

WESCO FINANCIAL CORP

Form 10-Q

August 07, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

☒ **Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2009**

**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

95-2109453

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901

(Address of principal executives offices)  
626/585-6700

(Zip Code)

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer ☐

Accelerated filer ☒

Non-Accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 7,119,807 as of July 31, 2009

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**PART I. FINANCIAL INFORMATION**

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Reference is made to Item 7A, Quantitative and Qualitative Disclosures About Market Risk, appearing on pages 37-39 of the Form 10-K Annual Report for the year ended December 31, 2008, filed by Wesco Financial Corporation (Wesco), for information on equity price risk and interest rate risk at Wesco. There have been no material changes through June 30, 2009.

Item 4. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of the management of Wesco, including Charles T. Munger (Chief Executive Officer) and Jeffrey L. Jacobson (Chief Financial Officer), of the effectiveness of the design and operation of Wesco's disclosure controls and procedures as of June 30, 2009. Based on that evaluation, Messrs. Munger and Jacobson concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported as specified in the rules and forms of the Securities Exchange Commission, and are effective to ensure that information required to be disclosed by Wesco in the reports it files or submits under the Exchange Act, as amended, is accumulated and communicated to Wesco's management, including Mr. Munger and Mr. Jacobson, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in Wesco's internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected or are reasonably likely to materially affect the internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Shareholders.**

Following is a table showing the votes cast for, and withheld from voting for, each nominee at the annual meeting of shareholders of Wesco, held May 6, 2009, at which meeting the shareholders elected the following Directors:

| Name                     | Favorable<br>Votes | Votes<br>Withheld |
|--------------------------|--------------------|-------------------|
| Charles T. Munger        | 6,648,652          | 296,816           |
| Carolyn H. Carlburg      | 6,867,080          | 78,388            |
| Robert E. Denham         | 6,749,051          | 196,418           |
| Robert T. Flaherty       | 6,910,140          | 35,328            |
| Peter D. Kaufman         | 6,914,051          | 31,417            |
| Elizabeth Caspers Peters | 6,928,233          | 17,236            |

**Item 6. Exhibits**

31 (a) Certification Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended (Chief Executive Officer)

31 (b) Certification Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934, as amended (Chief Financial Officer)

32 (a) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)

32 (b) Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

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**WESCO FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

(Dollar amounts in thousands)

(Unaudited)

|                                                        | June 30,<br>2009    | Dec. 31,<br>2008    |
|--------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                          |                     |                     |
| Cash and cash equivalents                              | \$ 382,198          | \$ 297,643          |
| Investments                                            |                     |                     |
| Securities with fixed maturities                       | 31,260              | 28,656              |
| Equity securities                                      | 1,763,907           | 1,868,293           |
| Receivable from affiliates                             | 185,542             | 133,396             |
| Rental furniture                                       | 196,993             | 217,597             |
| Goodwill of acquired businesses                        | 278,017             | 277,742             |
| Other assets                                           | 232,536             | 227,368             |
|                                                        | <b>\$ 3,070,453</b> | <b>\$ 3,050,695</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |                     |                     |
| Insurance losses and loss adjustment expenses          |                     |                     |
| Affiliated business                                    | \$ 240,973          | \$ 164,424          |
| Unaffiliated business                                  | 48,846              | 50,844              |
| Unearned insurance premiums                            |                     |                     |
| Affiliated business                                    | 135,124             | 94,544              |
| Unaffiliated business                                  | 13,274              | 13,251              |
| Deferred furniture rental income and security deposits | 15,255              | 17,674              |
| Notes payable                                          | 34,200              | 40,400              |
| Income taxes payable, principally deferred             | 184,772             | 230,657             |
| Other liabilities                                      | 58,701              | 61,145              |
|                                                        | <b>731,145</b>      | <b>672,939</b>      |
| Shareholders' equity:                                  |                     |                     |
| Capital stock and additional paid-in capital           | 33,324              | 33,324              |
| Accumulated other comprehensive income                 | 87,050              | 152,763             |
| Retained earnings                                      | 2,218,934           | 2,191,669           |
| Total shareholders' equity                             | <b>2,339,308</b>    | <b>2,377,756</b>    |
|                                                        | <b>\$ 3,070,453</b> | <b>\$ 3,050,695</b> |

*See notes beginning on page 7.*

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**WESCO FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF**  
**INCOME AND RETAINED EARNINGS**

(Dollar amounts in thousands except for amounts per share)  
(Unaudited)

|                                               | Three Months Ended |              | Six Months Ended |              |
|-----------------------------------------------|--------------------|--------------|------------------|--------------|
|                                               | June 30,           | June 30,     | June 30,         | June 30,     |
|                                               | 2009               | 2008         | 2009             | 2008         |
| Revenues:                                     |                    |              |                  |              |
| Furniture rentals                             | \$ 81,365          | \$ 87,827    | \$ 164,064       | \$ 168,543   |
| Sales and service revenues                    | 26,546             | 34,329       | 55,051           | 67,077       |
| Insurance premiums earned                     |                    |              |                  |              |
| Affiliated business                           | 69,720             | 61,143       | 145,304          | 82,935       |
| Unaffiliated business                         | 7,582              | 9,035        | 11,295           | 13,623       |
| Dividend and interest income                  | 16,286             | 18,011       | 35,590           | 37,342       |
| Other                                         | 1,016              | 997          | 2,013            | 2,018        |
|                                               | 202,515            | 211,342      | 413,317          | 371,538      |
| Costs and expenses:                           |                    |              |                  |              |
| Cost of products and services sold            | 32,653             | 37,488       | 68,191           | 73,255       |
| Insurance losses and loss adjustment expenses |                    |              |                  |              |
| Affiliated business                           | 54,953             | 43,207       | 100,940          | 55,476       |
| Unaffiliated business                         | 1,644              | 4,618        | 3,967            | 8,038        |
| Insurance underwriting expenses               |                    |              |                  |              |
| Affiliated business                           | 20,477             | 18,751       | 42,436           | 24,611       |
| Unaffiliated business                         | 3,212              | 3,043        | 4,472            | 5,241        |
| Selling, general and administrative expenses  | 74,321             | 74,174       | 153,245          | 146,388      |
| Interest expense                              | 205                | 412          | 460              | 939          |
|                                               | 187,465            | 181,693      | 373,711          | 313,948      |
| Income before income taxes                    | 15,050             | 29,649       | 39,606           | 57,590       |
| Income taxes                                  | 2,120              | 8,076        | 6,717            | 15,300       |
| Net income                                    | 12,930             | 21,573       | 32,889           | 42,290       |
| Retained earnings beginning of period         | 2,208,816          | 2,138,493    | 2,191,669        | 2,120,518    |
| Cash dividends declared and paid              | (2,812)            | (2,740)      | (5,624)          | (5,482)      |
| Retained earnings end of period               | \$ 2,218,934       | \$ 2,157,326 | \$ 2,218,934     | \$ 2,157,326 |

Amounts per capital share based on 7,119,807  
shares outstanding throughout each period:

|                |    |      |    |      |    |      |    |      |
|----------------|----|------|----|------|----|------|----|------|
| Net income     | \$ | 1.82 | \$ | 3.03 | \$ | 4.62 | \$ | 5.94 |
| Cash dividends | \$ | .395 | \$ | .385 | \$ | .790 | \$ | .770 |

*See notes beginning on page 7.*

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**WESCO FINANCIAL CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(Dollar amounts in thousands)

(Unaudited)

|                                                                      | Six Months Ended |                  |
|----------------------------------------------------------------------|------------------|------------------|
|                                                                      | June 30,<br>2009 | June 30,<br>2008 |
| Cash flows from operating activities, net                            | \$ 94,141        | \$ 75,706        |
| Cash flows from investing activities:                                |                  |                  |
| Maturities and redemptions of securities with fixed maturities       | 2,513            | 2,395            |
| Purchases of equity securities                                       |                  | (29,396)         |
| Purchases of securities with fixed maturities                        | (4,238)          |                  |
| Purchases of rental furniture                                        | (22,922)         | (51,184)         |
| Sales of rental furniture                                            | 32,559           | 30,329           |
| Additions to condominium construction in process                     | (3,157)          | (17,611)         |
| Acquisitions of businesses, net of cash acquired                     | (878)            | (4,916)          |
| Other, net                                                           | (1,760)          | (3,677)          |
| Net cash flows from investing activities                             | 2,117            | (74,060)         |
| Cash flows from financing activities:                                |                  |                  |
| Net increase (decrease) in notes payable, principally line of credit | (6,200)          | 16,000           |
| Payment of cash dividends                                            | (5,624)          | (5,482)          |
| Net cash flows from financing activities                             | (11,824)         | 10,518           |
| Effect of foreign currency exchange rate changes                     | 121              |                  |
| Increase in cash and cash equivalents                                | 84,555           | 12,164           |
| Cash and cash equivalents   beginning of period                      | 297,643          | 526,722          |
| Cash and cash equivalents   end of period                            | \$ 382,198       | \$ 538,886       |
| Supplementary information:                                           |                  |                  |
| Interest paid during period                                          | \$ 520           | \$ 978           |
| Income taxes paid, net, during period                                | 6,108            | 16,520           |

*See notes beginning on page 7.*



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**WESCO FINANCIAL CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Dollar amounts in thousands except for amounts per share)

(Unaudited)

**Note 1. General**

The unaudited condensed consolidated financial statements of which these notes are an integral part include the accounts of Wesco Financial Corporation ( Wesco ) and its subsidiaries. In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 7, 2009. In management's opinion, such statements reflect all adjustments (all of them of a normal recurring nature) necessary to a fair statement of interim results in accordance with accounting principles generally accepted in the United States.

Reference is made to the notes to Wesco's consolidated financial statements appearing on pages 48 through 60 of its 2008 Form 10-K Annual Report for other information deemed generally applicable to the condensed consolidated financial statements. In particular, Wesco's significant accounting policies and practices are set forth in Note 1 on pages 48 through 52.

Consolidated Federal income tax return liabilities have been settled with the Internal Revenue Service (the IRS ) through 1998. The IRS has completed its audit of the Federal tax returns for the years 1999 through 2004. The examination for these years is currently in the IRS' appeals process. The IRS is currently auditing the 2005 and 2006 Federal tax returns. Wesco management believes that the ultimate outcome of the Federal income tax audits will not materially affect Wesco's consolidated financial statements.

Wesco's management does not believe that any accounting pronouncements issued by the Financial Accounting Standards Board or other applicable authorities that are required to be adopted after June 30, 2009 are likely to have a material effect on reported shareholders' equity.

**Note 2. Investments**

Following is a summary of investments in securities with fixed maturities:

|                                                | June 30, 2009 |                | December 31, 2008 |                |
|------------------------------------------------|---------------|----------------|-------------------|----------------|
|                                                | Amortized     | Estimated Fair | Amortized         | Estimated Fair |
|                                                | Cost          | (Carrying)     | Cost              | (Carrying)     |
|                                                |               | Value          |                   | Value          |
| Mortgage-backed securities                     | \$ 21,003     | \$ 22,574      | \$ 21,894         | \$ 22,886      |
| Other, principally U.S. government obligations | 8,231         | 8,686          | 5,606             | 5,770          |
|                                                | \$ 29,234     | \$ 31,260      | \$ 27,500         | \$ 28,656      |

At periods ended June 30, 2009 and December 31, 2008, the estimated fair values of securities with fixed maturities contained no unrealized losses.

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

|                              | June 30, 2009 |                             | December 31, 2008 |                             |
|------------------------------|---------------|-----------------------------|-------------------|-----------------------------|
|                              | Cost          | Fair<br>(Carrying)<br>Value | Cost              | Fair<br>(Carrying)<br>Value |
| The Proctor & Gamble Company | \$ 372,480    | \$ 318,864                  | \$ 372,480        | \$ 385,757                  |
| The Coca-Cola Company        | 40,761        | 345,797                     | 40,761            | 326,198                     |
| Wells Fargo & Company        | 382,779       | 306,724                     | 382,779           | 372,722                     |
| Kraft Foods Incorporated     | 325,816       | 253,400                     | 325,816           | 268,500                     |
| US Bancorp                   | 266,940       | 179,200                     | 266,940           | 250,100                     |
| Other                        | 243,661       | 359,922                     | 243,661           | 265,016                     |
|                              | \$ 1,632,437  | \$ 1,763,907                | \$ 1,632,437      | \$ 1,868,293                |

Total unrealized losses included in fair values of equity securities at periods ending June 30, 2009 and December 31, 2008 totaled \$335,137 and \$164,054, principally related to securities in unrealized loss positions for less than twelve months as of those dates.

Other equity securities includes an investment of \$205,000, at cost, in shares of 10% newly-issued cumulative perpetual preferred stock of The Goldman Sachs Group, Inc. ( GS ) and warrants to acquire up to approximately 1.78 million shares of GS common stock, at any time until they expire on October 1, 2013, at a price of \$115 per share. The investment was made in connection with an investment made by other Berkshire Hathaway subsidiaries late in 2008. GS has the right to call the preferred shares for redemption at any time at a premium of 10%.

**Note 3. Comprehensive income**

The following table sets forth Wesco's consolidated comprehensive income for the three- and six-month periods ended June 30, 2009 and 2008:

|                                                                                                                                               | Three Months Ended |                  | Six Months Ended |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                                                                                                               | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Net income                                                                                                                                    | \$ 12,930          | \$ 21,573        | \$ 32,889        | \$ 42,290        |
| Foreign currency translation adjustment, net of tax*                                                                                          | 1,125              | 17               | 951              | 54               |
| Increase (decrease) in unrealized appreciation of investments, net of income tax effect of \$111,604, (\$90,325), (\$35,118), and (\$113,864) | 210,331            | (167,167)        | (66,664)         | (210,764)        |
| Comprehensive income (loss)                                                                                                                   | \$ 224,386         | \$ (145,577)     | \$ (32,824)      | \$ (168,420)     |

\* Represents gains and losses from translating the financial statements of the furniture rental segment's foreign-based operations, acquired in

January of 2008,  
from the local  
currency to U.S.  
dollars.

Dollar amounts in thousands, except for amounts per share

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**Table of Contents****Note 4. Fair value measurements**

Following is a summary of Wesco's financial instruments measured at fair value as of June 30, 2009 on a recurring basis by the type of inputs applicable to fair value measurement.

|                                          | <b>Total Fair<br/>Value</b> | <b>Fair Value Measurements Using</b> |                  |                  |
|------------------------------------------|-----------------------------|--------------------------------------|------------------|------------------|
|                                          |                             | <b>(Level 1)</b>                     | <b>(Level 2)</b> | <b>(Level 3)</b> |
| Investments in fixed-maturity securities | \$ 31,260                   | \$                                   | \$31,260         | \$               |
| Investments in equity securities         | 1,763,907                   | 1,467,620                            |                  | 296,287          |

Level 1 inputs represent unadjusted quoted prices in active markets for identical assets.

Level 2 inputs represent observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or quoted prices in markets that are not active. Fair values for Wesco's investments in fixed maturity securities are based primarily on market prices and market data available for instruments with similar characteristics since there are not active markets for many of the Company's investments.

Level 3 inputs include unobservable inputs used in the measurement of assets. Measurement of the fair values of the non-exchange traded investments are based on a standard warrant valuation model or a discounted cash flow model, as applicable, which are techniques believed to be widely used by other market participants. Significant assumptions inherent in the warrant valuation model include an estimated stock price volatility factor, dividend and interest rate assumptions, and the estimated term of the warrants. Significant assumptions used in a discounted cash flow model include the discount rate and the estimated duration of the instrument. There have been no significant changes in the valuation techniques used at the end of the current period from those used at yearend 2008.

Following is a summary of Wesco's assets and liabilities measured at fair value, with the use of significant unobservable inputs (Level 3):

|                                                                                 | <b>Investments<br/>in equity<br/>securities</b> |
|---------------------------------------------------------------------------------|-------------------------------------------------|
| Balance as of December 31, 2008                                                 | \$ 209,510                                      |
| Unrealized gains on level 3 investments, included in other comprehensive income | 86,777                                          |
| Purchases                                                                       |                                                 |
| Balance as of June 30, 2009                                                     | \$ 296,287                                      |

Dollar amounts in thousands, except for amounts per share

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### **Note 5. Goodwill**

Goodwill of acquired businesses represents the excess of the cost of acquired entities over the fair values assigned to their assets acquired and liabilities assumed. All goodwill acquired is assigned to the reporting unit that the related assets are employed in and the liabilities relate to, as it is believed that those reporting units benefit from the acquisition. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets, which requires a test for impairment annually or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The impairment test is performed in two phases. The first step compares the carrying value of the reporting unit, including goodwill, to its estimated fair value. If the carrying value is greater than the estimated fair value of the unit, a second step is required, comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. An impairment loss, charged to earnings, is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

The Company determines the fair value of its furniture rental unit using the income approach. Under the income approach, the Company estimates the fair value of the reporting unit based on the present value of its estimated future earnings. This approach incorporates a number of significant estimates and assumptions that include: a forecast of the reporting unit's future operating results, estimated growth rates, future terminal value, and an appropriate discount rate. In projecting future earnings, the Company considers the current economic environment as well as historical results of the unit. The Company believes that the income approach is the most meaningful valuation technique for the furniture rental business, as CORT is the only national company that operates in the rent-to-rent furniture industry, thus making market-based and transaction-based valuation techniques less meaningful.

The Company performed its annual impairment tests in the fourth quarter of 2008 and concluded that there was no impairment for any of its reporting units because the fair values exceeded the book carrying values. In connection with the preparation of its consolidated financial statements for the second quarter of 2009, the Company reviewed the conclusions reached in connection with its impairment testing as of yearend 2008 and noted that no events had occurred, nor had circumstances changed subsequent to yearend, that would more likely than not reduce the fair value of its reporting units below their carrying amounts.

The economic recession which became evident in 2008 continued through the first half of 2009. The length and magnitude of the recession and whether it will have a long-term positive or negative impact on the Company's reporting units cannot be reasonably predicted. There can be no assurance that the Company's estimates and assumptions regarding future operating results made for purposes of the goodwill impairment testing will prove to be accurate predictions of the future. If the current recession has an adverse impact on the long term economic value of the reporting units, the Company may be required to record goodwill impairment losses in future periods. Currently, it is not possible to determine if any such future impairment losses would result or if such losses would be material.

### **Note 6. Environmental matters**

Wesco's Precision Steel subsidiary and one of its subsidiaries are parties to an environmental matter in the state of Illinois, the ultimate outcome of which is not expected to be material.

Dollar amounts in thousands, except for amounts per share

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**Table of Contents****Note 7. Business segment data**

Following is condensed consolidated financial information for Wesco, by business segment:

|                                             | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------------------|--------------------|------------------|------------------|------------------|
|                                             | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Insurance segment:                          |                    |                  |                  |                  |
| Revenues                                    | \$ 93,545          | \$ 87,910        | \$ 191,866       | \$ 133,324       |
| Net income                                  | 11,882             | 14,916           | 33,147           | 31,948           |
| Goodwill of acquired businesses             | 26,991             | 26,991           | 26,991           | 26,991           |
| Assets at end of period                     | 2,413,965          | 2,380,566        | 2,413,965        | 2,380,566        |
| Furniture rental segment:                   |                    |                  |                  |                  |
| Revenues                                    | \$ 98,777          | \$ 105,289       | \$ 199,971       | \$ 203,069       |
| Net income                                  | 1,530              | 6,119            | 574              | 9,652            |
| Goodwill of acquired businesses             | 251,026            | 241,547          | 251,026          | 241,547          |
| Assets at end of period                     | 533,630            | 507,852          | 533,630          | 507,852          |
| Industrial segment:                         |                    |                  |                  |                  |
| Revenues                                    | \$ 9,134           | \$ 16,867        | \$ 19,144        | \$ 32,551        |
| Net income (loss)                           | (285)              | 599              | (673)            | 895              |
| Assets at end of period                     | 20,669             | 21,779           | 20,669           | 21,779           |
| Other items unrelated to business segments: |                    |                  |                  |                  |
| Revenues                                    | \$ 1,059           | \$ 1,276         | \$ 2,336         | \$ 2,594         |
| Net income (loss)                           | (197)              | (61)             | (159)            | (205)            |
| Assets at end of period                     | 102,189            | 93,644           | 102,189          | 93,644           |
| Consolidated totals:                        |                    |                  |                  |                  |
| Revenues                                    | \$ 202,515         | \$ 211,342       | \$ 413,317       | \$ 371,538       |
| Net income                                  | 12,930             | 21,573           | 32,889           | 42,290           |
| Goodwill of acquired businesses             | 278,017            | 268,538          | 278,017          | 268,538          |
| Assets at end of period                     | 3,070,453          | 3,003,841        | 3,070,453        | 3,003,841        |

Dollar amounts in thousands, except for amounts per share

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WESCO FINANCIAL CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Reference is made to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 22 through 39 of the Form 10-K Annual Report filed by Wesco Financial Corporation (Wesco) for the year 2008 (Wesco's 2008 10-K) for information deemed generally appropriate to an understanding of the accompanying condensed consolidated financial statements. The information set forth in the following paragraphs updates such discussion. Further, in reviewing the following paragraphs, attention is directed to the accompanying unaudited condensed consolidated financial statements.

**OVERVIEW**

*Financial Condition*

Wesco's consolidated balance sheet reflects significant liquidity and a strong capital base, with relatively little debt. A large amount of liquidity and capital is maintained in the insurance subsidiaries for strategic purposes and in support of reserves for unpaid losses.

*Results of Operations*

Consolidated net income for the second quarter of 2009 declined to \$12.9 million from \$21.6 million for the corresponding quarter of 2008. Consolidated net income for the first six months of 2009 declined to \$32.9 million from \$42.3 million for the first six months of 2008. These decreases were attributed mainly to the following factors: (1) weaknesses in CORT's furniture rental and Precision Steel's businesses due significantly to the recessionary economic environment, (2) increases in CORT's operating expenses attributable principally to an acquisition made in the fourth quarter of 2008, (3) the decision by Kansas Bankers Surety Company (KBS) late in 2008 to exit the bank deposit guarantee bond line of insurance as rapidly as feasible, and (4) increased losses incurred by KBS, including losses of \$2.4 million, after taxes, on deposit guarantee bonds, resulting from the failure of two banks during the first six months of 2009.

**FINANCIAL CONDITION**

Wesco continues to have a strong consolidated balance sheet, with high liquidity and relatively little debt. Consolidated cash and cash equivalents, held principally by Wesco's insurance businesses, amounted to \$382.2 million at June 30, 2009, and \$297.6 million at December 31, 2008.

Wesco's liability for unpaid losses and loss adjustment expenses at June 30, 2009 totaled \$289.8 million, compared to \$215.3 million at December 31, 2008. The increase related mainly to the retrocession agreement with Berkshire Hathaway's National Indemnity Company (NICO) subsidiary, to assume 10% of NICO's quota share reinsurance of Swiss Reinsurance Company and its major property-casualty affiliates (Swiss Re) described in Item 1, Business, appearing on page 11 of Wesco's 2008 10K.

Wesco's consolidated borrowings totaled \$34.2 million at June 30, 2009, compared to \$40.4 million at December 31, 2008. The borrowings relate principally to a revolving credit facility used in the furniture rental business. In addition to the notes payable and the liabilities for unpaid losses and loss adjustment expenses of Wesco's insurance businesses, Wesco and its subsidiaries have operating lease and other

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contractual obligations which, at June 30, 2009, were essentially unchanged from the \$142.2 million included in the table of off-balance sheet arrangements and contractual obligations appearing on page 32 of Wesco's 2008 10-K.

Wesco's shareholders' equity at June 30, 2009 was \$2.3 billion (\$328.56 per share), down \$38.4 million from the \$2.4 billion (\$333.96 per share) reported at December 31, 2008, but up \$221.6 million during the second quarter. Wesco carries its investments on its consolidated balance sheet at fair value, with net unrealized appreciation or depreciation included as a component of shareholders' equity, net of deferred taxes, without being reflected in earnings. The decrease in shareholders' equity for the six-month period, as well as the increase in the figure for the second quarter, reflected principally the fluctuations in fair values of Wesco's equity investments since yearend 2008. Because unrealized appreciation or depreciation is recorded based upon market quotations and, in some cases, upon other inputs that are affected by economic and market conditions as of the balance sheet date, gains or losses ultimately realized upon sale of investments could differ substantially from unrealized appreciation or depreciation recorded on the balance sheet at any given time.

In response to the crises in the financial and capital markets and the global recession, the U.S. and other governments around the world are taking measures to stabilize financial institutions, regulate markets and stimulate economic activity. While management hopes such actions will prove successful, the potential impact on Wesco is not clear at this time. It is expected that the current economic conditions will persist at least through 2009 before meaningful improvements become evident. Wesco's subsidiaries have taken and will continue to take cost-reduction actions to manage through the current economic situation.

**RESULTS OF OPERATIONS**

Wesco's reportable business segments are organized in a manner that reflects how Wesco's senior management views those business activities. Wesco's management views insurance businesses as possessing two distinct operations: underwriting and investing, and believes that underwriting gain or loss is an important measure of their financial performance. Underwriting gain or loss represents the simple arithmetic difference between the following line items appearing on the consolidated statement of income: (1) insurance premiums earned, less (2) insurance losses and loss adjustment expenses, and insurance underwriting expenses. Management's goal is to generate underwriting gains over the long term. Underwriting results are evaluated without allocation of investment income.

The condensed consolidated income statement appearing on page 5 has been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Revenues, including realized net investment gains, if any, are followed by costs and expenses, and a provision for income taxes, to arrive at net income. The following summary sets forth the after-tax contribution to GAAP net income of each business segment: insurance, furniture rental and industrial, as well as activities not considered related to such segments. Realized net investment gains, if any, are excluded from segment activities, consistent with the way Wesco's management views the business operations. (Amounts are in thousands, *all after income tax effect*.)

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|                          | Three Months Ended |                  | Six Months Ended |                  |
|--------------------------|--------------------|------------------|------------------|------------------|
|                          | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Insurance segment:       |                    |                  |                  |                  |
| Underwriting             | \$ (1,940)         | \$ 364           | \$ 3,109         | \$ 2,075         |
| Investment income        | 13,822             | 14,552           | 30,038           | 29,873           |
| Furniture rental segment | 1,530              | 6,119            | 574              | 9,652            |
| Industrial segment       | (285)              | 599              | (673)            | 895              |
| Other                    | (197)              | (61)             | (159)            | (205)            |
| Consolidated net income  | \$ 12,930          | \$ 21,573        | \$ 32,889        | \$ 42,290        |

*Insurance Segment*

The insurance segment comprises Wesco-Financial Insurance Company ( Wes-FIC ) and The Kansas Bankers Surety Company ( KBS ). Their operations are conducted or supervised by wholly owned subsidiaries of Berkshire Hathaway Inc. ( Berkshire ), Wesco's ultimate parent company. Following is a summary of the results of segment operations, which represents the combination of underwriting results with dividend and interest income. (Amounts are in thousands.)

|                                                                      | Three Months Ended |                  | Six Months Ended |                  |
|----------------------------------------------------------------------|--------------------|------------------|------------------|------------------|
|                                                                      | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Insurance premiums written                                           |                    |                  |                  |                  |
| Reinsurance                                                          | \$ 67,212          | \$ 106,796       | \$ 192,162       | \$ 187,975       |
| Primary                                                              | 2,250              | 5,262            | 5,062            | 11,188           |
| Total                                                                | \$ 69,462          | \$ 112,058       | \$ 197,224       | \$ 199,163       |
| Insurance premiums earned                                            |                    |                  |                  |                  |
| Reinsurance                                                          | \$ 74,286          | \$ 65,027        | \$ 149,870       | \$ 86,436        |
| Primary                                                              | 3,016              | 5,151            | 6,729            | 10,122           |
| Total                                                                | 77,302             | 70,178           | 156,599          | 96,558           |
| Insurance losses, loss adjustment expenses and underwriting expenses | 80,286             | 69,619           | 151,815          | 93,366           |
| Underwriting gain (loss), before income taxes:                       |                    |                  |                  |                  |
| Reinsurance                                                          | ( 192)             | (1,094)          | 7,446            | (1,042)          |
| Primary                                                              | (2,792)            | 1,653            | (2,662)          | 4,234            |
| Total                                                                | (2,984)            | 559              | 4,784            | 3,192            |
| Income taxes                                                         | (1,044)            | 195              | 1,675            | 1,117            |
| Underwriting gain (loss), after taxes                                | \$ (1,940)         | \$ 364           | \$ 3,109         | \$ 2,075         |

At June 30, 2009, in-force reinsurance business consisted of the participation in two distinctive arrangements with wholly owned subsidiaries of Berkshire. The first is a quota-share retrocession agreement with NICO to assume 2%

part of NICO's 20% quota share reinsurance of Swiss Re incepting over the five-year period which began January 1, 2008, on the same terms as NICO's agreement with Swiss Re (the "Swiss Re contract"). The second is Wes-FIC's participation, since 2001, in aviation-related risks (hull, liability and workers' compensation) through aviation insurance pools, whose underwriting and claims are managed by United States Aviation Underwriters, Inc. (the "aviation business").

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Contractual delays in reporting, and limitations in details reported, by the ceding companies necessitate that estimates be made of reinsurance premiums written and earned, as well as reinsurance losses and expenses. Under the Swiss Re contract, for example, estimates of premiums, claims and expenses are generally reported to NICO and Wes-FIC 45 days after the end of each quarterly period. Estimates are therefore made each reporting period by management for the activity not yet reported. Such estimates are developed by NICO based on information publicly available and adjusted for the impact of its, as well as Wes-FIC's management's, assessments of prevailing market conditions and other factors with respect to the underlying reinsured business. The relative importance of the Swiss Re contract to Wesco's results of operations causes those results to be particularly sensitive to this estimation process. However, increases or decreases in premiums earned as a result of the estimation process related to the reporting lag are typically substantially offset by related increases or decreases in claim and expense estimates. Periodic underwriting results can also be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years.

Written reinsurance premiums for the second quarter of 2009 included \$56.7 million relating to the Swiss Re contract, versus \$96.1 million for the second quarter of 2008. Inasmuch as the Swiss Re contract inceptioned as of the beginning of 2008, data for the first quarter of that year was based entirely on estimates determined from publicly available information related to periods prior to inception of the contract. When Swiss Re reported its actual first quarter data in the second quarter of 2008, Wes-FIC learned that a disproportionately large amount of Swiss Re's annual premiums are written in the first quarter, and recorded an adjustment in the second quarter to reflect the amount by which written premiums had been underestimated for the first quarter. By 2009, management had gained a year's working knowledge in projecting Swiss Re's written premiums under the contract, causing it to increase its estimate to a significantly higher amount of written premium volume for the first quarter of 2009 than it had estimated for the first quarter of 2008. Thus, written premiums under the contract for the second quarter of 2009 did not include as significant a true up as was required in the second quarter of 2008. Written reinsurance premiums under the Swiss Re contract for the first six months of 2009 were \$173.6 million, 2.1% higher than those for the corresponding period of 2008. The increase in Swiss Re premiums for the 2009 period was the result of taking into account Swiss Re's published projection of additional premium growth for 2009 in development of the estimate of 2009 written premium volume, further adjusted with respect to the fluctuation of the value of the U.S. Dollar relative to the foreign currencies in which Swiss Re does a significant portion of its business. Written aviation-related reinsurance premiums were \$10.5 million for the second quarter of 2009, a decrease of \$0.3 million (2.3%) from the corresponding 2008 figure. For the first six months of 2009, written aviation-related reinsurance premiums of \$18.6 million were \$0.7 million (3.8%) higher than the corresponding 2008 figure. These fluctuations were attributed principally to premiums written by the workers' compensation pool. The aviation pool manager has purchased less hull and liability reinsurance in 2009 than in 2008, with the result that premium volume of those pools has remained relatively unchanged in the current year, in spite of increased competitive pressures.

Earned premiums under the Swiss Re contract were \$65.2 million for the second quarter of 2009 and \$53.4 million for the second quarter of 2008, and \$131.7 million and \$67.3 million for the respective six-month periods. These figures represent increases of \$11.8 million (22.1%) for the second quarter and \$64.4 million (95.6%) for the first six months of 2009 as compared with the corresponding 2008 figures. Earned premiums for a fiscal quarter typically include two components: (1) amortization of the portion of that quarter's written premiums relating to the insurance coverages provided during the period, and (2) amortization of unearned premiums as of the beginning of that quarter relating to the coverages provided during the quarter. Because the contract inceptioned as of the beginning of 2008, there were no unearned

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premiums at inception to be amortized into earned revenues for the first quarter of 2008. By yearend, however, Wes-FIC had accumulated \$82.1 million of unearned premiums, a portion of which was amortized into earned premium revenues during each of the 2009 periods. In addition, the volume of premiums written during the 2009 periods was slightly higher than in the comparable 2008 periods. Earned premiums of the aviation business were \$9.1 million and \$18.2 million for the second quarter and first six months of 2009 and \$11.6 million and \$19.1 million for the corresponding periods of 2008, declining \$2.5 million (21.1%) and \$0.9 million (4.7%), respectively, from period to period. These figures reflect not only the fluctuations in written premiums explained above, but the figure for the second quarter of 2008 also included an adjustment reflecting the amount by which earned premiums for earlier periods had been underestimated. Although the changes in estimated premiums affected the comparability of earned premiums from period to period, they did not significantly affect pre-tax or after-tax underwriting results.

Written primary insurance premiums decreased by \$3.0 million (57.2%) for the second quarter and \$6.1 million (54.8%) for the first six months of 2009 from those of the corresponding periods of 2008. Earned primary insurance premiums decreased by \$2.1 million (41.5%) for the second quarter and \$3.4 million (33.5%) for the six-month period. The decreases were attributable principally to KBS's decision late in 2008 to discontinue its bank deposit guarantee bond line of insurance, which insures deposits above FDIC limits for specific customers of mainly Midwestern banks, and which represented approximately half of KBS's premium volume for 2008. Wesco reported in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, that events in the banking industry, including a number of bank failures, had caused management to become less confident in the long-term profitability of this line of business. In September 2008, KBS notified its customers of its decision to exit this line of insurance as rapidly as feasible and stopped renewing bond coverages. In mid-November 2008, it began to issue 90-day notices of non-voluntary bond cancellation. As a result, the aggregate face amount of outstanding bonds has been reduced, from \$9.7 billion at September 30, 2008, when 1,671 separate institutions were insured, to \$1.0 billion, insuring deposits in 270 institutions, at June 30, 2009, and \$0.6 billion, insuring deposits in 166 institutions as of July 31, 2009. KBS anticipates that outstanding deposit guaranty bonds will decline to approximately \$106 million, insuring 34 institutions, by September 30, 2009; \$50 million, insuring 21 institutions by December 31, 2009; \$11 million deposited in three institutions by June 30, 2010; \$3 million deposited in one institution by December 31, 2010, and zero, in July 2011.

KBS management maintains familiarity with its customers and endeavors to avoid insuring deposits of banks deemed to present unacceptable risks. In order to limit exposure to loss from deposit guarantee bonds, KBS management regularly updates its list ranking the banks it believes to be the 250 weakest in the nation based on data obtained from quarterly financial Call reports filed by all domestic banks with their banking regulators. Data by which banks are rated includes, capital to asset ratio, brokered deposits, loan to deposit ratio, loans to insiders, loan delinquencies and non-accruing loans. Procedures followed by KBS management with respect to customer banks whose names are on the list might include the issuance of 90-day notices of non-voluntary cancellation. As of July 31, 2009, of the 166 banks for which deposit guarantee bonds were outstanding, four banks, whose outstanding deposit guarantee bonds aggregated \$23.2 million, were included on KBS's watch list. All four of those banks are believed to have adequate capital and liquidity to pose little danger of failure before the outstanding deposit guarantee bonds expire in August and September, 2009. KBS management believes that few of the institutions for which deposit guarantee bonds are outstanding, whose names are not included on its list of the weaker banks, are facing a significant risk of failure, and through policy limits and reinsurance, KBS has effectively limited its exposure per bank (or group of affiliated banks) to \$7.6 million, after taxes.

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In previous reports on Forms 10-K and 10-Q it was reported that that some portion of deposit guarantee losses KBS has incurred may eventually be recovered as the FDIC liquidates each failed bank's assets and distributes funds to the bank's creditors and owners of deposits in excess of FDIC insurance limits, including KBS (by right of subrogation). Early in the second quarter of 2009 KBS received \$0.5 million in partial recovery of the loss of \$4.7 million sustained in the third quarter of 2008. Additional recoveries, if any, with regard to that loss or others, will be recorded when received. As noted above, KBS has stopped writing coverage for excess bank deposits and is taking steps to lessen its exposure to losses from bank failures as rapidly as feasible.

Management believes that underwriting gain or loss is an important measure of the financial performance of an insurance company. Underwriting results of Wesco's insurance segment fluctuate from period to period and have generally been favorable. Wesco reported in its 10-Q for the first quarter of 2009 that underwriting results under the Swiss Re contract for the quarter had benefited by \$6.0 million, before taxes, reflecting an adjustment in recognition of more favorable underwriting results reported by Swiss Re for calendar 2008 than had been reflected in Wes-FIC's estimate of Swiss Re's results under the contract during 2008. Swiss Re conducts a significant amount of its business in currencies other than the U.S. Dollar. Wes-FIC recognized pre-tax underwriting losses of \$1.5 million under the Swiss Re contract for the second quarter of 2009 and \$1.9 million, before taxes, under the contract, for the second quarter of 2008. The underwriting loss for the second quarter of 2009 reflected mainly the declining value of the U.S. Dollar relative to other currencies in which Swiss Re conducts its business. Wesco does not view these currency fluctuations as material to its arrangement under the contract and does not hedge against such fluctuations. The underwriting loss under the contract for the second quarter of 2008 resulted mainly from Wes-FIC's use of less favorable percentages for loss and expense reserving in the earlier year. Underwriting gains under the aviation-related reinsurance contracts were \$1.4 million and \$0.9 million, before taxes, for the quarters ended June 30, 2009 and 2008, and \$3.1 million and \$1.3 million, before taxes, for the six-month periods then ended. The frequency and severity of aviation-related losses tend to be volatile, and experience was more favorable during the 2009 periods than for those of 2008.

Primary insurance activities resulted in pre-tax underwriting losses of \$2.8 million for the second quarter and \$2.7 million for the first six months of 2009, versus underwriting gains of \$1.6 million and \$4.2 million, before taxes, for the respective 2008 periods. Not only had the line of deposit guarantee bonds been a source of underwriting gains in the year-earlier periods, but KBS operates with few employees and from modest facilities, thus limiting its ability to reduce operating and other expenses as a consequence of exiting the deposit guarantee bond line of insurance. Losses incurred by Wesco's insurance segment, by their very nature, fluctuate from period to period in both frequency and magnitude. Losses incurred by KBS in the first half of 2009 were significantly higher than those incurred in the first half of 2008. In the first six months of 2009, KBS recorded pre-tax losses of \$4.2 million relating to two bank failures, including \$3.2 million in the second quarter, less \$0.5 million received from the FDIC in connection with a loss incurred in the third quarter of 2008, discussed above.

The profitability of any reinsurance or insurance arrangement is best assessed after all losses and expenses have been realized, perhaps many years after the coverage period, rather than for any given reporting period.

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Following is a summary of investment income produced by Wesco's insurance segment (in thousands of dollars).

|                                 | Three Months Ended |                  | Six Months Ended |                  |
|---------------------------------|--------------------|------------------|------------------|------------------|
|                                 | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Investment income, before taxes | \$ 16,243          | \$ 17,732        | \$ 35,267        | \$ 36,766        |
| Income taxes                    | 2,421              | 3,180            | 5,229            | 6,893            |
| Investment income, after taxes  | \$ 13,822          | \$ 14,552        | \$ 30,038        | \$ 29,873        |

Investment income of the insurance segment comprises dividends and interest earned principally from the investment of shareholder capital (including reinvested earnings) as well as float (principally premiums received before payment of related claims and expenses). In the latter part of 2008 Wesco invested \$205 million, at cost, in shares of newly issued 10% cumulative perpetual preferred stock of The Goldman Sachs Group, Inc. in connection with an investment by other Berkshire subsidiaries. The amount had previously been invested principally in cash-equivalent investments with respect to which interest rates have been declining for more than one year. For the second quarter and first six months of 2009, dividend income increased by \$1.1 million and \$5.5 million, and interest income decreased by \$2.6 million and \$7.0 million, as compared with the components of investment income for the corresponding periods of 2008.

The income tax provisions, expressed as percentages of pre-tax investment income, shown in the foregoing table, amounted to 14.9% and 17.9% for the quarters ended June 30, 2009 and 2008, and 14.8% and 18.7% for the six-month periods then ended. The fluctuations in the percentages reflect the relation of dividend income, which is substantially exempt from income taxes, to interest income, which is fully taxable.

Management continues to seek to invest in the purchase of businesses and in long-term equity holdings.

*Furniture Rental Segment*

The furniture rental segment consists of CORT Business Services Corporation ( CORT ). Following is a summary of segment operating results. (Amounts are in thousands.)

|                                              | Three Months Ended |                  | Six Months Ended |                  |
|----------------------------------------------|--------------------|------------------|------------------|------------------|
|                                              | June 30,<br>2009   | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Revenues:                                    |                    |                  |                  |                  |
| Furniture rentals                            | \$ 81,365          | \$ 87,827        | \$ 164,064       | \$ 168,543       |
| Furniture sales                              | 15,364             | 14,706           | 32,510           | 30,329           |
| Service fees                                 | 2,048              | 2,756            | 3,397            | 4,197            |
| Total revenues                               | 98,777             | 105,289          | 199,971          | 203,069          |
| Cost of rentals, sales and fees              | 24,872             | 23,750           | 51,631           | 46,394           |
| Selling, general and administrative expenses | 71,268             | 70,875           | 147,149          | 139,710          |
| Interest expense                             | 205                | 412              | 460              | 939              |
|                                              | 96,345             | 95,037           | 199,240          | 187,043          |
| Income before income taxes                   | 2,432              | 10,252           | 731              | 16,026           |
| Income taxes                                 | 902                | 4,133            | 157              | 6,374            |

|                    |          |          |        |          |
|--------------------|----------|----------|--------|----------|
| Segment net income | \$ 1,530 | \$ 6,119 | \$ 574 | \$ 9,652 |
|--------------------|----------|----------|--------|----------|

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Furniture rental revenues for the second quarter of 2009 decreased \$6.5 million (7.4%) from those of the second quarter of 2008, and for the first six months of 2009, by \$4.5 million (2.7%) from those of the first six months of 2008. Excluding \$18.9 million and \$13.7 million of rental revenues from trade shows and locations not in operation throughout each of the three-month periods, and \$39.8 million and \$25.9 million of similar revenues for each of the six-month periods, rental revenues decreased 15.7% from those of the 2008 quarter and 12.8% from those of the first six months of 2008. The number of furniture leases outstanding at the end of the second quarter of 2009, excluding leases acquired from Aaron Rents, Inc. in November 2008, declined 13.9% from the number outstanding at the end of the second quarter of 2008. This downward trend that started late in 2006 has been exacerbated by the current economic recession. Traditionally, growth in furniture rental revenues is closely tied to periods of economic expansion, and in this prolonged period of economic contraction, CORT's furniture rental revenues have decreased despite some strategic acquisitions and price increases.

Furniture sales revenues for the second quarter of 2009 increased \$0.7 million (4.5%) from those of the second quarter of 2008, and for the first six months of 2009, have increased \$2.2 million (7.2%) from those of the first six months of 2008. The increase in sales revenues is primarily due to the addition of twenty new retail showrooms over the year ago period, attributed mainly to the Aaron Rents acquisition. The sales revenues increase represents a higher volume of furniture sold at lower average prices in an effort to control inventory. In the current recessionary period, management expects that gross profit margins on furniture sales will be somewhat lower than in periods of economic growth due to the necessity to aggressively manage rental inventory levels in the face of lower customer demand.

Service fees for the second quarter of 2009 decreased by \$0.7 million (25.7%) from those reported for the second quarter of 2008, and for the first six months of 2009, by \$0.8 million (19.1%) from those of the first six months of 2008. Despite the significant investment made by CORT in recent years towards the expansion and marketing of its relocation services to both individual and corporate relocation customers, service fee revenues remain disappointing. In light of the current economic environment, management is focusing its efforts on managing operating costs associated with rental relocation services and leveraging CORT's existing investment to drive higher-margin furniture rental revenues.

Cost of rentals, sales and fees amounted to 25.2% and 25.8% of revenues for the second quarter and first six months of 2009, versus 22.6% and 22.8% for the corresponding periods of 2008. The increase in costs as a percentage of revenue was primarily due to an increase in depreciation expense on rental furniture acquired from Aaron Rents in November 2008 and a significant decrease in profit margin on furniture sales.

Selling, general, administrative and interest expenses ( operating expenses ) for the segment were \$71.5 million for the second quarter of 2009, up \$0.2 million (0.3%) from the \$71.3 million incurred in the second quarter of 2008, and \$147.7 million for the first six months of 2009, up \$7.0 million (5.0%) from the \$140.6 million reported for the first six months of 2008. The increase in operating expenses was due principally to the incremental costs associated with the November 2008 business acquisition, which were primarily employee-related costs and \$4.4 million in non-recurring amortization expense relating to the value assigned to rental contracts acquired. Management is aggressively seeking to reduce operating expenses, but no significant benefit from these cost cutting initiatives has yet been realized.

Income before income taxes of the furniture rental segment amounted to \$2.4 million in the second quarter and \$0.7 million for the first six months of 2009, versus \$6.1 million in the second quarter and \$9.7 million for the first six months of 2008, as explained above.

**Table of Contents***Industrial Segment*

Following is a summary of the results of operations of the industrial segment, which consists of the businesses of Precision Steel Warehouse, Inc. and its subsidiaries. (Amounts are in thousands.)

|                                              | Three Months Ended<br>June |                  | Six Months Ended |                  |
|----------------------------------------------|----------------------------|------------------|------------------|------------------|
|                                              | 30,<br>2009                | June 30,<br>2008 | June 30,<br>2009 | June 30,<br>2008 |
| Revenues                                     | \$ 9,134                   | \$ 16,867        | \$ 19,144        | \$ 32,551        |
| Cost of sales and services                   | \$ 7,780                   | \$ 13,738        | \$ 16,559        | \$ 26,861        |
| Selling, general and administrative expenses | 1,827                      | 2,132            | 3,700            | 4,199            |
| Income (loss) before income taxes            | \$ (473)                   | \$ 997           | \$ (1,115)       | \$ 1,491         |
| Income taxes                                 | (188)                      | 398              | (442)            | 596              |
| Segment net income (loss)                    | \$ (285)                   | \$ 599           | \$ ( 673)        | \$ 895           |

Reference is made to pages 30 and 31 of Wesco's 2008 10-K for information about Wesco's industrial segment, including the challenges affecting the domestic steel service industry for a number of years, which were exacerbated beginning in the latter half of 2008 by recessionary conditions.

Revenues for the second quarter and first six months of 2009 decreased by \$7.7 million (45.8%) and \$13.4 million (41.2%) from those of the corresponding periods of 2008. Sales fell by 4.7 million pounds (44.2%) for the second quarter and 9.6 million pounds (44.8%) for the first six-months of 2009, from the corresponding volume of pounds sold during the corresponding 2008 periods. For the second quarter of 2009, however, the volume of pounds sold was up 1.1% from the volume sold in the first quarter, possibly an indication that domestic manufacturing activity may have begun to stabilize.

The industrial segment operates on a low gross profit margin (revenues, less cost of products and services). The segment's business activities also require a base of operations supported by significant fixed operating costs. The period-to-period decreases in the industrial segment's pre-tax and net income resulted from the decline in gross profit, despite management's ongoing efforts to trim expenses aggressively.

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**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

Reference is made to page 32, in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of Wesco's 2008 10-K, for a table summarizing the contractual obligations associated with ongoing business activities of Wesco and its subsidiaries, some of which are off-balance sheet, and involve cash payments in periods after yearend 2008. At June 30, 2009, there have been no material changes in contractual obligations, including off-balance sheet arrangements, of Wesco or its subsidiaries from those reported as of December 31, 2008.

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**CRITICAL ACCOUNTING POLICIES AND PRACTICES**

Reference is made to pages 32 to 36, in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of Wesco's 2008 10-K for the accounting policies and practices considered by Wesco's management to be critical to its determination of consolidated financial position and results of operations, as well as to Note 1 to Wesco's consolidated financial statements appearing on pages 48 through 52 thereof for a description of the significant policies and practices followed by Wesco (including those deemed critical) in preparing its consolidated financial statements. There have been no changes in significant policies and practices through June 30, 2009, except as described in Note 1 to the accompanying condensed consolidated financial statements.

In applying certain accounting policies, Wesco's management is required to make estimates and judgments regarding transactions that have occurred and ultimately will be settled several years in the future. Amounts recognized in the consolidated financial statements from such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgment and uncertainty. Accordingly, the amounts currently recorded in the financial statements may prove, with the benefit of hindsight, to be inaccurate.

Information concerning recently issued accounting pronouncements which are not yet effective is included in Note 1 to the accompanying condensed consolidated financial statements. Wesco does not currently expect any of the recently issued accounting pronouncements to have a material effect on its financial condition.

**FORWARD-LOOKING STATEMENTS**

Certain written or oral representations of management stated in this annual report 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. 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. Such statements should be considered judgments only, not guarantees, and Wesco's management assumes no duty, nor has it any specific intention, to update them.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The principal important risk factors that could cause Wesco's actual performance and future events and actions to differ materially from those expressed in or implied by such forward-looking statements include, but are not limited to those risks reported in Item 1A, Risk Factors of the Form 10-K Annual Report filed by Wesco for the year ended December 31, 2008, but also to the occurrence of one or more catastrophic events such as acts of terrorism, hurricanes, or other events that cause losses insured by Wesco's insurance subsidiaries, changes in insurance laws or regulations, changes in income tax laws or regulations, and changes in general economic and market factors that affect the prices of investment securities or the industries in which Wesco and its affiliates do business.

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SIGNATURES

Pursuant to the requirements 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

Date: August 7, 2009

By: /s/ Jeffrey L. Jacobson  
Jeffrey L. Jacobson  
Vice President and Chief Financial  
Officer (principal financial officer)

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