on sales of foreclosed real estate	572	850	14
Realized securities gains	—	29,854	—
Nonsegment net income	386	31,837	452
Consolidated net income	$71,803	$101,809	$30,619

In the following sections the ''normal'' net operating income data set forth in the foregoing summary on an *after*-tax basis are broken down and discussed. Attention is directed to Note 7 to the accompanying consolidated financial statements for additional information.

Insurance Segment

The ''normal'' net operating income of the insurance segment (i.e., Wes-FIC and, since July 1996, KBS) represents essentially the combination of underwriting results with dividend and interest income. Following is a summary of such data (in thousands):

	Year Ended December 31,		
	1998	**1997**	**1996**
Premiums written	$ 19,296	$ 10,654	$ 5,353
Premiums earned	$ 15,923	$ 11,507	$10,060
Underwriting gain	$ 7,748	$ 10,647	$ 5,795
Dividend and interest income	38,534	33,694	29,831
General and administrative expenses	(806)	(779)	(478)
Income before income taxes	45,476	43,562	35,148
Income tax provision	(10,822)	(10,055)	(7,899)
''Normal'' net operating income	$ 34,654	$ 33,507	$27,249

Premiums written by Wesco's insurance subsidiaries for 1998 were comprised of (1) $17.0 million attributable to KBS and (2) $2.3 million attributable to Wes-FIC. Premiums written in 1997 consisted of (1) $8.6 million attributable to KBS and (2) $2.1 million attributable to Wes-FIC. The increase in premiums written by KBS for 1998 was due principally to KBS's restructuring of its reinsurance program effective January 1, 1998, as explained in Item 1, Business. As a result of the restructuring, KBS received and credited to premiums written in 1998 $2.6 million of unearned reinsurance premiums that had been deducted from premiums written in prior years. Premiums written by Wes-FIC for 1998 and 1997 included approximately $1.7 million in each year relating to Wes-FIC's participation with the Berkshire Insurance Group in a large excess-of-loss super-catastrophe reinsurance policy covering hurricane risk in Florida under an agreement for a three-year period that began January 1, 1997. Super-catastrophe reinsurance retrocessions from the Berkshire Insurance Group to Wes-FIC have declined substantially since inception of such arrangements in 1994. Berkshire's management has attributed the decline to increased competition; it has stated repeatedly that it will not knowingly write business at inadequate rates.

Earned premiums for 1998, 1997 and 1996 included $13.7 million, $8.7 million and $4.6 million attributable to KBS. The remainder in each year was attributable to Wes-FIC and related principally to super-catastrophe reinsurance participations.

The underwriting gain for 1998 included $4.4 million attributable to KBS and $3.3 million attributable to Wes-FIC; the latter included, notably, $1.4 million attributable to a super-catastrophe reinsurance policy, and a $1.7 million downward revision of estimated liabilities for losses and loss expenses with respect to Wes-FIC's quota share reinsurance of Fireman's Fund business. The underwriting gain for 1997 included $5.5 million attributable to KBS, and $5.1 million attributable to Wes-FIC; the latter included, notably, $2.3 million attributable to two super-catastrophe reinsurance policies, and a $2.6 million downward revision of estimated liabilities relating to Fireman's Fund. The underwriting gain for 1996 included $1.7 million from KBS as well as $4.1 million from Wes-FIC on expiration of several super-catastrophe reinsurance policies written in 1995. KBS's underwriting gain is net of amortization of ''goodwill''; this excess of Wes-FIC's cost over the fair value of the identified net assets acquired in mid-1996 (about $31 million) is being written off over 40 years (or $.8 million per calendar year).

Although no super-catastrophe reinsurance losses have been incurred to date, the managements of Berkshire, Wes-FIC and Wesco believe that large super-catastrophe reinsurance losses will inevitably occur from time to time. While such large losses are not expected to be significant in relation to Wes-FIC's capital base, the managements accept the prospect of increased volatility in

Wes-FIC's short-term underwriting results in order to obtain what they believe will be better long-term results.

One area of particular concern to the insurance industry is its exposure to claims for environmental contamination. Wes-FIC's management has reported that it believes Wes-FIC has virtually no such liability.

Dividend and interest income has been earned by the insurance group principally (1) on the assets (approximately $.4 billion at market value) added to Wes-FIC by the merger of Mutual Savings in 1994, (2) on capital contributed by Wesco, (3) on earnings retained and reinvested, and (4) on float.

The income tax provision of the insurance segment has fluctuated as a percentage of its pre-tax income in each of the periods presented in the foregoing table. These fluctuations have been caused by fluctuations in the relationship of substantially tax-exempt components of income to total pre-tax income.

Insurance losses and loss adjustment 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, Wesco's insurance subsidiaries have maintained capital positions strong enough not only to absorb adverse estimation corrections but also to enable them to accept other insurance contracts. Although additional reinsurance retrocessions from Berkshire subsidiaries, or acquisitions of insurance businesses like or unlike that of KBS, or other attractive reinsurance or insurance arrangements, would be welcome, the timing and extent of any increase in insurance underwriting activity cannot presently be predicted.

Industrial Segment

Following is a summary of the ''normal'' net operating results of the industrial segment, consisting of the businesses of Precision Steel and its subsidiaries (in thousands):

	Year Ended December 31,		
	1998	**1997**	**1996**
Revenues, principally sales and services	$66,197	$67,693	$63,762
Income before income taxes	$ 5,272	$ 6,042	$ 5,076
Income tax provision	(2,118)	(2,420)	(2,043)
''Normal'' net operating income	$ 3,154	$ 3,622	$ 3,033

Revenues of Precision Steel's businesses declined in 1998 after having improved in 1997. The decline in revenue for 1998 occurred despite a 5.2% increase in pounds of steel products sold, and was attributed by Precision Steel's management to a combination of factors, including (1) a shift in mix of products sold toward lower-priced products, and (2) a decline in selling prices of higher-margin items following price decreases by mills and other suppliers. The improvement in revenues in 1997 resulted from a 16.7% increase in pounds of steel products sold, which Precision Steel's management attributed principally to improvement in the industrial sector of the economy. Revenues per pound, however, decreased in 1997 following price decreases by mills and other suppliers.

Income before income taxes and normal net operating income of the industrial segment are dependent not only on revenues, but also on operating expenses and the cost of products sold. The latter, as a percentage of revenues, amounted to 77.9%, 78.0% and 78.6% for 1998, 1997 and 1996. The cost percentage typically fluctuates slightly from year to year as a result of changes in product mix and price competition at all levels. Precision Steel's cost of products sold percentage is very sensitive to current changes in the cost of materials purchased, because it carries its inventories at the lower of last-in, first-out cost or market; under this method, the most recent costs are reflected in cost of goods sold. Precision Steel's costs for 1998 also included $.6 million, before income taxes ($.4 million after taxes), for the upgrading of computer systems to ensure that its order-taking and other data processing systems would continue to function properly beyond December 31, 1999. (See further discussion of such so-called Year 2000 exposure on page 24.)

Other Than Identified Business Segments

Set forth below is a summary of "normal" net operating income for items not identified with either business segment, insurance or industrial (in thousands):

	Year Ended December 31,		
	1998	**1997**	**1996**
Dividend and interest income	$ 2,132	$ 3,148	$ 3,988
Rental income, net, from commercial real estate	842	879	1,035
Interest expense	(2,937)	(3,408)	(3,858)
General and administrative expenses	(1,086)	(1,010)	(1,229)
Reduction in allowance for losses on foreclosed real estate and other assets	—	1,800	—
Other items, net	(67)	(594)	(508)
Income (loss) before income tax benefit	(1,116)	815	(572)
Income tax benefit	930	318	1,010
"Normal" net operating income (loss)	$ (186)	$ 1,133	$ 438

"Normal" net operating income or loss other than from identified business segments includes mainly (1) dividend and interest income from marketable securities and cash equivalents owned outside the insurance subsidiaries and (2) net rental income from owned commercial real estate, reduced by (1) interest and other corporate expenses and (2) costs and expenses associated with the development and liquidation of foreclosed real estate formerly owned by Mutual Savings, including adjustments of reserves for possible losses on sales of foreclosed real estate — plus or minus income taxes related to such "normal" nonsegment items.

"Normal" net operating income or loss other than from identified business segments typically fluctuates from period to period but is not significant in amount. The 1997 figure benefited to the extent of $1.1 million, after tax effect, from the inclusion of a reduction in reserves for possible losses on disposition of foreclosed real estate and other assets inherited from Mutual Savings; there were no adjustments of these reserves in 1998 or 1996. MS Property has had success in selling various foreclosed properties at prices higher than were anticipated when the real estate market was extremely depressed.

Nonsegment dividend and interest income declined sharply in 1998 and 1997 due to conversions of preferred stocks into lower-yielding common stocks. Nonsegment interest expense declined to a lesser extent: in 1997, Wesco's parent company borrowings from an insurance subsidiary were reduced; 1998 benefited from further reductions in such borrowings as well as prepayment late in 1997 of the $3.3 million remaining balance of notes payable collateralized by MS Property's commercial real estate.

Wesco's nonsegment tax benefits appear at first glance to be anomalous compared to pre-tax income or loss. This is caused by the inclusion in pre-tax income or loss of large (but declining) amounts of dividend income, which is highly tax-favored. All other revenues and expense items are fully taxable or deductible.

* * * * *

Management's long-term goal is to maximize gain in Wesco's intrinsic business value per share, 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, or (2) the desire for funds for an acquisition or repayment of debt.

Realized gains and losses on investments — reflected on the consolidated statement of income when securities are sold, or when required by other events — tend to fluctuate in amount from period to period, sometimes impacting net income significantly. However, the amount of realized gain or loss for any given period has no predictive value, and variations in amount from period to period have no practical analytical value, particularly in view of the substantial unrealized price appreciation now existing in Wesco's consolidated investment portfolio. (Wesco's shareholders' equity at December 31, 1998 contained $1.7 billion, or $236.90 per share, of unrealized appreciation of investments, net of taxes — about 76% of shareholders' equity.)

Wesco's consolidated earnings for 1998 contained securities gains, after income taxes, of $33.6 million, compared to $62.7 million of after-tax gains for 1997 and after-tax losses of $.1 million for 1996. Of the 1997 figure, only $.1 million was realized through the sale of securities; the balance, $62.6 million, was required to be treated as realized as a result of The Travelers Group Inc.'s acquisition of Salomon Inc. In 1994, Wesco was required to take a charge of $9 million, before taxes ($5.9 million, after taxes) on an investment that had suffered an other-than-temporary decline in value; eventually, the investee's fortunes recovered, and the investment was sold by Wesco at a gain in 1998. The large gains reported for 1998 and 1997, although material in relation to Wesco's net income, had only a minor impact on Wesco's *total* shareholders' equity: Wesco's investments are carried at market value, and most of the gains had already been reflected in the unrealized appreciation component of its shareholders' equity.

Wesco's effective consolidated income tax rate typically fluctuates from period to period for various reasons, such as the inclusion in consolidated revenues of significant, varying amounts of dividend income from preferred and common stocks, which is substantially exempt from income taxes. The respective provisions, expressed as percentages of income before income taxes, amounted to 29.8%, 33.4% and 22.5% in 1998, 1997 and 1996. (See Note 5 to the accompanying consolidated financial statements for further information on income taxes.)

Consolidated revenues, expenses and net income reported for any period are not necessarily indicative of future revenues, expenses and net income in that they are subject to significant variations in amount and timing of securities gains and losses and the possible occurrence of other unusual nonoperating items. In addition, consolidated revenues, expenses and net income *from operations* are expected to be much more volatile than they were prior to Wes-FIC's entry into the super-catastrophe reinsurance business several years ago and, to a lesser degree, the recent restructuring of KBS's reinsurance program.

Shareholders' equity is impacted not only to the extent that unusual items affect earnings, but also to reflect changes in unrealized appreciation of investments, which are not reflected in earnings.

Wesco is not now suffering from inflation, but its insurance and industrial segments have potential exposure. Large unanticipated changes in the rate of inflation could adversely impact the insurance business, because premium rates are often established well in advance of expenditures. Precision Steel's businesses are competitive and operate on tight gross profit margins, and thus its earnings are susceptible to bad effects from inflationary cost increases.

MARKET RISK ANALYSIS

Wesco's consolidated balance sheet at December 31, 1998 contained $2.8 billion of marketable securities stated at market value. The carrying values of these securities are not only directly exposed to fluctuations in their stock market prices (see below); they are also indirectly exposed to risks related to other markets. For example, the largest holding of the consolidated group ($1.9 billion as of December 31, 1998) was in common stock of Freddie Mac, whose principal assets are mortgages and mortgage securities, which are subject to interest rate risk. The second and third largest holdings

($.8 billion, combined, at December 31, 1998) were in common stocks of The Coca-Cola Company and The Gillette Company, both of which have global operations and thus are subject to changes in foreign currency exchange rates. These and other market risks such as commodity price fluctuations, where material, are required to be reported upon in their filings with the Securities and Exchange Commission, which are available to the public.

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

The carrying values of investments subject to equity price risks are based on quoted market prices or, in the absence of such, management's estimates of fair value. Market prices are subject to fluctuation and, consequently, the amounts realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments or general market conditions. Furthermore, amounts realized in the sale of a particular security may be adversely affected if a relatively large quantity of the security is being sold.

The table below shows the effects as of December 31, 1998 of a hypothetical 30% overall increase or decrease in market prices of ''securities'' (defined for this purpose as marketable equity securities, plus preferred shares convertible into common stock selling significantly above conversion price) owned by the Wesco group. These changes result in a pro forma 24.8% increase or decrease in shareholders' equity (amounts in thousands):

	Increase	Decrease
Market value of securities:		
As recorded	$2,822,595	$2,822,595
Hypothetical (assuming 30% change)	3,669,374	1,975,816
Shareholders' equity:		
As recorded	2,223,756	2,223,756
Pro forma (results in 24.8% change)	2,774,162	1,673,350

The foregoing hypothetical changes in market values do not reflect what could be considered the best- or worst-case scenarios. Indeed, results could be far worse due both to the nature of equity markets and the concentration existing in Wesco's consolidated investment portfolio. However, Wesco has substantial shareholders' equity, providing a margin of safety against a significant decline in portfolio values. This can be seen by glancing at the following balance sheet totals, which result from removing all unrealized appreciation and related deferred taxes from balance sheet totals shown in the final table in Item 6 (in thousands except for amounts per share):

	December 31,				
	1998	1997	1996	1995	1994
Total assets	$634,954	$603,178	$478,863	$442,439	$425,159
Total liabilities	$ 97,914	$129,825	$ 99,488	$ 86,139	$ 96,134
Total shareholders' equity	$537,040	$473,353	$379,375	$356,303	$329,025
Per capital share	$ 75.43	$ 66.48	$ 53.28	$ 50.04	$ 46.21

Wesco's consolidated balance sheet at December 31, 1998 did not contain significant assets or liabilities with values subject to interest rate, commodity price, or foreign exchange rate risks. The Wesco group does not utilize stand-alone derivatives to manage these or other market risks.

YEAR 2000 EXPOSURE

Many computer systems used today were not designed to interpret data correctly after December 31, 1999 because only two digits were used to indicate the year in a date. Other systems and equipment were designed with similar limitations, often due to the circuitry of computer chips embedded therein. Wesco and its subsidiaries have been engaged in (1) assessing these potential ''Year 2000'' problems as they relate to their businesses, including their electronic and other interactions with banks, vendors, customers and others, and (2) developing and implementing solutions. In addition, Wesco has been attempting to satisfy itself that non-subsidiary companies in which it has material investments are proceeding in like manner.

Wesco and affiliated companies have been working on Year 2000 readiness issues in varying degrees for several years. Managements of the operating units have reported that the process of identifying Year 2000 problems and determining remedial action is nearly complete. It appears all critical systems will be Year 2000 compliant by the summer of 1999. Testing of systems believed to be Year 2000 compliant has begun and will continue throughout 1999. A number of customers and suppliers, including banks and providers of payroll services, have been contacted regarding their own progress on Year 2000 issues. While no significant customer or supplier has expressed doubt that it will resolve its Year 2000 issues in a timely manner, Wesco can provide no assurance that significant Year 2000 noncompliance by one or more unrelated parties will not ultimately occur, resulting in the inability of a Wesco operating unit to obtain or deliver products or services, or the incurrence by a Wesco insurance subsidiary of losses under property and casualty insurance and reinsurance contracts. While such noncompliance by an unrelated party could conceivably have a materially adverse effect on Wesco's consolidated net income, Wesco's management does not believe that the total worst-case effect, which cannot be estimated, would be material in relation to its shareholders' equity.

Insofar as non-subsidiary investees are concerned, Wesco's assessment of its Year 2000 exposure has been limited to review of SEC-mandated disclosures in published reports, augmented by contact with representatives of Freddie Mac, which accounts for well over half of the market value of consolidated marketable equity securities. In each case the outside entity has indicated it is aware of the Year 2000 issue and is in process of assessing the situation and developing and implementing solutions in a timely manner. Wesco will continue to monitor its investees' progress, because if one or more of them were not adequately prepared at the start of 2000, or if capital markets were severely disrupted due to the failure of governmental bodies or private entities to address Year 2000 issues in a timely and effective manner, Wesco could suffer material adverse effects. Although the financial impact of such effects cannot be estimated, in the extremely unlikely event the overall market value of Wesco's investments dropped to original cost, in the opinion of Wesco's management, Wesco and its operating units would still be clearly viable.

Wesco expects ultimately to incur approximately $.8 million in identification, remediation and testing of Year 2000 issues. Approximately $.6 million of this amount ($.4 million after income taxes) had been incurred and charged against earnings as of December 31, 1998. Wesco does not believe that any significant information technology projects have been delayed due to Year 2000 efforts.

Wesco and its subsidiaries have begun consideration of contingency plans to deal with certain Year 2000 issues in the event that remediation efforts by themselves or others prove unsuccessful. Such plans will be more fully developed throughout 1999 to address specific areas of need.

FORWARD-LOOKING STATEMENTS

Certain written or oral representations of management stated herein or elsewhere constitute ''forward-looking'' statements within the meaning of the Private Securities Litigation Reform Act of 1995, as contrasted with statements of historical fact. Forward-looking statements include statements which are predictive in nature, or which depend upon or refer to future events or conditions, or which include words such as *expects, anticipates, intends, plans, believes, estimates, may,* or *could,* or which involve hypothetical events. For example, the preceding section on Year 2000 exposure contains several forward-looking statements. Forward-looking statements are based on information currently available and are subject to various risks and uncertainties that could cause actual events or results to differ materially from those characterized as being likely or possible to occur.

Item 8. Financial Statements

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

Listed below are financial statement schedules required by the Securities and Exchange Commission to be included in this report. The data appearing therein should be read in conjunction with the consolidated financial statements and notes of Wesco 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 consolidated financial statements or notes thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable, as there were no such changes or disagreements.

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 1999 annual meeting of shareholders (the ''1999 Proxy Statement'') is incorporated herein by reference.

Item 11. Executive Compensation

The information set forth in the section ''Compensation of Directors and Executive Officers'' in the 1999 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 1999 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Certain information set forth in the sections ''Election of Directors,'' ''Voting Securities and Holders Thereof,'' ''Compensation of Directors and Executive Officers'' and ''Board of Director Interlocks and Insider Participation'' in the 1999 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 Wesco's Annual Report on Form 10-K for the year ended December 31, 1994).

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. List of Subsidiaries.

27. Financial Data Schedule.

Instruments defining the rights of holders of long-term debt of registrant and its subsidiaries are not being filed since the total amount of securities authorized by all such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis as of December 31, 1998. The Registrant hereby agrees to furnish to the Commission upon request a copy of any such debt instrument to which it is a party.

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, 1998.

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 (principal executive officer)	March 24, 1999
By:	Robert H. Bird President (principal operating officer)	March 24, 1999
By:	Jeffrey L. Jacobson Vice President and Chief Financial Officer (principal financial and accounting officer)	March 24, 1999

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 H. Bird Director	March 24, 1999
Carolyn H. Carlburg Director	March 24, 1999
James N. Gamble Director	March 24, 1999
Charles T. Munger Director	March 24, 1999
David K. Robinson Director	March 24, 1999

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, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the index at Item 8. These financial statements and the financial statement schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Deloitte + Touche LLP

Omaha, Nebraska
March 8, 1999

WESCO FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 320,034	$ 10,687
Investments:		
Securities with fixed maturities	66,619	279,697
Marketable equity securities	2,778,595	2,224,848
Accounts receivable	7,707	7,148
Real estate held for sale	2,327	5,240
Property and equipment	12,193	13,229
Excess of cost over net assets of acquired business	29,338	30,121
Other assets	11,593	17,142
	$3,228,406	$2,588,112
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance losses and loss adjustment expenses	$ 36,731	$ 41,437
Notes payable	33,635	33,635
Income taxes payable, principally deferred	920,035	733,488
Other liabilities	14,249	15,260
	1,004,650	823,820
Shareholders' equity:		
Capital stock, $1 par value — authorized, 7,500,000 shares; issued and outstanding, 7,119,807 shares	7,120	7,120
Capital in excess of par value	23,319	23,319
Unrealized appreciation of investments, net of taxes	1,686,716	1,290,939
Retained earnings	506,601	442,914
Total shareholders' equity	2,223,756	1,764,292
	$3,228,406	$2,588,112

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF INCOME

(Dollar amounts in thousands except for amounts per share)

	Year Ended December 31,		
	1998	**1997**	**1996**
Revenues:			
Sales and service revenues	$ 66,137	$ 67,557	$ 63,654
Insurance premiums earned	15,923	11,507	10,060
Dividend and interest income	40,543	36,552	33,313
Realized gains (losses), net, on securities and foreclosed property	52,672	102,348	(152)
Other	904	1,087	1,144
	176,179	219,051	108,019
Costs and expenses:			
Cost of products and services sold	51,527	52,710	50,054
Insurance losses and expenses	8,174	860	4,264
Selling, general and administrative expenses	11,156	9,393	10,849
Interest on notes payable	3,016	3,320	3,352
	73,873	66,283	68,519
Income before income taxes	102,306	152,768	39,500
Provision for income taxes	(30,503)	(50,959)	(8,881)
Net income	$ 71,803	$101,809	$ 30,619
Amounts per capital share based on 7,119,807 shares outstanding throughout each year:			
Net income	$ 10.08	$ 14.30	$ 4.30
Cash dividends	$ 1.14	$ 1.10	$ 1.06

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollar amounts in thousands)

	Shareholders' Equity					
	Capital Stock	Capital in Excess of Par Value	Unrealized Appreciation of Investments	Retained Earnings	Total	Total Compre-hensive Income
Balance, December 31, 1995	$7,120	$23,319	$ 601,326	$325,864	$ 957,629	
Net income				30,619	30,619	
Unrealized appreciation of investments, net of income tax effect			270,199		270,199	$300,933
Reversal of unrealized depreciation upon inclusion of realized net losses in net income			115		115	
Cash dividends declared and paid				(7,547)	(7,547)	
Balance, December 31, 1996	7,120	23,319	871,640	348,936	1,251,015	
Net income				101,809	101,809	
Unrealized appreciation of investments, net of income tax effect			481,996		481,996	$521,108
Reversal of unrealized appreciation upon inclusion of realized net gains in net income			(62,697)		(62,697)	
Cash dividends declared and paid				(7,831)	(7,831)	
Balance, December 31, 1997	7,120	23,319	1,290,939	442,914	1,764,292	
Net income				71,803	71,803	
Unrealized appreciation of investments, net of income tax effect			429,386		429,386	$467,580
Reversal of unrealized appreciation upon inclusion of realized net gains in net income			(33,609)		(33,609)	
Cash dividends declared and paid				(8,116)	(8,116)	
Balance, December 31, 1998	$7,120	$23,319	$1,686,716	$506,601	$2,223,756	

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

	Year Ended December 31, 1998	1997	1996
Cash flows from operating activities:			
Net income	$ 71,803	$101,809	$30,619
Adjustments to reconcile net income with cash flows from operating activities —			
Realized (gains) losses, net, on securities and foreclosed property, before taxes	(52,672)	(102,348)	152
Provision for depreciation and amortization	2,068	2,056	1,672
Reduction in allowance for losses on real estate held for sale and other assets	—	(1,800)	—
Decrease in liabilities for losses and loss adjustment expenses of insurance businesses	(4,706)	(4,054)	(2,816)
Increase (decrease) in income taxes payable	(8,852)	40,589	(1,325)
Other, net	5,542	(1,377)	(6,228)
Net cash flows from operating activities	13,183	34,875	24,724
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(19,066)	(176,235)	(65,918)
Proceeds from maturities and redemptions of securities with fixed maturities	5,587	35,215	10,521
Proceeds from sales of marketable equity securities	177,266	—	—
Proceeds from sales of securities with fixed maturities	126,128	95,122	45,389
Acquisition of business, net of cash and cash equivalents acquired	—	—	(77,320)
Principal collections on loans	1,425	1,425	5,102
Other, net	12,940	8,604	314
Net cash flows from investing activities	304,280	(35,869)	(81,912)
Cash flows from financing activities:			
Repayments of notes	—	(3,527)	(207)
Payment of cash dividends	(8,116)	(7,831)	(7,547)
Net cash flows from financing activities	(8,116)	(11,358)	(7,754)
Increase (decrease) in cash and cash equivalents	309,347	(12,352)	(64,942)
Cash and cash equivalents — beginning of year	10,687	23,039	87,981
Cash and cash equivalents — end of year	$320,034	$ 10,687	$23,039
Supplementary disclosures:			
Interest paid during year	$ 3,016	$ 3,320	$ 3,352
Income taxes paid, net, during year	56,695	11,934	10,794
Noncash investing activities —			
Fair value of investments exchanged	—	180,772	—

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

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'').

Wesco's consolidated financial statements include the accounts of Wesco and its subsidiaries, which are all either directly or indirectly wholly owned. The principal subsidiaries are Wesco-Financial Insurance Company (''Wes-FIC''), The Kansas Bankers Surety Company (''KBS''), Precision Steel Warehouse, Inc. (''Precision Steel''), and MS Property Company (''MS Property'').

The outstanding stock of KBS was purchased by Wes-FIC in 1996 for approximately $80,000. The excess of purchase cost over the fair value of the identified net assets acquired, approximately $31,300, is being amortized on a straight-line basis over 40 years. The net unamortized balance is carried as an asset on the consolidated balance sheet.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates and assumptions are based on management's evaluation of the relevant facts and circumstances using information available at the time such estimates and assumptions are made. Although the amounts of such assets, liabilities, revenues and expenses included in the consolidated financial statements may differ from those that might result from use of estimates and assumptions based on facts and circumstances not yet available, Wesco's management does not believe such differences, if any, would have a material adverse effect on reported shareholders' equity.

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

In 1997, the Financial Accounting Standards Board issued two Statements of Financial Accounting Standards required to be adopted at the beginning of 1998: No. 130, ''Reporting Comprehensive Income,'' which established standards for the reporting of so-called comprehensive income and its components; and No. 131, ''Disclosures about Segments of an Enterprise and Related Information,'' which established new standards for reporting information about operating segments in interim and annual financial statements. Wesco's comprehensive income data are included in the consolidated statement of changes in shareholders' equity. Business segment data are included in Note 7.

Note 2. Investments

Cash equivalents consist of funds invested in money-market accounts and in other investments maturing in less than three months from date acquired.

Management determines the appropriate classifications of investments in securities with fixed maturities and marketable equity securities at the time of purchase and reevaluates such designations as of each balance sheet date. There are three permissible classifications: held-to-maturity; available-for-sale; and trading (of which there have been none). Securities are deemed to be held-to-maturity securities when both the ability and the positive intent to hold them to maturity are present; they are carried on the consolidated balance sheet at amortized cost and adjusted for any accretion of discount or amortization of premium using a method that produces approximately level yield. Available-for-sale securities are carried at quoted market value or, if market quotations are not available, at estimated fair value, with unrealized gains and losses, net of deemed applicable income taxes, reported as a separate component of shareholders' equity; there is no effect on net income, except to reflect changes in income tax rates relating to such unrealized gains and losses.

Realized gains and losses on sales of investments, determined on a specific identification basis, are included in the consolidated statement of income, as are provisions for other-than-temporary declines in market or estimated fair value. Once the carrying value of an investment has been written down to reflect an other-than-temporary decline, any subsequent increase in market or fair value is credited, net of taxes, to shareholders' equity, without affecting net income until realized.

Investments in marketable equity securities and securities with fixed maturities at December 31, 1998 and 1997 were deemed to be available-for-sale and, accordingly, carried at quoted market or estimated fair value, with the net unrealized gain shown as a separate component of shareholders' equity. Unrealized appreciation constitutes a high proportion of Wesco's shareholders' equity (76% and 73% at December 31, 1998 and 1997). As a result, shareholders' equity is sensitive to fluctuations in underlying market quotations, and gains or losses ultimately realized upon sale of the investments, less taxes, could differ very significantly from recorded unrealized appreciation.

Following is a summary of securities with fixed maturities:

	December 31, 1998		December 31, 1997	
	Amortized Cost	Estimated Fair (Carrying) Value	Amortized Cost	Estimated Fair (Carrying) Value
Obligations of U.S. Government and its agencies	$16,025	$16,358	$131,392	$147,361
State and municipal bonds	5,526	5,578	12,145	12,240
Convertible preferred stocks	45,000	44,000	93,000	115,200
Mortgage-backed securities	683	683	4,861	4,896
	$67,234	$66,619	$241,398	$279,697

At 1998 yearend, the estimated fair values of securities with fixed maturities contained $390 of unrealized gains and $1,005 of unrealized losses, compared with $38,349 of unrealized gains and $50 of unrealized losses at 1997 yearend.

In November 1997, the merger of Salomon Inc ("Salomon") with and into a subsidiary of The Travelers Group Inc. ("Travelers") was completed. Wesco and its subsidiaries received common and preferred stock of Travelers in exchange for common and preferred shares of Salomon then owned. The value of the Travelers shares received was $180,772. Realized investment gains for 1997 included $100,772 before taxes ($62,604, or $8.79 per Wesco share, after taxes) with respect to the transaction.

The preferred shares held at 1998 yearend are expected to be converted to common stock in 1999. Other investments in securities with fixed maturities at 1998 yearend are expected to mature as follows:

	Amortized Cost	Market Value
In one year or less	$ 4,163	$ 4,171
After one year through five years	17,388	17,765
After five years	—	—
	21,551	21,936
Mortgage-backed securities	683	683
	$22,234	$22,619

Dollar amounts in thousands except for amounts per share

Following is a summary of marketable equity securities (all common stocks):

	Number of Shares	December 31, 1998 Cost	December 31, 1998 Quoted Market (Carrying) Value	December 31, 1997 Cost	December 31, 1997 Quoted Market (Carrying) Value
Freddie Mac	28,800,000	$ 71,729	$1,855,800	$ 71,729	$1,207,814
The Coca-Cola Company	7,205,600	40,761	482,775	40,761	480,527
The Gillette Company	3,200,000	40,000	306,000	40,000	321,402
Other		32,038	134,020	125,723	215,105
		$184,528	$2,778,595	$278,213	$2,224,848

The market values of marketable equity securities contained no unrealized losses at 1998 or 1997 yearends.

Realized investment gains (losses), before income taxes, from sales and redemptions of investments are summarized below for each of the past three years:

	1998	1997	1996
Securities with fixed maturities —			
Gross realized gains	$16,126	$ 50,143	$ —
Gross realized losses	—	—	(177)
Marketable equity securities —			
Gross realized gains	43,611	50,771	—
Gross realized losses	(8,031)	—	—
	$51,706	$100,914	$(177)

Note 3. Insurance

Wes-FIC's insurance business through mid-1996 consisted mainly of participations in property and casualty reinsurance contracts of Berkshire's principal insurance subsidiary. Wes-FIC's purchase of KBS in July 1996 added to its operations the sale of various insurance products geared towards small and medium-sized banks located primarily in the midwestern United States. These products include bank deposit insurance in excess of FDIC coverage, directors and officers liability insurance, employment practice insurance and fidelity bond coverage.

Insurance premiums are generally recognized as earned revenues pro rata over the term of each contract. Unearned insurance premiums of $7,749 and $7,432 at December 31, 1998 and 1997 are included in other liabilities on the consolidated balance sheet.

Liabilities for unpaid losses and loss adjustment expenses are based upon estimates of ultimate claim costs associated with claim occurrences as of the balance sheet date, and are determined from (1) individual case amounts, (2) incurred but not reported losses, based on past experience, and (3) reports from ceding insurers. As further data become available, the liabilities are reevaluated and adjusted as appropriate.

Provisions for losses and loss adjustment expenses are reported in the consolidated statement of income after deducting estimates of amounts that will be recoverable under reinsurance contracts. Reinsurance contracts do not relieve the ceding companies of their obligations to indemnify policyholders with respect to the underlying insurance contracts. Losses and loss adjustment expenses recoverable at yearend under reinsurance contracts are included in accounts receivable on the consolidated balance sheet.

Dollar amounts in thousands except for amounts per share

Following is a summary of liabilities for unpaid losses and loss adjustment expenses for each of the past three years:

	1998	1997	1996
Balance at beginning of year	$41,437	$45,491	$34,195
Less ceded liabilities	(1,340)	(840)	—
Balance at beginning of year	40,097	44,651	34,195
Liabilities of KBS at date of acquisition	—	—	12,639
Incurred losses recorded during year —			
For current year	11,604	6,563	984
For all prior years*	(7,646)	(7,453)	(194)
Total incurred losses	3,958	(890)	790
Payments made during year —			
For current year	4,673	1,579	1,224
For all prior years	2,651	2,085	1,749
Total payments	7,324	3,664	2,973
Plus ceded liabilities at end of year	—	1,340	840
Balance at end of year	$36,731	$41,437	$45,491

* Primarily represents adjustments of estimated losses.

Note 4. Notes Payable

Following is a list of notes payable, at yearend:

	December 31,	
	1998	1997
Notes due November 1, 1999, bearing interest at 8⅞% payable semiannually	$30,000	$30,000
Note due January 2002, bearing interest at 7⅝% payable monthly	1,035	1,035
Industrial revenue bonds due December 2014, bearing interest at 7¾% payable semiannually	2,600	2,600
	$33,635	$33,635

The 8⅞% notes are not convertible. The indenture contains 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.

Estimated fair market values of the foregoing notes payable at December 31, 1998 and December 31, 1997 were approximately $34,700 and $35,300. These figures were calculated using discounted cash flow computations based upon estimates as to interest rates prevailing on those dates for comparable borrowings.

Dollar amounts in thousands except for amounts per share

Note 5. Income Taxes

Following is a breakdown of income taxes payable at 1998 and 1997 yearends:

	December 31, 1998	December 31, 1997
Deferred tax liabilities, relating to —		
Appreciation of investments, principally unrealized	$906,736	$729,012
Other items	14,380	8,180
	921,116	737,192
Deferred tax assets	(6,450)	(5,380)
Net deferred tax liabilities	914,666	731,812
Taxes currently payable	5,369	1,676
Income taxes payable	$920,035	$733,488

Income taxes are accounted for using the asset and liability method. Under this method, temporary differences between financial statement and tax return bases of assets and liabilities at each balance sheet date are multiplied by the tax rates in effect at that date, with the results reported on the balance sheet as net deferred tax liabilities or assets. The effect of a change in tax rate on such deferred items is required, under generally accepted accounting principles, to be reflected when enacted in the consolidated statement of income even though the original charge or credit for income taxes has been charged or credited to shareholders' equity, as in the case of unrealized appreciation of investments. As the temporary differences reverse in future periods, the taxes become currently payable or recoverable.

The consolidated statement of income contains a provision for income taxes, as follows:

	1998	1997	1996
Federal	$ 30,148	$45,781	$ 8,578
State	355	5,178	303
Provision for income taxes	$ 30,503	$50,959	$ 8,881
Current	$ 65,039	$13,021	$11,028
Deferred provision (benefit)	(34,536)	37,938	(2,147)
Provision for income taxes	$ 30,503	$50,959	$ 8,881

Following is a reconciliation of the statutory federal income tax rate with the effective income tax rate resulting in the provision for income taxes appearing on the consolidated statement of income:

	1998	1997	1996
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
Exclusion from taxable income of a significant portion of dividend income	(6.3)	(3.8)	(14.4)
Exclusion from taxable income of a significant portion of interest income on state and municipal bonds	(0.2)	(0.2)	(0.6)
State income taxes, less federal tax benefit	0.3	2.2	0.5
Other differences, net	1.0	0.2	2.0
Effective income tax provision rate	29.8%	33.4%	22.5%

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 that member.

Dollar amounts in thousands except for amounts per share

Federal income tax returns through 1988 have been examined by and settled with the Internal Revenue Service. California franchise tax returns through 1990 have been examined by and settled with the California Franchise Tax Board.

Note 6. Quarterly Financial Information

Unaudited quarterly financial information for 1998 and 1997 follows:

	Quarter Ended			
	December 31, 1998	September 30, 1998	June 30, 1998	March 31, 1998
Total revenues	$ 22,816	$32,155	$90,078	$31,130
Net income excluding securities gains	$ 10,413	$ 9,358	$ 9,556	$ 8,867
Per capital share	1.46	1.32	1.34	1.24
Realized securities gains (losses), net of income tax effect	(4,161)	—	37,770	—
Per capital share	(.59)	—	5.31	—
Net income	$ 6,252	$ 9,358	$47,326	$ 8,867
Per capital share	.87	1.32	6.65	1.24
	December 31, 1997	**September 30, 1997**	**June 30, 1997**	**March 31, 1997**
Total revenues	$129,778	$30,133	$29,084	$29,450
Net income excluding securities gains	$ 11,347	$ 9,246	$ 8,736	$ 9,783
Per capital share	1.59	1.30	1.23	1.37
Realized securities gains (losses), net of income tax effect	62,555	142	—	—
Per capital share	8.79	.02	—	—
Net income	$ 73,902	$ 9,388	$ 8,736	$ 9,783
Per capital share	10.38	1.32	1.23	1.37

Note 7. Business Segment Data

Consolidated financial information for each of the past three years is presented in the table on the next page, broken down as to Wesco's business segments.

The insurance segment includes the accounts of Wes-FIC and, since July 1996, its subsidiary, KBS. Wes-FIC is engaged in the property and casualty insurance and reinsurance business. Its business has included various contractual arrangements with insurance subsidiaries of Berkshire under which Wes-FIC has participated in various reinsurance arrangements the Berkshire subsidiaries have had with various insurance companies. KBS provides specialized insurance coverage to more than 20% of the banks in the United States, mostly small and medium-sized banks in the Midwest.

In addition to generating insurance premiums, Wesco's insurance segment has derived dividend and interest income from the investment of float (premiums received in advance of the time related claims and expenses are paid) and cash invested or retained in the business by its owners, and has realized gains on sales of investments. The net worth of the insurance segment reflects much unrealized appreciation of investments.

The insurance companies are subject to regulation by applicable state insurance departments and also, in KBS's case, the Department of the Treasury.

Dollar amounts in thousands except for amounts per share

The industrial segment includes the operating accounts of Precision Steel and its subsidiaries. The Precision Steel group operates two service centers, which buy steel and other metals in the form of sheets or strips, cut these to order and sell them directly to a wide variety of industrial customers throughout the United States. The Precision Steel group also manufactures shim stock and other tool room specialty items, as well as hose and muffler clamps, and sells them nationwide, generally through distributors.

Items not identified with either business segment include principally (1) investments other than those of Wes-FIC and KBS, together with related dividend and interest income and securities gains and losses, (2) commercial real estate properties, together with related revenues and expenses, (3) foreclosed real estate formerly owned by a savings and loan subsidiary, together with associated costs and expenses of development and liquidation, (4) the assets, revenues and expenses of the parent company, and (5) related income taxes.

	1998	1997	1996
Insurance:			
Premiums earned	$ 15,923	$ 11,507	$ 10,060
Dividend and interest income	38,534	33,694	29,831
Realized securities gains (losses), net	51,706	50,528	(177)
Provision for income taxes	(28,919)	(27,741)	(7,838)
Net income	68,263	66,350	27,134
Depreciation and amortization other than of discounts and premiums of investments	887	897	505
Unrealized appreciation of investments, net of taxes	1,678,536	1,280,544	863,083
Net worth	2,205,860*	1,684,978	1,201,167
Capital expenditures	29	68	19
Acquisition of business, net of cash and cash equivalents	—	—	77,320
Identifiable assets	3,157,338	2,440,141	1,720,748
Industrial:			
Sales, service and other revenues	$ 66,197	$ 67,693	$ 63,762
Provision for income taxes	(2,118)	(2,420)	(2,043)
Net income	3,154	3,622	3,033
Depreciation and amortization	852	849	879
Capital expenditures	274	614	452
Net worth	18,773	15,619	11,997
Identifiable assets	22,965	23,084	22,001
Not identified with a business segment:			
Dividend and interest income	$ 2,132	$ 3,148	$ 3,988
Rental income	842	879	1,035
Realized gains on securities and foreclosed properties, net	966	51,820	24
Other revenues	2	72	2
Income tax (provision) benefit	534	(20,798)	1,000
Net income	386	31,837	452
Depreciation and amortization	394	388	353
Capital expenditures	1	495	—
Unrealized appreciation of investments, net of taxes	8,180	10,395	8,557
Net worth (deficit)	(877)	63,695	37,851
Identifiable assets	49,660	126,450	85,929
Reconciliations:			
Total revenues set forth above	$ 176,302	$ 219,341	$ 108,525
Less intercompany interest	(123)	(290)	(506)
Total consolidated revenues	$ 176,179	$ 219,051	$ 108,019
Total assets set forth above	$3,229,963	$2,589,675	$1,828,678
Less intercompany debt	(1,557)	(1,563)	(10,273)
Total consolidated assets	$3,228,406	$2,588,112	$1,818,405

* The net worth of the insurance segment computed under *regulatory* accounting principles was $3,102,361 at yearend 1998. The difference between that figure and the segment's net worth computed under generally accepted accounting principles ("GAAP") represents mainly the deduction of deferred income taxes associated with unrealized appreciation of investments in calculating the GAAP figure.

Dollar amounts in thousands except for amounts per share

WESCO FINANCIAL CORPORATION
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET
(Dollar amounts in thousands)

	December 31, 1998	December 31, 1997
ASSETS		
Cash and cash equivalents	$ 23	$ 13
Marketable equity securities	—	48,062
Convertible preferred stocks	22,000	48,000
Investment in subsidiaries, at cost plus equity in subsidiaries' undistributed earnings and unrealized appreciation:		
Wes-FIC and KBS	2,205,874	1,684,978
Precision Steel	51,579	46,735
MS Property	13,806	13,080
Other assets	548	693
	$2,293,830	$1,841,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Advances from subsidiaries	$ 32,202	$ 22,672
Notes payable	31,035	31,035
Income taxes payable, principally deferred	6,367	23,095
Other liabilities	470	467
Total liabilities	70,074	77,269
Shareholders' equity (see consolidated balance sheet and statement of changes in shareholders' equity)	2,223,756	1,764,292
	$2,293,830	$1,841,561

STATEMENT OF INCOME
(Dollar amounts in thousands)

	Year Ended December 31, 1998	1997	1996
Revenues:			
Dividend income	$ 1,687	$ 2,692	$ 3,375
Realized securities gain	—	50,386	—
Other	40	118	197
	1,727	53,196	3,572
Expenses:			
Interest on notes payable	2,937	3,104	3,320
General and administrative	475	414	366
	3,412	3,518	3,686
Income (loss) before items shown below	(1,685)	49,678	(114)
Income tax (provision) benefit	1,100	(19,654)	760
Equity in undistributed earnings of subsidiaries	72,388	71,785	29,973
Net income	$71,803	$101,809	$30,619

See notes to consolidated financial statements

WESCO FINANCIAL CORPORATION
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)

	Year Ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	$71,803	$101,809	$30,619
Adjustments to reconcile net income with cash flows from operating activities —			
Realized securities gains	—	(50,386)	—
Deferred income taxes on realized securities gain	—	20,532	—
Increase (decrease) in income taxes payable currently	(951)	836	(1,196)
Equity in undistributed earnings of subsidiaries	(72,388)	(59,034)	(29,973)
Other, net	58	(20)	163
Net cash flows from operating activities	(1,478)	13,737	(387)
Cash flows from investing activities:			
Principal collections on loans	75	75	4,000
Net cash flows from investing activities	75	75	4,000
Cash flows from financing activities:			
Advances from (repayments to) subsidiaries, net	9,529	(5,985)	3,883
Payment of cash dividends	(8,116)	(7,831)	(7,547)
Net cash flows from financing activities	1,413	(13,816)	(3,664)
Increase (decrease) in cash and cash equivalents	10	(4)	(51)
Cash and cash equivalents — beginning of year	13	17	68
Cash and cash equivalents — end of year	$ 23	$ 13	$ 17
Noncash investing activities —			
Investments contributed to subsidiary	$54,627	—	—

See notes to consolidated financial statements

WESCO FINANCIAL CORPORATION

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