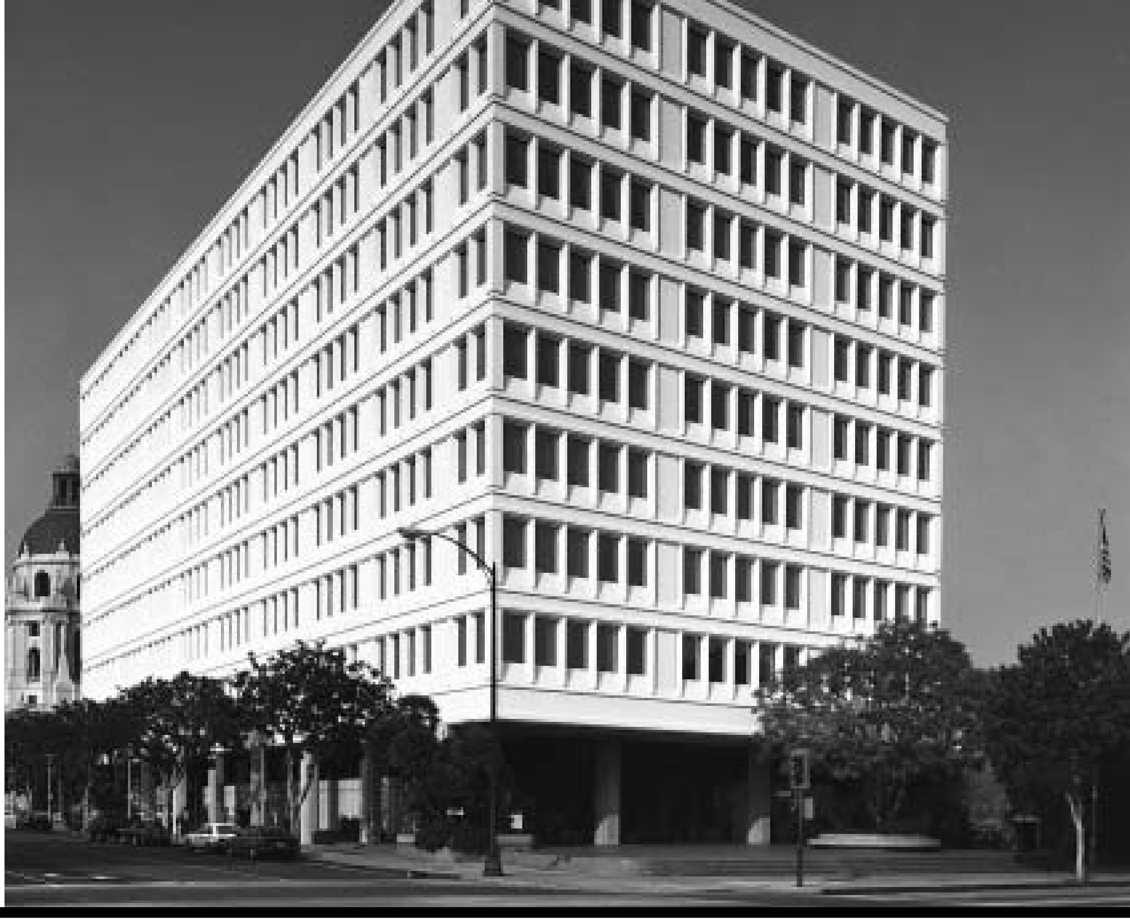
WESCO FINANCIAL CORPORATION

Annual Report 1999

Form 10-K Annual Report 1999



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 Wholesale Corporation (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

Robert E. Denham*
Partner, Munger, Tolles & Olson LLP, attorneys at law

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 LLP, 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 1999 increased to $45,904,000 ($6.44 per share) from $37,622,000 ($5.28 per share) in the previous year.

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

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

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

(1) All figures are net of income taxes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CORT Business Services Corporation (''CORT'')

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

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

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

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

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

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

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

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

Precision Steel

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

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

Tag Ends from Savings and Loan Days

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

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

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

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

Net Securities Gains and Losses

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

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

Consolidated Balance Sheet and Related Discussion

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

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

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

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

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

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

Thus, if the value of the advantage from the interest-free tax-deferral ''loan'' was $20 per Wesco share at yearend 1999, and after-tax liquidating value was then about $266 per share (figures that seem rational to the writer), Wesco's intrinsic value per share would become about $286 per share at yearend 1999, down 16% from intrinsic value as guessed in a similar calculation at the end of 1998. And, finally, this reasonable-to-this-writer, $286-per-share figure for intrinsic per share value of Wesco stock should be compared with the $245 per share price at which Wesco stock was selling on December 31, 1999. This comparison indicates that Wesco stock was then selling about 14% below intrinsic value.

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

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

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

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

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

Charles T Munger

Charles T. Munger
Chairman of the Board

March 3, 2000

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, 1999 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 20, 2000 was: $320,594,000.

The number of shares outstanding of the registrant's Capital Stock as of March 20, 2000 was: 7,119,807.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Parts of Form 10-K
Proxy Statement for 2000 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, from 1994 through yearend 1999, engaged in two principal businesses through wholly owned subsidiaries: (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.

In February 2000, Wesco purchased CORT Business Services Corporation (''CORT''), the leading national provider of rental furniture, accessories and related services in the ''rent-to-rent'' segment of the furniture industry. It rents high quality furniture to corporate and individual customers who desire flexibility to meet their temporary office, residential or tradeshow furnishing needs and who typically do not seek to own such furniture. In addition, CORT sells previously rented furniture through company-owned clearance centers. CORT's national network includes 118 showrooms, 87 clearance centers and 75 warehouses in 34 states and the District of Columbia as well as three web sites (cort1.com, relocationcentral.com and corttradeshow.com).

Wesco's operations also include, through MS Property Company (''MS Property''), (1) the ownership and management of commercial real estate transferred to MS Property by Wesco, and (2) the development and liquidation of foreclosed real estate transferred to MS Property by a former savings and loan subsidiary of Wesco. The transfers were made in late 1993, when MS Property, a wholly owned subsidiary of Wesco, began its operations.

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. Although Mr. Buffett has no active participation in Wesco's management, he is president and a director of Wesco Holdings Midwest, Inc. (''WHMI''), a wholly owned subsidiary of Wesco, and a director of Wes-FIC, Precision Steel, and CORT, which are wholly owned subsidiaries of WHMI.

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 a savings and loan subsidiary, 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, General Reinsurance Corporation and certain

* In preparing this 1999 report, conditions that may exist after the acquisition of CORT in February 2000 have generally been ignored. Thus, statements in the present tense are made from the perspective of yearend 1999.

other wholly owned insurance subsidiaries of Berkshire, individually or collectively, although Berkshire also includes in its insurance group the insurance subsidiaries 80.1%-owned through Berkshire's ownership of Wesco.

Wes-FIC's high net worth as of 1999 yearend — $1.9 billion computed under generally accepted accounting principles and $2.6 billion under regulatory rules — has enabled Berkshire to offer Wes-FIC the opportunity to participate, from time to time, in sub-contracts with several of its wholly owned insurance subsidiaries for the reinsurance of property and casualty risks of unaffiliated property and casualty insurers. These arrangements have included contracts for ''super-catastrophe reinsurance,'' which subjects the reinsurer to especially large amounts of losses from mega-catastrophes such as hurricanes or earthquakes. The super-catastrophe policies have indemnified the ceding companies for all or part of covered losses in excess of large, specified retentions, and have been subject to aggregate limits; 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). 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.

Following is a summary of the more significant reinsurance agreements that have been made between Wes-FIC and the Berkshire Insurance Group:

- A quota share arrangement entered into in 1985 whereby Wes-FIC effectively reinsured — through the Berkshire Insurance Group, as intermediary-without-profit — 2% of the entire book of insurance business of a major property and casualty insurer written during a four-year coverage period that expired in 1989. Wes-FIC will remain liable for its share of remaining unpaid losses and loss adjustment expenses, an estimate of which is included in insurance liabilities on Wesco's consolidated balance sheet, and will continue to invest the related ''float'' (funds set aside and invested pending payment of claims) until all liabilities are settled, perhaps many years hence.
- During 1992 and 1993, a 50% quota share agreement related to certain personal lines business written by another large U.S.-based property and casualty insurer.
- Several subcontracts for super-catastrophe reinsurance beginning in 1994, including participations to the extent of 3% in two super-catastrophe reinsurance policies covering hurricane risks in Florida: (1) a 12-month policy effective June 1, 1996; and (2) a three-year policy effective January 1, 1997.
- Participation to the extent of 10% in a catastrophic excess-of-loss contract effective for the 1999 calendar year covering property risks of a major international reinsurer.

Effective January 1, 2000, Wes-FIC entered into a three-year arrangement through NICO, as intermediary without profit, for a 3⅓% participation in certain property and casualty risk exposure of a large, unaffiliated insurance group. Premium volume of approximately $30 million is anticipated in the first year under this arrangement. Except as to volume, terms of this participation are identical to those of another agreement between the same insurance group and another member of the Berkshire Insurance Group.

Management believes that an insurer in the super-catastrophe reinsurance 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.

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, internet banking catastrophe bonds, 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 1999 and 1998 only about 5% and 6% of its gross insurance business was ceded to third party reinsurers (including approximately half of those percentages to a wholly owned Berkshire subsidiary) versus about 42% ceded to unaffiliated, third party reinsurers in 1997. Wesco's management anticipates that KBS's reinsurance restructuring 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 deposit guaranty bonds, which were introduced in 1993 and currently account for approximately 23% 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 1999 amounted to 0.7% of their combined statutory surplus, compared to an industry average of about 90% based on figures reported for 1998.

Standard & Poor's Corporation, in recognition of 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, has assigned its highest rating, AAA, to Wes-FIC's claims-paying ability. This rating recognizes 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, 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 steel, 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 35 thousand tons compares with the steel service industry's annual volume of over 24 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 toolroom specialty items, as well as hose and muffler clamps, and sells them under its own brand names nationwide, generally through industrial distributors. This business is highly competitive. Precision Brand's share of the toolroom specialty products market is believed to approximate .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 $7.1 million at December 31, 1999 from $6.5 million at December 31, 1998.

Approximately 240 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

Certain of Wesco's activities are not identified with any business segment. These extraneous, relatively insignificant operations include (1) investment activity unrelated to the insurance segment, (2) management of commercial real estate property in Pasadena, California, (3) development and liquidation, now virtually completed, of foreclosed real estate previously owned by a savings and loan subsidiary, and (4) parent company activities.

Wesco, while it seeks suitable businesses to acquire and explores ways to expand its existing operations, also, through its insurance subsidiaries, invests in marketable securities of unaffiliated companies and in securities with fixed maturities. (See Note 2 to the accompanying consolidated financial statements for summaries of investments, and Note 8 for information as to the acquisition of CORT in February 2000.)

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, the ground floor tenant, 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 Wesco's former savings and loan subsidiary through foreclosure. This consists of several buildings that are leased to various small businesses in a small shopping center as well as a single-family residence.

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 in 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 1999 and 1998, based on data reported by the American Stock Exchange, as well as cash dividends paid by Wesco on each outstanding share:

	1999			1998		
	Sales Price		Dividends	Sales Price		Dividends
Quarter Ended	High	Low	Paid	High	Low	Paid
March 31	$354	$322	$0.295	$377	$285	$0.285
June 30	339	305	0.295	395	346	0.285
September 30	323	260¼	0.295	392	280	0.285
December 31	290	241½	0.295	365	290	0.285
			$1.180			$1.140

There were approximately 700 shareholders of record of Wesco's capital stock as of the close of business on March 23, 2000. 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 1999 consolidated financial statements appearing elsewhere in this report. (Amounts are in thousands except for amounts per share.)

	December 31,				
	1999	1998	1997	1996	1995
Assets:					
Cash and cash equivalents	$ 66,331	$ 320,034	$ 10,687	$ 23,039	$ 87,981
Investments —					
Securities with fixed maturities	309,976	66,619	279,697	176,885	119,575
Marketable equity securities	2,214,883	2,778,595	2,224,848	1,533,009	1,102,221
Real estate held for sale	908	2,327	5,240	15,831	19,021
Property and equipment	11,414	12,193	13,229	13,297	13,967
Goodwill of acquired business	28,556	29,338	30,121	30,903	—
Other assets	20,127	19,300	24,290	25,441	22,962
Total assets	$2,652,195	$3,228,406	$2,588,112	$1,818,405	$1,365,727
Liabilities:					
Insurance losses and loss adjustment expenses	$ 33,642	$ 36,731	$ 41,437	$ 45,491	$ 34,195
Notes payable	3,635	33,635	33,635	37,162	37,369
Income taxes payable, principally deferred	707,345	920,035	733,488	468,370	324,341
Other liabilities	12,201	14,249	15,260	16,367	12,193
Total liabilities	$ 756,823	$1,004,650	$ 823,820	$ 567,390	$ 408,098
Shareholders' equity:					
Capital stock and surplus	$ 30,439	$ 30,439	$ 30,439	$ 30,439	$ 30,439
Unrealized appreciation of investments, net of taxes	1,312,590	1,686,716	1,290,939	871,640	601,326
Retained earnings	552,343	506,601	442,914	348,936	325,864
Total shareholders' equity	$1,895,372	$2,223,756	$1,764,292	$1,251,015	$ 957,629
Per capital share	266.21	312.33	247.80	175.71	134.50

	Year Ended December 31,				
	1999	1998	1997	1996	1995
Revenues:					
Sales and service revenues	$ 64,571	$ 66,137	$ 67,557	$ 63,654	$ 62,271
Insurance premiums earned	17,655	15,923	11,507	10,060	9,294
Dividend and interest income	49,679	40,543	36,552	33,313	30,273
Realized gains (losses), net, on securities and foreclosed property	12,819	52,672	102,348	(152)	7,428
Other	982	904	1,087	1,144	1,791
	145,706	176,179	219,051	108,019	111,057
Costs and expenses:					
Cost of products and services sold	50,728	51,527	52,710	50,054	50,019
Insurance losses, loss adjustment and underwriting expenses	7,366	8,174	860	4,264	1,501
Selling, general and administrative	10,265	11,156	9,393	10,849	11,142
Interest on notes payable	2,549	3,016	3,320	3,352	3,371
	70,908	73,873	66,283	68,519	66,033
Income before income taxes	74,798	102,306	152,768	39,500	45,024
Provision for income taxes	(20,655)	(30,503)	(50,959)	(8,881)	(10,483)
Net income	$ 54,143	$ 71,803	$101,809	$ 30,619	$ 34,541
Amounts per capital share:					
Net income	$ 7.60	$ 10.08	$ 14.30	$ 4.30	$ 4.85
Cash dividends	1.18	1.14	1.10	1.06	1.02

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, 1999 was $1.9 billion or $266.21 per share, down $.3 billion or $46.12 per share for the year. This decrease was due to a decline in 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 69% of shareholders' equity at December 31, 1999, compared to 76% at December 31, 1998 and 63% at December 31, 1995.

Over 93% of the Wesco group's unrealized appreciation of securities at December 31, 1999 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 20, 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. Wesco's $30 million of Notes, prior to their redemption at maturity on November 1, 1999, enjoyed Standard & Poor Corporation's highest rating, AAA, as does Wes-FIC's claims-paying ability.

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,		
	1999	**1998**	**1997**
Insurance segment:			
''Normal '' net operating income	$43,610	$34,654	$ 33,507
Realized securities gains	7,271	33,609	32,843
Segment net income	50,881	68,263	66,350
Industrial segment net income (all ''normal'' net operating income)	2,532	3,154	3,622
Other than identified business segments:			
''Normal'' net operating income (loss)	(238)	(186)	1,133
Gains, net, on sales of foreclosed real estate	968	572	850
Realized securities gains	—	—	29,854
Nonsegment net income	730	386	31,837
Consolidated net income	$54,143	$71,803	$101,809

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,		
	1999	**1998**	**1997**
Premiums written	$ 18,326	$ 19,296	$ 10,654
Premiums earned	$ 17,655	$ 15,923	$ 11,507
Underwriting gain	$ 10,289	$ 7,748	$ 10,647
Dividend and interest income	49,125	38,534	33,694
General and administrative expenses, principally amortization of goodwill	(809)	(806)	(779)
Income before income taxes	58,605	45,476	43,562
Income tax provision	(14,995)	(10,822)	(10,055)
''Normal'' net operating income	$ 43,610	$ 34,654	$ 33,507

Premiums written for 1999, 1998 and 1997 were comprised of $15.8 million, $17.0 million and $8.6 million attributable to KBS. The remainder in each year was attributable to Wes-FIC and related principally to super-catastrophe reinsurance participations, notably a three-year Florida hurricane risk policy that ended, without loss, at 1999 yearend. The decrease in premiums written by KBS for 1999 and the increase for 1998 were due mainly to the restructuring of KBS's reinsurance program effective January 1, 1998, as explained in Item 1, Business; in this connection, 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.

Earned premiums for 1999, 1998 and 1997 included $15.1 million, $13.7 million and $8.7 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 1999 included $5.9 million attributable to KBS and $4.4 million to Wes-FIC. The underwriting gain for 1998 included $4.4 million attributable to KBS and $3.3 million to Wes-FIC. The underwriting gain for 1997 included $5.5 million attributable to KBS and $5.1 million to Wes-FIC. In addition to gains from other, mainly super-catastrophe reinsurance participations, Wes-FIC's underwriting gains in 1999, 1998 and 1997 benefited by $2.6 million each year from downward revisions of estimated liabilities for losses and expenses with respect to a quota share reinsurance arrangement which terminated in 1989. Underwriting gains at KBS have become more volatile since it restructured its reinsurance program at the beginning of 1998.

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 capital contributed by Wesco, including the assets (approximately $400 million at market value) added to Wes-FIC in 1994 after another Wesco subsidiary exited the savings and loan business and merged into

Wes-FIC, (2) on earnings retained and reinvested, and (3) on float (net liabilities due to policyholders).

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 estimates, are subject to estimation error. Revisions of such estimates in future periods could significantly affect the results of operations reported for those 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. As explained in Item 1, Business, Wes-FIC, effective January 1, 2000, entered into a three-year arrangement, accepting a 3⅓% participation in the reinsurance of certain property and casualty risks of a large, unaffiliated insurance group. Although Wesco would welcome other attractive reinsurance or insurance arrangements with Berkshire subsidiaries or unaffiliated companies, or acquisitions of insurance businesses like or unlike that of KBS, 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,		
	1999	**1998**	**1997**
Revenues, principally sales and services	$64,686	$66,197	$67,693
Income before income taxes	$ 4,209	$ 5,272	$ 6,042
Income tax provision	(1,677)	(2,118)	(2,420)
''Normal'' net operating income	$ 2,532	$ 3,154	$ 3,622

Revenues of Precision Steel's businesses declined in 1999 and 1998. The decline in revenue for the past two years occurred despite increases of 2.5% and 5.2% in pounds of steel products sold in 1999 and 1998, 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.

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 78.6%, 77.9% and 78.0% for 1999, 1998 and 1997. 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 1999 and 1998 also included $.4 million and $.6 million, respectively, before income taxes ($.2 million and $.4 million after taxes), for the upgrading of computer systems to ensure that its order-taking and other information technology systems would continue to function properly beyond December 31, 1999.

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,		
	1999	1998	1997
Dividend and interest income	$ 1,145	$ 2,132	$ 3,148
Rental income, net, from commercial real estate	850	842	879
Interest expense	(2,939)	(2,937)	(3,408)
General and administrative expenses	(993)	(1,086)	(1,010)
Reduction in allowance for losses on foreclosed real estate and other assets	1,350	—	1,800
Other items, net	(248)	(67)	(594)
Income (loss) before income tax benefit	(835)	(1,116)	815
Income tax benefit	597	930	318
''Normal'' net operating income (loss)	$ (238)	$ (186)	$ 1,133

''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 previously owned by a former savings and loan subsidiary, 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 1999 and 1997 figures benefited to the extent of $.8 million and $1.1 million, after tax effect, from reductions in reserves for possible losses on disposition of foreclosed real estate and other assets inherited from the savings and loan subsidiary; there were no adjustments of these reserves in 1998. 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 has declined sharply in recent years due to conversions of preferred stocks into lower-yielding common stocks.

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 existing in Wesco's consolidated investment portfolio. (Wesco's shareholders' equity at December 31, 1999 contained $1.3 billion, or $184.36 per share, of unrealized appreciation of investments, net of taxes — about 69% of shareholders' equity.)

Wesco's consolidated earnings for 1999 contained securities gains, after income taxes, of $7.3 million, compared to $33.6 million of after-tax gains for 1998 and $62.7 million for 1997. These gains, 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 prior to their realization.

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 27.6%, 29.8% and 33.4% in 1999, 1998 and 1997. (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 such as the acquisition of CORT in February 2000 (see Note 8 to the accompanying consolidated financial statements). 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 restructuring of KBS's reinsurance program at the beginning of 1998.

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, 1999 contained $2.2 billion of marketable equity 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 ($1.4 billion as of December 31, 1999) 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 ($683 million, combined, at December 31, 1999) 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's 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, 1999 of a hypothetical 30% overall increase or decrease in market prices of marketable equity securities owned by the Wesco group. These changes result in a pro forma 22.8% increase or decrease in shareholders' equity (amounts in thousands):

	Increase	Decrease
Market value of marketable equity securities:		
As recorded	$2,214,883	$2,214,883
Hypothetical (assuming 30% change)	2,879,348	1,550,418
Shareholders' equity:		
As recorded	1,895,372	1,895,372
Pro forma (results in 22.8% change)	2,327,275	1,463,470

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 first table in Item 6 (in thousands except for amounts per share):

	December 31,				
	1999	1998	1997	1996	1995
Total assets	$634,262	$634,954	$603,178	$478,863	$442,439
Total liabilities	$ 51,480	$ 97,914	$129,825	$ 99,488	$ 86,136
Total shareholder's equity	$582,782	$537,040	$473,353	$379,375	$356,303
Per capital share	81.85	75.43	66.48	53.28	50.04

Wesco's consolidated balance sheet at December 31, 1999 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

Prior to January 1, 2000, there was widespread concern that many computer systems in use were not designed to process 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 (1) assessed these potential ''Year 2000'' problems as they related to their businesses, including their electronic and other interactions with banks, vendors, customers and others, and (2) undertook the development and implementation of solutions. In addition, Wesco attempted to satisfy itself that significant non-subsidiary equity investees appeared to be proceeding in like manner.

To date, Wesco and its subsidiaries have not experienced significant Year 2000 failures or disruptions. In addition, no significant adverse consequences due to Year 2000 problems have, to the knowledge of Wesco's management, been reported by significant customers, suppliers, equity investees or financial markets to Wesco or its subsidiaries. Wesco's management believes, however, that, although the risks and uncertainties from Year 2000 issues have greatly diminished since December 31, 1999, Wesco and its subsidiaries may still be exposed to undesirable effects from as yet undetected Year 2000 matters, especially losses that might be incurred under property and casualty insurance and reinsurance contracts entered into by Wesco's subsidiaries. While such consequences 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.

Wesco and its subsidiaries have incurred and charged against earnings approximately $1.0 million in identification, remediation and testing of Year 2000 issues, including $.4 million in 1999 and $.6 million in 1998 ($.2 million and $.4 million, after income taxes, respectively). Wesco does not believe that any significant information technology projects were delayed due to Year 2000 efforts.

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 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 sections entitled ''Election of Directors'' and ''Executive Officers'' appearing in the definitive combined notice of annual meeting and proxy statement of Wesco Financial Corporation for its annual meeting of shareholders scheduled to be held May 3, 2000 (the ''2000 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 2000 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information set forth in the sections ''Voting Securities and Holders Thereof'' and ''Requirements for Reporting Securities Ownership'' in the 2000 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 2000 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
21. 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, 1999. 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, 1999.

SIGNATURES

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

WESCO FINANCIAL CORPORATION

By: Charles T. Munger — March 22, 2000
Chairman of the Board (principal executive officer)

By: Robert H. Bird — March 22, 2000
President (principal operating officer)

By: Jeffrey L. Jacobson — March 22, 2000
Vice President and Chief Financial Officer
(principal financial and accounting officer)

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

Robert H. Bird Director	March 22, 2000
Carolyn H. Carlburg Director	March 22, 2000
James N. Gamble Director	March 22, 2000
Charles T. Munger Director	March 22, 2000
David K. Robinson Director	March 22, 2000

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, 1999 and 1998, 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, 1999. 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 auditing standards generally accepted in the United States of America. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. 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 3, 2000

WESCO FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET

(Dollar amounts in thousands)

	December 31, 1999	December 31, 1998
ASSETS		
Cash and cash equivalents	$ 66,331	$ 320,034
Investments:		
Securities with fixed maturities	309,976	66,619
Marketable equity securities	2,214,883	2,778,595
Property and equipment	11,414	12,193
Goodwill of acquired business	28,556	29,338
Other assets	21,035	21,627
	$2,652,195	$3,228,406
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance losses and loss adjustment expenses	$ 33,642	$ 36,731
Notes payable	3,635	33,635
Income taxes payable, principally deferred	707,345	920,035
Other liabilities	12,201	14,249
	756,823	1,004,650
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	1,312,590	1,686,716
Retained earnings	552,343	506,601
Total shareholders' equity	1,895,372	2,223,756
	$2,652,195	$3,228,406

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, 1999	1998	1997
Revenues:			
Sales and service revenues	$ 64,571	$ 66,137	$ 67,557
Insurance premiums earned	17,655	15,923	11,507
Dividend and interest income	49,679	40,543	36,552
Realized gains, net, on securities and foreclosed property	12,819	52,672	102,348
Other	982	904	1,087
	145,706	176,179	219,051
Costs and expenses:			
Cost of products and services sold	50,728	51,527	52,710
Insurance losses, loss adjustment and underwriting expenses	7,366	8,174	860
Selling, general and administrative expenses	10,265	11,156	9,393
Interest on notes payable	2,549	3,016	3,320
	70,908	73,873	66,283
Income before income taxes	74,798	102,306	152,768
Provision for income taxes	(20,655)	(30,503)	(50,959)
Net income	$ 54,143	$ 71,803	$101,809
Amounts per capital share based on 7,119,807 shares outstanding throughout each year:			
Net income	$ 7.60	$ 10.08	$ 14.30
Cash dividends	1.18	1.14	1.10

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollar amounts in thousands)

	Shareholders' Equity					Total Compre-hensive Income (Loss)
	Capital Stock	Capital in Excess of Par Value	Unrealized Appreciation of Investments	Retained Earnings	Total	
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 of $264,310			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 of $230,837			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	
Net income				54,143	54,143	
Unrealized depreciation of investments, net of income tax effect of $197,478			(366,855)		(366,855)	$(319,983)
Reversal of unrealized appreciation upon inclusion of realized net gains in net income			(7,271)		(7,271)	
Cash dividends declared and paid . .				(8,401)	(8,401)	
Balance, December 31, 1999	$7,120	$23,319	$1,312,590	$552,343	$1,895,372	

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollar amounts in thousands)

	Year Ended December 31,		
	1999	**1998**	**1997**
Cash flows from operating activities:			
Net income	$ 54,143	$ 71,803	$ 101,809
Adjustments to reconcile net income with cash flows from operating activities —			
Realized gains, net, on securities and foreclosed property, before taxes	(12,819)	(52,672)	(102,348)
Provision for depreciation and amortization, net	1,995	2,068	2,056
Decrease in allowance for losses on real estate held for sale and other assets	(1,350)	—	(1,800)
Decrease in liabilities for insurance losses and loss adjustment expenses	(3,089)	(4,706)	(4,054)
Increase (decrease) in income taxes payable	(11,297)	(8,852)	40,589
Other, net	(4,159)	5,542	(1,377)
Net cash flows from operating activities	23,424	13,183	34,875
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(413,659)	(19,066)	(176,235)
Maturities and redemptions of securities with fixed maturities	21,772	5,587	35,215
Sales of marketable equity securities	58,900	177,266	—
Sales of securities with fixed maturities	90,788	126,128	95,122
Other, net	3,473	14,365	10,029
Net cash flows from investing activities	(238,726)	304,280	(35,869)
Cash flows from financing activities:			
Repayments of notes	(30,000)	—	(3,527)
Payment of cash dividends	(8,401)	(8,116)	(7,831)
Net cash flows from financing activities	(38,401)	(8,116)	(11,358)
Increase (decrease) in cash and cash equivalents	(253,703)	309,347	(12,352)
Cash and cash equivalents — beginning of year	320,034	10,687	23,039
Cash and cash equivalents — end of year	$ 66,331	$320,034	$ 10,687
Supplementary disclosures:			
Interest paid during year	$ 2,953	$ 3,016	$ 3,320
Income taxes paid, net, during year	31,952	56,695	11,934
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 (''goodwill''), 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. If management, in its periodic review of recoverability of goodwill, determines that it appears to have become impaired, the unamortized balance will be reduced and/or the amortization period shortened as appropriate.

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 February 2000, a wholly owned subsidiary of Wesco, by means of a successful tender offer and merger, acquired CORT Business Services Corporation (''CORT''), for approximately $384,000 cash. As a result, CORT's accounts will be included in Wesco's consolidated financial statements effective in the first quarter of 2000. See Note 8 for additional information regarding CORT.

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, 1999 and 1998 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 (69% and 76% at December 31, 1999 and 1998). 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, 1999		December 31, 1998	
	Amortized Cost	Estimated Fair (Carrying) Value	Amortized Cost	Estimated Fair (Carrying) Value
Obligations of U. S. government and its agencies	$ 84,060	$ 77,930	$16,025	$16,358
State and municipal bonds	4,340	4,329	5,526	5,578
Convertible preferred stocks	—	—	45,000	44,000
Mortgage-backed securities	233,998	227,717	683	683
	$322,398	$309,976	$67,234	$66,619

At 1999 yearend, the estimated fair values of securities with fixed maturities contained $27 of unrealized gains and $12,449 of unrealized losses, compared with $390 of unrealized gains and $1,005 of unrealized losses at 1998 yearend.

Investments in securities with fixed maturities at 1999 yearend are expected to mature as follows:

	Amortized Cost	Market Value
In one year or less	$ 10,492	$ 10,502
After one year through five years	26,593	26,363
After five years through ten years	129	129
After ten years	51,186	45,265
	88,400	82,259
Mortgage-backed securities	233,998	227,717
	$322,398	$309,976

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

		December 31, 1999		December 31, 1998	
	Number of Shares	Cost	Quoted Market (Carrying) Value	Cost	Quoted Market (Carrying) Value
Freddie Mac	28,800,000	$ 71,729	$1,355,400	$ 71,729	$1,855,800
The Coca-Cola Company	7,205,600	40,761	419,726	40,761	482,775
The Gillette Company	6,400,000	40,000	263,600	40,000	306,000
Other		32,038	176,157	32,038	134,020
		$184,528	$2,214,883	$184,528	$2,778,595

Dollar amounts in thousands except for amounts per share

The market values of marketable equity securities contained no unrealized losses at 1999 or 1998 yearends.

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

	1999	1998	1997
Securities with fixed maturities —			
Gross realized gains	$ 7,504	$16,126	$ 50,143
Gross realized losses	(2,714)	—	—
Marketable equity securities —			
Gross realized gains	6,396	43,611	50,771
Gross realized losses	—	(8,031)	—
	$11,186	$51,706	$100,914

Note 3. Insurance

Wes-FIC's insurance business consists mainly of the sale, through KBS, 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, internet banking catastrophe and fidelity bond coverage. In addition, Wes-FIC participates in property and casualty reinsurance contracts with wholly owned insurance subsidiaries of Berkshire.

Insurance premiums are generally recognized as earned revenues pro rata over the term of each contract. Unearned insurance premiums of $8,420 and $7,749 at December 31, 1999 and 1998 are included in other liabilities on the consolidated balance sheet.

Liabilities for unpaid losses and loss adjustment expenses represent estimated claim and claim settlement costs. The liabilities 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:

	1999	1998	1997
Balance at beginning of year	$36,731	$41,437	$45,491
Less ceded liabilities	—	(1,340)	(840)
Net balance at beginning of year	36,731	40,097	44,651
Incurred losses recorded during year —			
For current year	8,556	11,604	6,563
For all prior years*	(5,819)	(7,646)	(7,453)
Total incurred losses	2,737	3,958	(890)
Payments made during year —			
For current year	2,175	4,673	1,579
For all prior years	3,651	2,651	2,085
Total payments	5,826	7,324	3,664
Net balance at end of year	33,642	36,731	40,097
Plus ceded liabilities	—	—	1,340
Balance at end of year	$33,642	$36,731	$41,437

* Primarily represents adjustments of estimated losses.

Payment of dividends by insurance subsidiaries are restricted by insurance statutes and regulations. Without prior regulatory approval in 2000, Wesco can receive up to approximately $260,000 as dividends from its insurance subsidiaries.

The combined shareholders' equity of Wesco's insurance subsidiaries at yearend 1999 determined pursuant to regulatory accounting rules was approximately $2,600,000, approximately $700,000 higher than shareholders' equity determined in accordance with generally accepted accounting principles (''GAAP''). The difference represents mainly the deduction of deferred income taxes associated with unrealized appreciation of investments in calculating the GAAP figure.

Note 4. Notes Payable

Following is a list of notes payable, at yearend:

	December 31, 1999	December 31, 1998
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
Notes due November 1, 1999, bearing interest at 8⅞% payable semiannually	—	30,000
	$3,635	$33,635

Wesco redeemed its 8⅞% Notes at par upon maturity.

Estimated fair market values of the foregoing notes payable at December 31, 1999 and December 31, 1998 were approximately $3,725 and $34,700. 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 1999 and 1998 yearends:

	December 31, 1999	December 31, 1998
Deferred tax liabilities, relating to —		
Appreciation of investments, principally unrealized	$705,343	$906,736
Other items	5,622	14,380
	710,965	921,116
Deferred tax assets	(5,429)	(6,450)
Net deferred tax liabilities	705,536	914,666
Taxes currently payable	1,809	5,369
Income taxes payable	$707,345	$920,035

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:

	1999	1998	1997
Federal	$20,316	$ 30,148	$45,781
State	339	355	5,178
Provision for income taxes	$20,655	$ 30,503	$50,959
Current	$23,818	$ 65,039	$13,021
Deferred provision (benefit)	(3,163)	(34,536)	37,938
Provision for income taxes	$20,655	$ 30,503	$50,959

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:

	1999	1998	1997
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	(8.1)	(6.3)	(3.8)
Exclusion from taxable income of a significant portion of interest income on state and municipal bonds	(0.1)	(0.2)	(0.2)
State income taxes, less federal tax benefit	0.3	0.3	2.2
Other differences, net	0.5	1.0	0.2
Effective income tax provision rate	27.6%	29.8%	33.4%

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

Dollar amounts in thousands except for amounts per share

receiving an amount that approximates the increase or decrease in consolidated taxes attributable to that member.

Federal income tax returns through 1988 have been examined by and settled with the Internal Revenue Service. California franchise tax returns through 1994 have been examined by and settled with the California Franchise Tax Board.

Note 6. Quarterly Financial Information

Unaudited quarterly financial information for 1999 and 1998 follows:

	Quarter Ended			
	December 31, 1999	**September 30, 1999**	**June 30, 1999**	**March 31, 1999**
Total revenues	$46,672	$33,917	$32,425	$32,692
Net income excluding securities gains and losses	$14,160	$11,026	$11,065	$10,621
Per capital share	1.99	1.54	1.56	1.49
Realized securities gains (losses) net of income tax effect	7,271	—	—	—
Per capital share	1.02	—	—	—
Net income	$21,431	$11,026	$11,065	$10,621
Per capital share	3.01	1.54	1.56	1.49
	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 and losses	$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

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 its subsidiary, KBS. Wes-FIC is engaged in the property and casualty insurance and reinsurance business. Its business has included contractual arrangements with wholly owned insurance subsidiaries of Berkshire under which Wes-FIC has participated in reinsurance arrangements that the Berkshire subsidiaries have had with unaffiliated 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) as well as cash invested or retained in the business by its owners, and has realized gains on sales 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 toolroom 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.

	1999	1998	1997
Insurance:			
Premiums earned	$ 17,655	$ 15,923	$ 11,507
Dividend and interest income	49,125	38,534	33,694
Realized securities gains, net	11,186	51,706	50,528
Provision for income taxes	(18,909)	(28,919)	(27,741)
Net income	50,881	68,263	66,350
Depreciation and amortization other than of discounts and premiums of investments	826	887	897
Capital expenditures	79	29	68
Identifiable assets	2,639,750	3,157,338	2,440,141
Industrial:			
Sales, service and other revenues	$ 64,686	$ 66,197	$ 67,693
Provision for income taxes	(1,677)	(2,118)	(2,420)
Net income	2,532	3,154	3,622
Depreciation and amortization	797	852	849
Capital expenditures	214	274	614
Identifiable assets	23,252	22,965	23,084
Not identified with a business segment:			
Dividend and interest income	$ 1,145	$ 2,132	$ 3,148
Other revenues	867	844	951
Realized gains on securities and foreclosed properties, net	1,633	966	51,820
Income tax (provision) benefit	(69)	534	(20,798)
Net income	730	386	31,837
Depreciation and amortization	372	394	388
Capital expenditures	112	1	495
Identifiable assets	26,013	49,660	126,450
Reconciliations:			
Total revenues set forth above	$ 146,297	$ 176,302	$ 219,341
Less intersegment interest	(591)	(123)	(290)
Total consolidated revenues	$ 145,706	$ 176,179	$ 219,051
Total assets set forth above	$2,689,015	$3,229,963	$2,589,675
Less intersegment advances	(36,820)	(1,557)	(1,563)
Total consolidated assets	$2,652,195	$3,228,406	$2,588,112

Dollar amounts in thousands except for amounts per share

Note 8. Subsequent Event

In February 2000, a wholly owned subsidiary of Wesco acquired all of the outstanding common stock of CORT for approximately $384 million pursuant to a tender offer and merger. The acquisition will be accounted for as a purchase, and CORT's accounts will be consolidated with Wesco's beginning as of the date of purchase. The cash purchase was funded, to the extent of $353 million, through sales of investments and use of available cash, supplemented by $31 million of short-term line-of-credit borrowings.

CORT is the leading national provider of rental furniture, accessories and related services in the ''rent-to-rent'' segment of the furniture industry. It rents high quality furniture to corporate and individual customers who desire flexibility to meet their temporary office, residential or tradeshow furnishing needs and who typically do not seek to own such furniture. In addition, CORT sells previously rented furniture through company-owned clearance centers. CORT's national network includes 118 showrooms, 87 clearance centers and 75 warehouses in 34 states and the District of Columbia as well as three web sites (cort1.com, relocationcentral.com and corttradeshow.com).

The following unaudited table presents pro forma combined operating data provided by Wesco and CORT for 1999 and 1998 as though CORT had been acquired on January 1, 1998. It reflects (1) elimination of the estimated income earned during 1999 and 1998 on investments liquidated in 2000 to fund the purchase, (2) inclusion of interest expense throughout 1999 and 1998 as if the line-of-credit borrowings had been made at the beginning of 1998, and (3) amortization of the excess of purchase price over recorded net assets assuming such excess was all goodwill to be amortized over 40 years.

	Year	
	1999	**1998**
Sales and service revenues	$418,655	$385,101
Total revenues	479,790	475,143
Income before extraordinary item	63,159	79,514
Net income	63,159	77,006
Per capital share	8.87	10.82

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, 1999	December 31, 1998
Assets:		
Cash and cash equivalents	$ 23	$ 23
Convertible preferred stocks	—	22,000
Investment in subsidiaries, at cost plus equity in subsidiaries' undistributed earnings and unrealized appreciation:		
Wes-FIC and KBS	1,900,204	2,205,874
Precision Steel	54,575	51,579
MS Property	15,600	13,806
Other assets	128	548
	$1,970,530	$2,293,830
Liabilities and shareholders' equity:		
Advances from subsidiaries	$ 72,185	$ 32,202
Notes payable	1,035	31,035
Income taxes payable, principally deferred	1,912	6,367
Other liabilities	26	470
Total liabilities	75,158	70,074
Shareholders' equity (see consolidated balance sheet and statement of changes in shareholders' equity)	1,895,372	2,223,756
	$1,970,530	$2,293,830

STATEMENT OF INCOME
(Dollar amounts in thousands)

	Year Ended December 31, 1999	1998	1997
Revenues:			
Dividend income	$ 675	$ 1,687	$ 2,692
Realized securities gain	—	—	50,386
Other	46	40	118
	721	1,727	53,196
Expenses:			
Interest on notes payable	2,939	2,937	3,104
General and administrative	437	475	414
	3,376	3,412	3,518
Income (loss) before items shown below	(2,655)	(1,685)	49,678
Income tax (provision) benefit	1,247	1,100	(19,654)
Equity in undistributed earnings of subsidiaries	55,551	72,388	71,785
Net income	$54,143	$71,803	$101,809

See notes to consolidated financial statements

WESCO FINANCIAL CORPORATION
SCHEDULE I — CONDENSED FINANCIAL INFORMATION OF REGISTRANT (CONTINUED)

STATEMENT OF CASH FLOWS
(Dollar amounts in thousands)

	Year Ended December 31,		
	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 54,143	$ 71,803	$101,809
Adjustments to reconcile net income with cash flows from operating activities —			
Realized securities gain	—	—	(50,386)
Deferred income taxes on realized securities gain	—	—	20,532
Increase (decrease) in income taxes payable currently	(347)	(951)	836
Equity in undistributed earnings of subsidiaries	(55,551)	(72,388)	(59,034)
Other, net	(302)	58	(20)
Net cash flows from operating activities	(2,057)	(1,478)	13,737
Cash flows from investing activities:			
Principal collections on loans	475	75	75
Net cash flows from investing activities	475	75	75
Cash flows from financing activities:			
Advances from (repayments to) subsidiaries, net	39,983	9,529	(5,985)
Repayment of Notes due November 1, 1999	(30,000)	—	—
Payment of cash dividends	(8,401)	(8,116)	(7,831)
Net cash flows from financing activities	1,582	1,413	(13,816)
Increase (decrease) in cash and cash equivalents	—	10	(4)
Cash and cash equivalents — beginning of year	23	13	17
Cash and cash equivalents — end of year	$ 23	$ 23	$ 13
Supplementary disclosures:			
Noncash investing activities —			
Investments contributed to subsidiary	$ 28,895	$ 54,627	$ —

See notes to consolidated financial statements

In February 2000, a wholly owned subsidiary of Wesco Financial Corporation (''Wesco'') acquired all of the outstanding common stock of CORT Business Services Corporation (''CORT'') pursuant to a tender offer and merger. The acquisition will be accounted for as a purchase, and CORT's accounts will be consolidated with Wesco's beginning as of the date of purchase.

The unaudited condensed financial statements presented below were derived from the consolidated financial statements of CORT.

CORT Business Services Corporation
(Dollar amounts in thousands)
(Unaudited)

Condensed Consolidated Balance Sheet
December 31, 1999

Assets:	
Rental furniture	$208,811
Property, plant and equipment	42,853
Goodwill of acquired businesses	76,186
Other assets	64,015
	$391,865
Liabilities and shareholders' equity:	
Accounts payable, accrued expenses, deferred rental revenue and security deposits	$ 51,735
Notes payable	84,400
Deferred income taxes	35,687
	171,822
Shareholders' equity	220,043
	$391,865

Condensed Consolidated Statement of Earnings
Year Ended December 31, 1999

Revenues:	
Furniture rentals	$295,232
Furniture sales	58,852
	354,084
Costs and expenses:	
Cost of furniture rentals and sales	89,916
General and administrative	212,150
Interest	5,769
	307,835
Income before income taxes	46,249
Provision for income taxes	(19,548)
Net income	$ 26,701

CORT is the leading national provider of rental furniture, accessories and related services in the ''rent-to-rent'' segment of the furniture industry. It rents high quality furniture to corporate and individual customers who desire flexibility to meet their temporary office, residential or tradeshow furnishing needs and who typically do not seek to own such furniture. In addition, CORT sells previously rented furniture through company-owned clearance centers. CORT's national network includes 118 showrooms, 87 clearance centers and 75 warehouses in 34 states and the District of Columbia as well as three web sites (cort1.com, relocationcentral.com and corttradeshow.com).

Additional information as to Wesco's purchase of CORT appears in Note 8 to Wesco's consolidated financial statements appearing elsewhere in this annual report. Complete, audited financial statements of CORT for the years ended December 31, 1999 and 1998 will be included in an amendment to Wesco's Form 8-K dated March 3, 2000 expected to be filed with the Securities and Exchange Commission early in April 2000.

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