

WESCO FINANCIAL CORP

Form 10-K

February 28, 2011

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2010

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

(Title of Class)

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 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 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

Edgar Filing: WESCO FINANCIAL CORP - Form 10-K

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 a 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

The aggregate market value of voting and non-voting stock of the registrant held by non-affiliates of the registrant as of June 30, 2010 was: \$434,333,000.

The number of shares outstanding of the registrant's Capital Stock as of February 25, 2011 was: 7,119,807.

DOCUMENTS INCORPORATED BY REFERENCE

Title of Document	Parts of Form 10-K
None	None

TABLE OF CONTENTS

PART I

Item 1. Business

Item 1A. Risk Factors

Item 1B. Unresolved Staff Comments

Item 2. Properties

Item 3. Legal Proceedings

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

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Item 6. Selected Financial Data

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

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

Item 9A. Controls and Procedures

Item 9B. Other Information

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 14. Principal Accountant Fees and Services

Item 15. Exhibits and Financial Statement Schedules

SIGNATURES

EX-21

EX-31.A

EX-31.B

EX-32.A

EX-32.B

Table of Contents

PART I

Item 1. Business

GENERAL

Wesco Financial Corporation (Wesco) was incorporated in Delaware on March 19, 1959. Wesco engages in three principal businesses through its direct or indirect wholly owned subsidiaries:

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, purchased by Wes-FIC in 1996 and provides specialized insurance coverages for banks;

the furniture rental business, through CORT Business Services Corporation (CORT), which traces its national presence to the combination of five regional furniture rental companies in 1972 and was purchased by Wesco in 2000, and

the steel service center business, through Precision Steel Warehouse, Inc. (Precision Steel), which was begun in 1940 and acquired by Wesco in 1979.

Wesco's operations also include, through another wholly owned subsidiary, MS Property Company (MS Property), management of owned commercial real estate in downtown Pasadena, California. MS Property began its operations in late 1993, upon transfer to it of real properties previously owned by Wesco and by a former savings and loan subsidiary of Wesco.

Since 1977, Wesco has been 80.1%-owned by Blue Chip Stamps (Blue Chip), a wholly owned subsidiary of Berkshire Hathaway Inc. (Berkshire). Thus, Wesco and its subsidiaries are 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 economic owner of 23.3% of its stock. Wesco's Chairman, President and Chief Executive Officer, Charles T. Munger, is also Vice Chairman of Berkshire, and consults with Mr. Buffett with respect to Wesco's investment decisions, major capital allocations, and the selection of the chief executives to head each of its operating businesses, subject to ultimate approval of Wesco's Board of Directors.

On February 7, 2011, Wesco and Berkshire announced that they had entered into a definitive merger agreement, whereby Berkshire will acquire the remaining 19.9% of the shares of Wesco's capital stock that it does not presently own in exchange for cash or shares of Berkshire Class B common stock, at the election of each Wesco shareholder. The transaction requires the affirmative vote of holders of a majority of Wesco's outstanding shares in favor of the adoption of the merger agreement, which will be sought at a special meeting of the shareholders of Wesco, and is subject to customary closing conditions. The transaction is also subject to a non-waivable condition that a majority of the outstanding shares not owned by Berkshire (and excluding certain specified shareholders) vote in favor of the adoption of the merger agreement. Berkshire has agreed to vote the Wesco shares it owns in favor of the transaction. Closing is expected to occur before the end of the second quarter of 2011, though there can be no assurance that any transaction will be completed. A Form 8-K filed by Wesco with the Securities and Exchange Commission (the SEC) on February 7, 2011 contains

Table of Contents

additional information about the proposed transaction, including a copy of the merger agreement. That report is available at no charge at Wesco's website, www.wescofinancial.com, or the SEC's website, www.sec.gov.

In connection with the proposed transaction, Berkshire will file with the SEC a registration statement that will include a proxy statement of Wesco that also constitutes a prospectus of Berkshire relating to the proposed transaction. Investors are urged to read the registration statement and proxy statement/prospectus and any other relevant documents filed with the SEC when they become available, because they will contain important information about Wesco, Berkshire and the proposed transaction. The registration statement and proxy statement/prospectus and other documents relating to the proposed transaction filed with the SEC (when they are available) can be obtained free of charge from the websites listed above.

Wesco's activities fall into three business segments—insurance, furniture rental and industrial. The insurance segment consists of the operations of Wes-FIC and KBS. The furniture rental segment consists of the operations of CORT. The industrial segment comprises Precision Steel's steel service center and industrial supply operations. Wesco is also engaged in several activities not identified with the three business segments, including investment activity unrelated to the insurance segment, MS Property's real estate activities, and parent company activities.

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), which is headquartered in Omaha, Nebraska. To simplify discussion, the term Berkshire Insurance Group refers to NICO, General Reinsurance Corporation, and certain other wholly owned insurance subsidiaries of Berkshire, although Berkshire also includes in its insurance group the insurance subsidiaries that are 80.1%-owned through Berkshire's ownership of Wesco.

Wes-FIC's high statutory net worth (about \$2.8 billion at December 31, 2010) has enabled Berkshire to offer Wes-FIC the opportunity to participate, from time to time, in contracts in which Wes-FIC effectively has reinsured certain property and casualty risks of unaffiliated property and casualty insurers. These arrangements have included excess-of-loss contracts such as super-catastrophe reinsurance contracts which subject the reinsurer to especially large amounts of losses from mega-catastrophes such as hurricanes or earthquakes. Super-catastrophe policies, which indemnify the ceding companies for all or part of covered losses in excess of large, specified retentions, have been subject to aggregate limits. Wes-FIC is also a party to large quota-share reinsurance arrangements under which it shares in premiums and losses proportionately with the ceding companies as described in more detail below.

Wesco's board of directors has authorized automatic acceptance of retrocessions of super-catastrophe 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) any ceding commission received by the Berkshire Insurance Group cannot exceed 3% of premiums, which is believed to be less than the Berkshire Insurance Group could get in the marketplace; (3) Wes-FIC is to assume 20% or less of the total risk; (4) the Berkshire Insurance Group must retain at least 80% of the identical risk; and (5) the aggregate premiums from this type of business in any twelve-month period cannot exceed 10% of Wes-FIC's net worth. Occasionally, the Berkshire Insurance Group will also have an upper-level reinsurance interest with interests different from Wes-FIC's, particularly in the event of one or more large losses. Wes-FIC currently has no active super-catastrophe reinsurance contracts in force.

Table of Contents

Following are some of the more significant reinsurance arrangements in which Wes-FIC has participated in recent years:

Participation, since 2001, in several risk pools managed by a subsidiary of General Reinsurance Corporation, covering principally hull, liability and workers' compensation exposures, relating to the aviation industry. For the past four years, Wes-FIC has participated to the extent of 16.67% in several hull and liability pools and 5% of a workers' compensation pool. In July 2009, it began to participate to the extent of 25% in an international pool. Another General Reinsurance Corporation subsidiary provides a portion of the upper-level reinsurance protection to these aviation risk pools, and therefore to Wes-FIC, on terms that could cause some conflict of interest under certain conditions, such as in settling a large loss. Wes-FIC's exposure to detrimental effects, however, is mitigated because a senior manager of NICO who represents the membership interests of Wes-FIC and unrelated pool members with an additional 75% of the hull and liability pools and 90% of the workers' compensation pool who have the same exposures to this potential conflict of interest, has access to information regarding significant losses and thus is able to address conflict issues that might arise.

Participation, since the beginning of 2008, in a retrocession agreement with NICO, to assume 10% of NICO's quota share reinsurance of Swiss Reinsurance Company and its major property-casualty affiliates (Swiss Re). Under this agreement, Wes-FIC has assumed 2% part of NICO's 20% quota share reinsurance of all Swiss Re property-casualty risks incepting over the five-year period ending December 31, 2012 on the same terms as NICO's agreement with Swiss Re. Wes-FIC's share of written premiums under the contract was \$241.1 million in 2010, giving rise to earned premiums of \$240.5 million, the latter representing 84.5% of Wes-FIC's 2010 earned premiums and 31.4% of Wesco's consolidated revenues. Annual premiums in each of the two remaining years under the contract could vary significantly depending on market conditions and opportunities. The contract expires at the end of 2012. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, beginning on page 15, for more information about the impact of Wes-FIC's participation in the Swiss Re contract.

Wes-FIC is also licensed to write direct, or primary insurance business (as distinguished from reinsurance) in Nebraska, Utah and Iowa, and may write such insurance in the non-admitted excess and surplus lines market in several other states, but the volume written to date has been minimal.

In 1996, Wes-FIC purchased 100% of KBS, which writes specialized primary insurance coverage to mostly small and medium-sized banks in the Midwest. Its product line for financial institutions includes policies for crime insurance, check kiting fraud indemnification, Internet banking catastrophe theft insurance, Internet banking privacy liability insurance, directors and officers liability, bank employment practices, and bank insurance agents professional errors and omissions indemnity.

Through the latter part of 2008, KBS also offered deposit guarantee bonds which insured bank deposits in excess of federally insured limits. Beginning in 2008, events in the banking industry led to a rapid increase in bank failures. Although few of KBS's customer banks were believed to be subject to significant risk of failure, management became less confident in the long-term profitability of this line of insurance. Following the failure of one of its customer banks in the third quarter of 2008, resulting in a loss to KBS, and thus, Wesco, of \$4.7 million, after taxes, (subsequently reduced to \$3.7 million, net, as a result of subsequent recoveries from the FDIC), KBS notified its customers of its decision to exit this line of insurance as rapidly as feasible. KBS is

Table of Contents

currently writing premiums of approximately \$10 million, annually, approximately half of the volume written before it discontinued its line of deposit guarantee bonds.

The aggregate face amount of outstanding deposit guarantee bonds has been reduced, from \$9.7 *billion* at September 30, 2008, to \$2.9 *million*, at December 31, 2010. The number of institutions with outstanding KBS bonds has been reduced from 1,671 at September 30, 2008, to one, at December 31, 2010. At the time KBS discontinued its line of deposit guarantee bonds, it was licensed to write business in 39 states, including 16 in which it wrote only deposit guarantee bonds. KBS is currently licensed to write business in 25 states. Management is hopeful that KBS's primary insurance premiums will increase, albeit slowly, in future periods.

KBS limits its loss exposure per loss event to a maximum of \$7.6 million, after taxes, by limiting the maximum amount of risk underwritten to \$30 million to any single customer or group of affiliated customers, and through the purchase of reinsurance from the Berkshire Insurance Group, at prices believed to be market prices. KBS reinsures the entire layer of losses between \$3 million and \$5 million and 65% of the entire layer above \$5 million.

In 2010, premiums of \$0.2 million were ceded to the Berkshire Insurance Group, no reinsured losses were allocated to it, and \$0.8 million of losses which had been allocated to it in prior years were recovered and repaid to it. In 2009, premiums of \$0.1 million were ceded to the Group, \$0.2 million of reinsured losses were allocated to it, and \$1.4 million of losses which had been allocated to it in 2008 were recovered and repaid to it.

KBS markets its products in some states through exclusive, commissioned agents, and directly to insureds in other states. Inasmuch as the number of small Midwestern banks is declining as the banking industry consolidates, KBS has attributed the growth in its business that occurred prior to late 2008 to an extraordinary level of service provided by its employees and agents, and to the introduction of new products, such as deposit guarantee bonds which, until KBS decided in late 2008 to exit that line of insurance, had grown to represent approximately half of its business. Internet banking catastrophe theft insurance and Internet banking privacy liability insurance, which were introduced several years ago, are steadily increasing in volume, but do not yet provide a significant amount of premium volume.

A significant marketing advantage enjoyed by the Berkshire Insurance Group, including Wesco's insurance segment, is the maintenance of exceptional capital strength. The combined statutory surplus of Wesco's insurance businesses totaled approximately \$2.8 billion at December 31, 2010. This capital strength creates opportunities, particularly at times when the reinsurance and insurance capacity available in the market is constrained, for Wes-FIC to participate in reinsurance and insurance contracts not necessarily available to many of its competitors.

Management of Wesco believes that an insurer in the reinsurance business must maintain a large net worth in relation to annual premiums in order to remain solvent when called upon to pay claims when a loss occurs. In this respect, Wes-FIC and KBS are competitively well positioned, inasmuch as their net premiums written for calendar 2010 amounted to only 10% of their combined statutory surplus, compared to an industry average of 80% based on figures reported for 2009 by A.M. Best Company, a nationally recognized statistical rating organization for the insurance industry. In 2009, Standard & Poor's Corporation reduced from AAA to AA+ the rating it assigned to Wes-FIC's claims-paying ability. This rating continues to recognize Wes-FIC's strong competitive position as a member of the Berkshire Insurance Group and its significant capital strength, as well

Table of Contents

as the commitment of Wes-FIC's management to a disciplined approach to underwriting and conservative reserving.

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, in the case of KBS, because of its business of insuring banks, 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 risk exposures that can be retained, as well as the size and types of investments that can be made.

Because it is operated by NICO, Wes-FIC has no employees of its own. KBS has 14 employees.

FURNITURE RENTAL SEGMENT

CORT is the nation's largest provider of rental furniture, accessories and related services in the rent-to-rent (as opposed to rent-to-own) segment of the furniture industry. CORT rents high-quality furniture to corporate and individual customers who desire flexibility in meeting their temporary office, residential or trade show furnishing needs, and who typically do not seek to own such furniture. In addition, CORT sells previously rented furniture through company-owned clearance centers, thereby enabling it to regularly renew its inventory and update styles. CORT's network of facilities (in 34 states, the District of Columbia and the United Kingdom (the U.K.)) comprises 85 showrooms, 75 clearance centers and 81 warehouses, as well as thirteen websites, including www.cort.com.

CORT's rent-to-rent business is differentiated from rent-to-own businesses primarily by the terms of the rental arrangements and the type of customer served. Rent-to-rent customers generally desire high-quality furniture to meet temporary needs, have established credit, and pay on a monthly basis. Typically, these customers do not seek to acquire the property on a permanent basis. In a typical rent-to-rent transaction, the customer agrees to rent furniture for a minimum of three months, subject to extension by the customer on a month-to-month basis. By contrast, rent-to-own arrangements are generally made by customers lacking established credit whose objective is the eventual ownership of the property. These transactions are typically entered into on a month-to-month basis and may require weekly rental payments.

CORT's customer base includes primarily Fortune 500 companies, small businesses, professionals, and owners and operators of apartment communities. CORT's management believes its size, national presence, brand awareness, consistently high level of customer service, product quality, breadth of selection, depth and experience of management, and efficient clearance centers have been key contributors to the company's success. CORT offers a wide variety of office and home furnishings, including commercial panel systems, televisions, housewares and accessories. CORT emphasizes its ability to furnish an apartment, home or entire suite of offices with high-quality furniture, housewares and accessories in two business days. CORT's objective is to build upon these core competencies and competitive advantages to increase revenues and market share. Key to CORT's growth strategies are:

- expanding its corporate and individual customer base;
- enhancing its ability to capture an increasing number of Internet customers through its on-line catalog and other web services;

Table of Contents

making selective acquisitions; and
continuing to develop various products and services.

In order to capitalize on the significant profit potential available from longer average rental periods and the higher average monthly rent typically available for office products, CORT's strategy is to place greater emphasis on growth in rentals of office furniture while maintaining its premier position in residential furniture rental. In order to promote longer office lease terms, CORT offers lower rates on leases when lease terms exceed six months. A significant portion of CORT's residential furniture rentals is derived from corporate relocations and temporary assignments, as new and transferred employees of CORT's corporate customers enter into leases for residential furniture. Thus, CORT offers its corporate rental customers a way to reduce the costs of corporate relocation and travel while developing residential business with new and transferred employees. CORT also provides short-term rentals for trade shows and conventions. Its www.corttradeshow.com website assists in providing information to and gathering leads from prospects.

In January 2008, CORT expanded its operation to the U.K. through the purchase of Roomservice Group, now doing business as CORT Business Services UK Ltd., a small regional provider of furniture rental and relocation services. In November 2008, CORT acquired a business division of Aaron Rents, Inc., expanding its national presence in the U.S. In 2009 and 2010, CORT made several small acquisitions of local furniture rental companies to expand its presence in select local markets.

The rent-to-rent segment of the furniture rental industry is highly competitive. There are several large regional competitors, as well as a number of smaller regional and local rent-to-rent competitors. The availability of low-priced furniture, principally from overseas manufactures, sold through online retailers is also providing additional competitive pressure. In addition, numerous retailers offer residential and office furniture under rent-to-own arrangements. It is believed that the principal competitive factors in the furniture rental industry are product value, furniture condition, the extent of furniture selection, terms of the rental agreement, speed of delivery, exchange privileges, options to purchase, deposit requirements and customer service.

CORT provides a nation-wide apartment locator service through its website www.apartmentsearch.com and customer call centers. The service is intended to supplement and lead to increased furniture rentals, and is marketed to individual renters as well as relocation departments of Fortune 2000 companies. Through its network of foreign contacts, CORT also provides such services internationally.

The majority of CORT's furniture sales revenue is derived from its clearance center sales. The remaining furniture sales revenue results principally from lease conversions and sales of new furniture. The sale of previously leased furniture allows CORT to control inventory quantities and to maintain inventory quality at showroom level. On average, furniture is typically sold through the clearance centers from three to five years after its initial purchase. With respect to sales of furniture through its clearance centers, CORT competes with numerous new and used furniture retailers, some of which are larger than CORT. Wesco management believes that price and value are CORT's principal competitive advantages.

CORT has approximately 2,100 full-time employees, including 49 union members. Management considers labor relations to be good.

Table of Contents

INDUSTRIAL SEGMENT

Precision Steel and one of its subsidiaries operate steel service centers in the Chicago and Charlotte metropolitan areas. The service centers buy stainless steel, low carbon sheet and strip steel, coated metals, spring steel, brass and other metals, cut these metals to order, and sell them to a wide variety of customers.

The steel service center business is highly competitive. Its annual sales volume of approximately 15.5 thousand tons of flat rolled products compares with the domestic steel service industry's annual volume for all shapes of products (flat rolled, bar, wire, structural, plate, tubular steel, etc.) of approximately 36 million tons. Precision Steel competes not only with large national chains and other service centers, but also with mills that supply metal to service centers, original equipment manufacturers and end-users. Sales competition exists in the areas of price, quality, availability 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.

Precision Brand Products, Inc. (Precision Brand), a wholly owned subsidiary of Precision Steel that is also located in the Chicago area, manufactures shim stock and other toolroom specialty items, and distributes a line of hose clamps and threaded rod. These products are sold under the Precision Brand and DuPage names nationwide, generally through industrial distributors. This business is highly competitive, and Precision Brand's sales represent a very small share of the market.

Steel Service raw materials are obtained principally from major domestic steel mills. Periodic scarcities of domestic supplies resulting from an ongoing tendency by domestic manufacturers to shift production abroad, consolidation and downsizing at the mill level, increasing worldwide demand for certain popular but relatively scarce imported materials, and economic cycles, have resulted in periods of intensified competition and large fluctuations in prices at all levels. Sales volume of the industrial segment, which has been declining for more than a decade, was significantly affected by the recent recession. Since late in 2009, as the economy began to strengthen, raw material supplies have been adequate and prices have been relatively stable, following more than one year during which prices declined rapidly as a result of the recession. Precision Steel's businesses are not dependent on a few large customers. The backlog of steel service orders, however, decreased to \$3.4 million at December 31, 2010 from \$3.7 million at December 31, 2009.

Precision Steel's service centers continue to focus on cost-cutting measures where feasible, while focusing on customer service and the maintenance of extensive inventories in order to meet customer demand for prompt deliveries; typically, processed metals are delivered to the customer within one or two weeks. Precision Brand normally maintains inventories adequate to allow for off-the-shelf service to customers within 24 hours.

There are 172 full-time employees engaged in the industrial segment businesses, one-third 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 include investment activity unrelated to the insurance segment, management and development of owned real property, including a multi-story luxury condominium building that MS Property is marketing, and parent company activities.

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

Table of Contents

AVAILABLE INFORMATION

Wesco's Forms 10-K, 10-Q and 8-K, and amendments thereto, as well as proxy materials, may be accessed soon after they are electronically filed with the SEC, through Wesco's website, www.wescofinancial.com, or the SEC's website, www.sec.gov.

Item 1A. Risk Factors

In addition to the factors affecting specific business operations identified in connection with the description of these operations and their financial results elsewhere in this report, we invite your attention to the considerations and risk factors described below. The risk factors could cause Wesco's actual results to differ materially from the forward-looking and other statements contained in this report and in the other periodic reports and other filings Wesco makes with the SEC, as well as in news releases, annual reports and other communications that Wesco makes from time to time. It should be noted that there are other risks facing Wesco, and that additional risks and uncertainties not presently known or that are currently deemed immaterial may also impair Wesco's business operations.

An investment in Wesco is not an investment in Berkshire Hathaway.

From time to time in the past there have been erroneous reports by an analyst or reporter that an investor wishing to purchase Berkshire common stock can instead purchase shares of Wesco. Berkshire is the parent of Wesco. Wesco's operations differ significantly from those of Berkshire, and its shares may trade at a significantly different price relative to its intrinsic value than do those of Berkshire. In addition to the risk factors affecting Wesco's operations, Berkshire has risk factors of its own. Investors wishing to have investment exposure to Berkshire cannot accomplish this by purchasing Wesco shares. They should carefully read Berkshire's published financial statements and filings with the SEC.

Wesco's investments are unusually concentrated and fair values are subject to loss in value.

Compared to other companies, Wesco keeps an unusually high percentage of its assets (principally related to its insurance businesses) in common stocks and diversifies its portfolio far less than is conventional. A significant decline in the general stock market or in the price of major investments may produce a large decrease in Wesco's shareholders equity and under certain circumstances may require the recognition of such losses in the statement of income. Decreases in values of equity investments could have a material adverse effect on Wesco's book value per share.

Wesco is dependent for its investment and all other capital allocation decisions on a few key people.

Investment decisions and all other capital allocation decisions are made for Wesco's businesses by Charles T. Munger, Chairman of the Board of Directors, President and CEO of Wesco, and Vice Chairman of the Board of Directors of Berkshire Hathaway, age 87, in consultation with Warren E. Buffett, Chairman of the Board of Directors and CEO of Berkshire Hathaway, age 80. If for any reason the services of those key personnel, particularly Mr. Buffett, were to become unavailable to Wesco, there could be a material adverse effect on Wesco. However, Berkshire's Board of Directors has agreed on a replacement for Mr. Buffett should a replacement be needed currently. Its Board continually monitors this matter and could alter its current view in the future.

Table of Contents**Wesco's Wes-FIC subsidiary is dependent upon the Berkshire Insurance Group for its management and personnel, and for opportunities to participate with the Berkshire Insurance Group in reinsurance contracts representing essentially the entirety of its reinsurance business, as well as a significant portion of its insurance business to date.**

Since the incorporation of Wes-FIC in 1985, Wesco's insurance and reinsurance business, other than that conducted by its Kansas Bankers Surety subsidiary, has been limited principally to participation with members of the Berkshire Insurance Group in contracts for the reinsurance of risks of unaffiliated property and casualty insurance companies. Wes-FIC's operations are managed by NICO, a member of the Berkshire Insurance Group; it has no employees of its own. In the event the Berkshire Insurance Group were to cease operating Wes-FIC's business or to significantly curtail Wes-FIC's participation with it in reinsurance contracts, Wes-FIC would be required to look elsewhere for personnel who would conduct and manage its operations, and/or seek to continue its insurance business in a different manner. Alternatively, in those circumstances Wes-FIC might need to significantly curtail its insurance business or cease it altogether.

Wesco's tolerance for risk in its insurance businesses may result in a high degree of volatility in periodic reported earnings.

Wes-FIC participates with members of the Berkshire Insurance Group in certain reinsurance contracts in which significant risk is periodically assumed. The Berkshire Insurance Group has indicated that it believes that it has been and continues to be willing to assume more risk than any other insurer has knowingly assumed.

As described in Item 1, Business, effective January 1, 2008, Wes-FIC entered into a quota-share retrocession agreement with NICO, a member of the Berkshire Insurance Group, to assume 10% of NICO's quota share reinsurance of Swiss Re. Under this retrocession agreement, Wes-FIC has assumed 2% part of NICO's 20% quota share reinsurance of all Swiss Re property-casualty risks 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"). This arrangement significantly increased Wes-FIC's premium volume as well as exposure to large losses, such as hurricanes, floods, earthquakes and acts of terrorism, as well as foreign exchange risk, and thus the potential for increased volatility and losses. In addition, as with all reinsurance arrangements, Wes-FIC does not control the underwriting of the primary insurer and relies on the primary insurer's reputation and judgment in deciding what underlying risks to insure.

Aside from risks assumed under the Swiss Re contract, Wes-FIC's reinsurance activities currently in force do not subject it to super-catastrophe risks. However, it has procedures in place for the immediate acceptance of participations in catastrophic excess of loss reinsurance, which could subject it to large amounts of losses from mega-catastrophes such as hurricanes or earthquakes, if offered to it by the Berkshire Insurance Group, so long as the Berkshire Insurance Group participates in such reinsurance activities to a greater degree. The tolerance for significant risks may in certain future periods result in significant losses. This policy may result in a high degree of volatility in Wesco's periodic reported earnings.

The degree of estimation error inherent in the process of estimating property and casualty insurance loss reserves may result in a high degree of volatility in periodic reported earnings.

In the insurance business, premiums are charged today for promises to pay covered losses in the future. The principal cost associated with premium revenue is claims. However, it will literally take decades before all losses that have occurred as of the balance sheet date will be reported and settled. Although Wesco believes that loss reserve balances are adequate to cover losses, Wesco will not truly know whether the premiums charged for

Table of Contents

the coverages provided were sufficient until well after the balance sheet date. Wesco's objective is to generate underwriting profits over the long term. Estimating insurance claim costs is inherently imprecise. Wesco's reserve estimates are large (\$408.4 million at December 31, 2010), so adjustments to reserve estimates can have a material effect on periodic reported earnings.

Each of Wesco's operating businesses faces intense competitive pressures.

Each of Wesco's operating businesses faces intense competitive pressures within its respective markets. Such competition may come from domestic and international operators. While Wesco's businesses are managed with the objective of achieving sustainable growth over the long term through developing and strengthening competitive advantages, many factors, including market changes and technology, could erode or impede those competitive advantages or prevent their strengthening. Accordingly, future operating results will depend to some degree on whether the operating units are successful in protecting or enhancing their competitive advantages.

Unfavorable economic conditions could hurt Wesco's operating businesses.

Wesco's operating businesses are subject to normal economic cycles affecting the economy in general and the industries in which they operate. To the extent that the current weak economic environment continues for a prolonged period of time, one or more of Wesco's significant operations could be materially harmed.

Berkshire and Wesco have entered into a merger agreement. In the event the merger does not close, there could be an adverse effect on the trading price of Wesco's capital stock.

On February 7, 2011, Wesco and Berkshire announced that they had entered into a definitive merger agreement, whereby Berkshire will acquire the remaining 19.9% of the shares of Wesco's capital stock that it does not presently own in exchange for cash or shares of Berkshire Class B common stock, at the election of each Wesco shareholder. The trading price of Wesco's capital stock on the NYSE Amex increased upon the public announcement of Berkshire's original offer to acquire the remaining Wesco shares, and it increased again upon public announcement of the execution of the merger agreement. In the event a transaction does not occur, there could be an adverse effect on the trading price of Wesco's capital stock.

In addition to the foregoing risk factors inherent in Wesco's operations, Wesco's shareholders face a market liquidity risk because the daily trading volume of Wesco's shares on NYSE Amex is relatively low.

In addition to the risks facing Wesco in its business operations, investors wishing to purchase or sell shares of its capital stock face market price risks because the daily NYSE Amex trading volume of Wesco's shares is relatively low. An order for the purchase or sale of a large number of Wesco shares could significantly affect the price at which the order is executed.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

CORT leases 16,212 square feet of office space in a multistory office building in Fairfax, Virginia, which it uses as its headquarters under a lease which will expire in 2012.

CORT carries out its rental, sales and warehouse operations in metropolitan areas in 34 states, the District of Columbia and the U.K. through 148 facilities, of which 15 were owned and the remaining were leased as of December 31, 2010. The leased facilities' lease terms expire at dates ranging from 2011 to 2021. CORT has generally been able to extend expiration dates of its leases or obtain suitable alternative facilities on satisfactory terms. As leases expire, CORT has been eliminating redundant locations and decreasing the size of its showrooms, which as of yearend 2010 ranged in size from 1,200 to 10,388 square feet of floor space. Where locations are desirable, its management has been attempting to combine rental, clearance and warehouse operations rather than retain separate showrooms, because business and residential customers have been increasingly using the Internet. CORT regularly reviews the presentation and appearance of its furniture showrooms and clearance centers and periodically improves or refurbishes them to enhance their attractiveness to customers.

MS Property owns a business block in Pasadena, California situated between the city hall and a large shopping mall. The block's improvements include a nine-story office building that was constructed in 1964 and has approximately 125,000 square feet of rentable area, and a multistory garage with space for 420 vehicles. 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 at market rental rates. The remaining space is almost fully leased to outside parties, including Citibank (the ground floor tenant), law firms and others, under agreements expiring at dates extending to 2017.

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

KBS leases 5,100 square feet of office space in an office building in Topeka, Kansas under a lease that expires in 2012.

Precision Steel and its subsidiaries own three buildings housing their plant and office facilities, with 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

Two lawsuits were filed on February 8, 2011 by plaintiffs claiming to be Wesco shareholders challenging the transactions contemplated by the merger agreement between Berkshire and Wesco. Both of the lawsuits name Wesco, Wesco's directors, Berkshire and Montana Acquisitions, LLC as defendants. One of them also names Blue Chip and Wesco's Chief Financial Officer as defendants. One of the actions was filed in Delaware Chancery Court and the other in Los Angeles Superior Court. Both purport to be class actions on behalf of Wesco shareholders.

The Delaware action is styled *Joel Krieger v. Wesco Financial Corporation, et al.* The Los Angeles action is styled *James Kinsey v. Wesco Financial Corporation, et al.* The lawsuits allege, among other things, that Wesco's directors have breached their fiduciary duties based on allegations that (i) the consideration being offered is unfair and inadequate, (ii) statements in Wesco's annual reports comparing its prospects for growth with those of Berkshire have been unduly unfavorable to Wesco, and (iii) the Wesco directors' approval of the

Table of Contents

proposed merger was tainted by conflicts of interest between Berkshire and the non-Berkshire shareholders of Wesco in breach of the Board's fiduciary duties. The lawsuits also allege that Berkshire and its affiliates violated fiduciary duties owed by a majority shareholder and/or aided and abetted the alleged breaches by Wesco's directors. The plaintiffs seek various remedies, including enjoining the transaction from being consummated in accordance with the agreed-upon terms. The defendants intend to defend against these and any additional actions asserting similar claims that may be brought in the future.

Wesco and its subsidiaries are not otherwise involved in any legal proceedings the ultimate outcomes of which are expected to be significant to Wesco.

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

Reserved.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Wesco's capital stock is listed on the NYSE Amex, owned and operated by NYSE Euronext, a holding company also owning the New York Stock Exchange.

The following table sets forth quarterly ranges of composite prices for trading of Wesco shares for 2010 and 2009, based on data reported by Bloomberg LP, as well as cash dividends paid by Wesco on each outstanding share:

<u>Quarter Ended</u>	2010			2009		
	Sales Price		Dividends Paid	Sales Price		Dividends Paid
	High	Low		High	Low	
March 31	\$416	\$342	\$0.41	\$309	\$208	\$ 0.395
June 30	408	319	0.41	323	269	0.395
September 30	387	318	0.41	328	285	0.395
December 31	373	352	0.41	354	313	0.395
			\$1.64			\$ 1.580

There were approximately 400 shareholders of record of Wesco's capital stock as of the close of business on February 15, 2011. It is estimated that approximately 10,700 additional Wesco shareholders held shares of Wesco's capital stock in street name at that date.

Wesco did not purchase any of its own equity securities during 2010.

Table of Contents**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 2010 consolidated financial statements appearing in Item 8 of this report. (Amounts are in thousands except for amounts per share.)

	2010	2009	December 31, 2008	2007	2006
Assets:					
Cash and cash equivalents	\$ 472,569	\$ 273,671	\$ 297,643	\$ 526,722	\$ 1,257,351
Investments					
Securities with fixed maturities	235,193	229,872	28,656	38,600	81,861
Equity securities	2,272,253	2,065,627	1,868,293	1,919,425	1,040,550
Accounts receivable	37,191	37,983	57,489	42,841	37,204
Receivable from affiliates	170,852	173,476	133,396	36,671	23,182
Rental furniture	177,680	177,793	217,597	178,297	182,846
Goodwill of acquired businesses	277,514	277,590	277,742	266,607	266,607
Other assets	148,692	165,414	169,879	103,846	80,704
Total assets	\$ 3,791,944	\$ 3,401,426	\$ 3,050,695	\$ 3,113,009	\$ 2,970,305
Liabilities:					
Insurance losses and loss adjustment expenses					
Affiliated business	\$ 371,805	\$ 290,375	\$ 164,424	\$ 39,687	\$ 29,761
Unaffiliated business	36,579	53,091	50,844	54,158	48,549
Unearned insurance premiums					
Affiliated business	112,019	110,477	94,544	15,041	14,062
Unaffiliated business	9,545	11,516	13,251	15,225	15,298
Deferred furniture rental income and security deposits	8,269	11,846	17,674	19,947	20,440
Accounts payable and accrued expenses	73,500	54,537	61,145	49,476	48,258
Notes payable	51,200	28,200	40,400	37,200	38,200
Income taxes payable, principally deferred	363,310	290,667	230,657	347,416	355,399
Total liabilities	\$ 1,026,227	\$ 850,709	\$ 672,939	\$ 578,150	\$ 569,967
Shareholders' equity:					
Capital stock and additional paid-in capital	\$ 33,324	\$ 33,324	\$ 33,324	\$ 33,324	\$ 33,324
Accumulated other comprehensive income					
Unrealized appreciation of investments, net of taxes	438,918	284,051	154,660	381,017	344,978
Foreign currency translation adjustments, net of taxes	(1,553)	(1,151)	(1,897)		

Edgar Filing: WESCO FINANCIAL CORP - Form 10-K

Retained earnings	2,295,028	2,234,493	2,191,669	2,120,518	2,022,036
Total shareholders equity	\$ 2,765,717	\$ 2,550,717	\$ 2,377,756	\$ 2,534,859	\$ 2,400,338
Per capital share	\$ 388.45	\$ 358.26	\$ 333.96	\$ 356.03	\$ 337.14

Table of Contents

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Revenues:					
Furniture rentals	\$ 309,439	\$ 312,234	\$ 340,162	\$ 327,671	\$ 324,300
Sales and service revenues	106,278	106,342	130,753	129,861	139,058
Insurance premiums earned					
Affiliated business	272,223	307,560	218,094	35,530	32,643
Unaffiliated business	12,294	15,661	19,870	18,881	21,506
Dividend and interest income	75,807	67,458	79,079	90,872	84,504
Realized net investment gains	6,541		7,006	24,240	
Other-than-temporary impairment losses on investments	(21,021)				
Other	4,142	4,076	3,990	3,869	3,716
	765,703	813,331	798,954	630,924	605,727
Costs and expenses:					
Cost of products and services sold	124,245	130,992	149,319	143,282	154,218
Insurance losses and loss adjustment expenses					
Affiliated business	182,925	198,853	151,308	24,008	21,401
Unaffiliated business	(2,669)	14,454	20,892	4,269	9,944
Insurance underwriting expenses					
Affiliated business	82,059	92,857	63,156	8,019	7,566
Unaffiliated business	5,525	5,946	7,135	7,284	7,294