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WESCO FINANCIAL CORPORATION

Annual Report 1994

Form 10-K Annual Report 1994

WESCO FINANCIAL CORPORATION
LETTER TO SHAREHOLDERS

To Our Shareholders:

Consolidated "normal" net operating income (i.e., before irregularly occurring items shown in the table below) for the calendar year 1994 increased to $24,659,000 ($3.46 per share) from $20,382,000 ($2.87 per share) in the previous year.

Consolidated net income (i.e., after irregularly occurring items shown in the table below) decreased to $18,972,000 ($2.66 per share) from $19,718,000 ($2.77 per share) in the previous year.

Wesco in 1994 had two major subsidiaries: Wesco-Financial Insurance Company ("Wes-FIC"), headquartered in Omaha and engaged principally in the reinsurance business and in indirect real estate lending following its statutory merger with Mutual Savings on January 1, 1994, and Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts)[1]:

	Year Ended			
	December 31, 1994		December 31, 1993	
	Amount	Per Wesco Share	Amount	Per Wesco Share
"Normal" net operating income of:				
Wes-FIC business	$21,582	$3.03	$12,434	$1.75
Precision Steel businesses	2,900	.40	2,189	.31
Mutual Savings	—	—	2,458	.35
All other "normal" net operating income[2]	177	.03	3,301	.46
	24,659	3.46	20,382	2.87
Gain on sales of marketable securities	163	.02	1,156	.16
Decline in value of USAir preferred stock	(5,850)[3]	(.82)	—	—
Unusual income tax charges	—	—	(1,109)[4]	(.16)
Gain on disposition of Mutual Savings' deposits and some loans	—	—	906	.13
Loss on disposition of 80% interest in New America Electrical Corporation	—	—	(1,617)	(.23)
Wesco consolidated net income	$18,972	$2.66	$19,718	$2.77

(1) All figures are net of income taxes.

(2) After deduction of interest and other corporate expenses and, in 1994, costs and expenses associated with delinquent loans and foreclosed real estate previously charged against Mutual Savings. Income was from ownership of the Wesco headquarters office building, primarily leased to outside tenants, interest and dividend income from cash equivalents and marketable securities owned outside the savings and loan and insurance subsidiaries, and the electrical equipment manufacturing business, 80%-owned by Wesco through June 30, 1993.

(3) Represents writedown of investment in preferred stock of USAir Group, Inc., explained in section "Convertible Preferred Stockholdings" below.

(4) Consists principally of effect of tax rate change on deferred tax on unrealized appreciation of investments.

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

Mutual Savings and its Successors

On October 8, 1993, Mutual Savings closed the sale covered by its contract, previously made and announced, with CenFed Bank ("CENFED"), a highly regarded, insured institution also headquartered in Pasadena. In part, this buyer had been chosen to take over Mutual Savings' offices because it was considered likely to serve depositors safely and well.

In the closing of the transaction, Mutual Savings transferred to CENFED that part of Mutual Savings' liabilities (principally insured deposit liabilities) which was causing Mutual Savings to pay substantial deposit-insurance premiums in exchange for remaining a highly regulated savings and loan association. Also transferred to CENFED were some mortgage loans and a large amount of cash offset by deposits assumed.

At roughly the same time, Mutual Savings transferred certain troubled assets to MS Property Company ("MS Property"), a newly organized Wesco real estate subsidiary that is slowly liquidating those assets. The 1994 yearend balances on MS Property's books of those transferred assets were:

(1) the unsold residue (with a book value of $18.8 million) of Mutual Savings' now-slow-selling residential real estate project, created in an attempt to maximize proceeds from foreclosed mostly-seaside land in the Montecito district of Santa Barbara, California, plus

(2) other foreclosed real estate and troubled first mortgage loans on houses, with a combined book value of $8.3 million.

On January 1, 1994, after its transfer of troubled assets to MS Property, Mutual Savings merged into Wesco's long-existing Omaha-domiciled insurance subsidiary, Wes-FIC, thus causing continuation of Mutual Savings' business and continued business holding of its main assets by Wes-FIC. Assets thus transferred incident to the merger with Wes-FIC consisted mostly of 7.2 million shares of Federal Home Loan Mortgage Corporation ("Freddie Mac") with a cost of $71.7 million and a 1994 yearend market value of $363.6 million (based on the 1994 yearend NYSE quotation of $50.50 per Freddie Mac share), plus approximately $30 million of high quality mortgage-backed securities.

Accordingly, 1993 was the last year in which Wesco reported any earnings from the savings and loan business. Beginning in 1994 roughly all former savings and loan business earning power augments reported results of Wesco's Wes-FIC subsidiary, now greatly enlarged in net worth.

An after-tax gain of $906,000 ($.13 per Wesco share) was realized in the transaction between Mutual Savings and CENFED. As part of this transaction Wesco loaned CENFED's parent corporation $4 million for three years at a market rate of interest and made some guarantees of loan quality. Also, CENFED leased from Wesco for 15 years at a market rental rate the ground floor space formerly occupied by Mutual Savings in Wesco's retained headquarters building, formerly named the "Mutual Savings Building" and now renamed the "CenFed Bank Building" pursuant to terms of the lease. And, later, the building was transferred by Wesco to MS Property.

The building, with its new name, is shown in the photograph at the front of this annual report.

Because all failures and faults deserve extra attention in annual reports, we hereby repeat what we emphasized last year: It is not only Wes-FIC that has succeeded to former assets of Mutual Savings. As indicated above, Wesco still retains a recently formed real estate subsidiary that, mostly, it does not want. The subsidiary, MS Property, both (1) holds and operates Wesco's office and parking property in Pasadena, California and (2) continues liquidation of the $27.1 million (at yearend 1994 book value) of assets heretofore described that were neither transferred to CENFED nor left in Mutual Savings when it was merged into Wes-FIC. The liquidation part of the game is occurring in a poor climate for liquidations. The California real estate crash has been no small crash, and it has taken a large toll on values. MS Property took a $3.0 million pre-tax writedown of the residue of Mutual Savings' Montecito residential real estate project during 1994, following a $2.0 million pre-tax writedown taken by Mutual Savings in 1993. Our best guess is that Wesco will eventually (and slowly) realize, from all real estate assets of MS Property combined, (1) more than present book value (after the two writedowns) but (2) less than such present book value plus interest imputed at a market rate, after corporate taxes.

Generally, real estate holding, and even real estate development, when conducted in publicly held corporate form, subject to corporate income taxes, has a very poor record for serving shareholders well. This occurs because the real estate game, in which most market values are set in transactions involving people who are not paying corporate income taxes and many of whom pay virtually no taxes at all, is not ordinarily lucrative enough to create a decent return for persons in the same game, disadvantaged by a level of corporate taxes. We continue to have no antidote for the share of this general investment disadvantage now being borne by Wesco shareholders. But, fortunately, it affects only a very small percentage of Wesco's consolidated assets.

Precision Steel

The businesses of Wesco's Precision Steel subsidiary, headquartered in the outskirts of Chicago at Franklin Park, Illinois, contributed $2,900,000 to normal net operating income in 1994, compared with $2,189,000 in 1993.

Under the skilled leadership of David Hillstrom, Precision Steel's businesses in 1994 continued to provide an excellent return on resources employed.

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

Wes-FIC's normal net income for 1994 was $21,582,000, up significantly from $12,434,000 for 1993. The earnings on the assets contributed in the merger with Mutual Savings at the beginning of 1994 were responsible for the greater part of this increase.

At the end of 1994 Wes-FIC retained about $35 million in invested assets, offset by claims reserves, from its former reinsurance arrangement with Fireman's Fund Group. This arrangement was terminated August 31, 1989. However, it will take a long time before all claims are settled, and, meanwhile, Wes-FIC is being helped over many years by proceeds from investing "float."

In last year's annual report we informed shareholders that Wes-FIC had entered into the business of super-catastrophe ("super-cat") reinsurance through retrocessions from National Indemnity Company ("NICO"), a wholly owned insurance company subsidiary of Berkshire Hathaway, Wesco's ultimate parent. Wes-FIC's entry into the super-cat reinsurance business followed the large augmentation of its claims-paying capacity caused by its merger with Mutual Savings. In 1994, in recognition of Wes-FIC's sound financial condition, Standard and Poor's Corporation assigned to Wes-FIC the highest possible claims-paying-ability rating: AAA.

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

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

(3) Wes-FIC pays a fair ceding commission designed to cover part of the cost of getting and managing insurance business.

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

Given Berkshire Hathaway's unwillingness to make plain giveaways to Wes-FIC and reductions in opportunities in the super-cat reinsurance market in recent years, prospects are often poor for Wes-FIC's acquisition of retroceded super-cat reinsurance. Nonetheless, in February 1994, Wes-FIC was offered by NICO participations in four very unusual super-cat reinsurance contracts. Considering its other exposures to the same risks, NICO was willing to retrocede to Wes-FIC 20% of what was then available to NICO under each contract in return for a ceding commission amounting to 3% of Wes-FIC's premiums to be received. The remaining 80% of the risk was to be retained by NICO. A little later, a fifth retrocession was offered: 10% of a one-year NICO property loss contract with a maximum loss amount of $50 million. The annual premium is 5% of the maximum possible loss. Then, in June, a sixth contract became available.

Wes-FIC promptly accepted all of these six unusual super-cat reinsurance participations offered by NICO.

In the first four contracts, in aggregate, Wes-FIC thus became exposed, during a single year, to either winning about $4 million pre-tax or losing about $20 million pre-tax. In addition, there is some slight possibility of a huge "long tail" loss for Wes-FIC and NICO many years after the four contracts end, because a minority part of the insurance is liability insurance written on an "occurrence" basis. This is not the first time such "long tail" risks have been accepted by Wes-FIC. There are also, it should be remembered, possibilities for unpleasant surprises involving similar possible large "long tail" losses, many years hence, from Wes-FIC's long-terminated reinsurance arrangement with Fireman's Fund Group. Wes-FIC, now as then, is willing to run such "long tail" risks, carefully weighed against prospects for gain, provided it is much better capitalized than other insurance companies more influenced by animal spirits and institutional momentums.

In the fifth super-cat retrocession to Wes-FIC from NICO, which covers only property loss, there is no possibility of a surprising "long tail" loss. However, for the year covered, Wes-FIC has a very small chance of losing $5 million pre-tax, while it can gain only $250,000, less 3%, leaving Wes-FIC's net proceeds $242,500, pre-tax.

In the sixth retrocession from NICO, Wes-FIC is participating to the extent of 5% in a $400 million contract with 20th Century Industries, a California insurer currently attempting to recover from devastating effects of the Northridge, California earthquake. The amount of reinsurance under the contract (covering what is mostly earthquake risk) is declining monthly over the term, expiring early in 1995, as 20th

Century withdraws from the homeowners and earthquake insurance markets in California. Wes-FIC could earn a premium of approximately $1 million in 1995 under the contract.

Needless to say, NICO does not believe that the average yearly loss to be expected from writing over many years a great series of super-cat reinsurance contracts like those it has retroceded in part to Wes-FIC would be as high as the one-year premiums to be received. But such super-cat reinsurance, like other super-cat reinsurance, is not for the faint of heart. A huge variation in annual results, with some very unpleasant years, is inevitable.

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

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

Finally, we repeat an important disclosure about Wes-FIC's super-cat-reinsurance-acquisition mechanics. It is impractical to have people in California make complex accept-or-reject decisions for Wes-FIC when retrocessions of reinsurance are offered by Berkshire Hathaway insurance subsidiaries. But, happily, the Berkshire Hathaway insurance group executives making original business-acquisition decisions are greatly admired and trusted by the writer and will be "eating their own cooking." Under such circumstances, Wesco's and Wes-FIC's boards of directors, on the writer's recommendation, have simply approved automatic retrocessions of reinsurance to Wes-FIC as offered by one or more wholly owned Berkshire Hathaway subsidiaries. Each retrocession is to be accepted forthwith in writing in Nebraska by agents of Wes-FIC who are at the same time salaried employees of wholly owned subsidiaries of Berkshire Hathaway. Moreover, each retrocession will be made at a

3%-of-premiums ceding commission. Finally, two conditions must be satisfied: (1) Wes-FIC must get 20% or less of the risk (before taking into account effects from the ceding commission) and (2) wholly owned Berkshire Hathaway subsidiaries must retain at least 80% of the identical risk (again, without taking into account effects from the ceding commission).

We will not ordinarily describe individual super-cat reinsurance contracts in full detail to Wesco shareholders. That would be contrary to our competitive interest. Instead, we will try to summarize reasonably, more or less as we have done here.

Will more reinsurance be later available to Wes-FIC through Berkshire Hathaway subsidiaries on the basis and using the automatic procedure we have above described? Well, we have often proved poor prognosticators. We can only say that we hope so and that more reinsurance should come, albeit irregularly and with long intermissions, if buyers of super-cat coverage are rational.

We continue to examine other possible insurance-writing opportunities, and also insurance company acquisitions, not involving Berkshire Hathaway.

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

On super-cat reinsurance accepted by Wes-FIC to date (March 9, 1995) there has been no loss whatsoever that we know of. However, no underwriting profit flowed through Wesco's books in 1994 because none of its super-cat contracts expired in 1994, and our accounting policy requires contract expiration before super-cat underwriting profit is recognized. Needless to say, we would not have similar reticence to report losses before contract expirations. Our super-cat accounting policy is not irrationally super-conservative, although it may amount to "best-practice" accounting.

All Other "Normal" Net Operating Income

All other "normal" net operating income, net of interest paid and general corporate expenses, decreased to $177,000 in 1994 from $3,301,000 in 1993. Sources were (1) rents ($3,050,000 gross) from Wesco's Pasadena office property (leased almost entirely to outsiders and with CENFED as the ground floor tenant), and (2) interest and dividends from cash equivalents and marketable securities held outside the insurance subsidiary, mostly offset in 1994 by certain costs and expenses that had not previously been charged against this category — namely, the costs and expenses of liquidating the delinquent loans and foreclosed real estate, including additions to loss reserves, that in prior years had been charged against Mutual Savings. The 1994 figure also includes an intercompany charge for interest expense ($826,000 after taxes) on borrowings from Wes-FIC made late in 1993 principally to facilitate the transfer of loans and foreclosed properties to MS Property. This intercompany *interest expense* does not affect Wesco's consolidated net income inasmuch as the same amount is included as *interest income* in Wes-FIC's normal net operating income.

Net Securities Gains and Losses

Wesco's earnings in 1994 contain securities gains of $163,000, after income taxes, and also reflect the after-tax effect of a writedown of an investment in preferred stock of USAir Group, Inc. by $5,850,000, described in the section Convertible Preferred Stockholdings below. Earnings for 1993 include securities gains of $1,156,000, after income taxes.

Convertible Preferred Stockholdings

At the end of 1994, Wesco and its subsidiaries owned $135 million, at original cost, in convertible preferred stocks, all requiring redemption at par value within ten years or so from date of acquisition.

The investments are carried on Wesco's consolidated balance sheet at fair market value and, with the exception of the investment in preferred stock of USAir Group, Inc. ("USAir"), any differences between historical cost and market value are included in shareholders' equity, net of income tax effect, without affecting reported net income, according to accounting convention. The investment in USAir, however, was written down to fair market value effective at 1994 yearend, and the resulting $5.9 million after-tax loss on the writedown, is shown as a separate charge on Wesco's accompanying 1994 statement of income. Following is a summary of these investments:

Security	Preferred Dividend Rate	Par Value of Holding	Conversion Price at Which Par Value May Be Exchanged for Common Stock	Market Price of Common Stock on 12/31/94	12/31/94 Yearend Carrying Value of Holding
Salomon Inc	9.00%	$100 Million	$38.00	$37.50	$ 105 Million
USAir Group, Inc.	9.25%	12 Million	38.74	4.25	3 Million
Champion International Corporation	9.25%	23 Million	38.00	36.50	24.2 Million

These preferred stocks were purchased at the same time Wesco's parent corporation, Berkshire Hathaway, purchased additional amounts of the same stocks at the same price per share.

In previous years we noted that "few, if any, investors have ever prospered mightily from investing in convertible preferred stocks of leading corporations." Our three holdings at yearend 1994 appear to bear this out. We estimate that (1) our $100 million Salomon holding was worth about 5% more than we paid for it, and (2) our $23 million Champion holding was worth about 5% more than we paid for it. These figures when combined created $6.2 million in pre-tax *appreciation*, versus the $9 million pre-tax *loss* just recorded on our investment in USAir. Readers should bear in mind, however, that Wesco's experience to date has been good in an investment in convertible preferred stock of The Gillette Company, made in 1989 at cost of $40 million, and converted into Gillette common stock in 1991. This investment is carried at a $119.8 million yearend market value in Wesco's consolidated 1994 balance sheet, $79.8 million higher than the investment cost. However, even with the good Gillette experience factored in, our overall investment returns from convertible preferred stockholdings have been unexciting, just as we have predicted.

New America Electrical Corporation ("New America Electric")

It was not just Wesco's savings and loan privileges that left our corporate fold in 1993. New America Electric, of which Wesco has owned about 80% since 1988, sold its business in 1993 to a long-established and high-quality Midwestern firm engaged in similar businesses. During 1993, Wesco's share of net loss was $192,000 for the six-month period preceding sale of the business, and Wesco realized an additional after-tax loss of $1.6 million ($.23 per Wesco share) on final disposition of its interest.

The sale decision was made entirely by Glen Mitchel, New America Electric's CEO and 20% owner, who did not wish to wait for an eventual upturn in commercial construction after years of enduring a worst-since-the-1930s business climate to which he had adjusted through several painful downsizings. The bad timing of Wesco in entering the electrical equipment field when it did was entirely the result of misjudgment by the writer, caused by a strong, near-lifelong preference for predicting relative consequences from business and human quality while not attempting to predict business cycles.

Considering the very hostile business climate we later encountered, New America Electric's business was always run extremely well by Glen Mitchel, and his dedication and skill prevented us from losing much more than we did. The writer caused Wesco's loss, not Glen Mitchel.

The foregoing comments were repeated verbatim from Wesco's 1993 report. The writer, as a minority selling shareholder of New America Electric, realized his pro rata share of profit made by all selling shareholders when Wesco bought 80% of New America Electric in 1988 in a transaction approved by Warren Buffett, Berkshire Hathaway's chairman, and non-Munger directors of Wesco, none of whom owned any shares in New America Electric. Under these circumstances, it is only fitting that the writer's nose be again publicly rubbed in the ensuing bad result for Wesco.

Consolidated Balance Sheet And Related Discussion

As indicated in the accompanying financial statements, Wesco increased its net worth, as accountants compute it under their conventions, to $678.1 million at yearend 1994, or about $95 per Wesco share, from $626.1 million at yearend 1993.

The $52 million increase in reported net worth in 1994 was the result of three factors: (1) $36.5 million resulting from continued net appreciation of investments after provision for future taxes on capital gains; (2) $12.0 million from retention of 1994 net income after deduction of dividends paid; (3) $3.5 million resulting from our decision at the beginning of 1994 to conform our accounting for investments in securities with fixed maturities to our accounting for marketable equity securities, with the result that we now carry them on the consolidated balance sheet at market value.

The foregoing \$95-per-share book value approximates liquidation value assuming that all Wesco's non-security assets would liquidate, after taxes, at book value. Probably, this assumption is too conservative. But our computation of liquidation value is unlikely to be too low by more than a couple of dollars per Wesco share, because (1) the liquidation value of Wesco's consolidated real estate holdings (where interesting potential now lies almost entirely in Wesco's equity in its office property in Pasadena) is now far below its former high, and (2) unrealized appreciation in other assets (primarily Precision Steel) cannot be large enough, in relation to Wesco's overall size, to change very much the overall computation of after-tax liquidating value.

Of course, so long as Wesco does not liquidate, and does not sell any appreciated assets, it has, in effect, an interest-free "loan" from the government equal to its deferred income taxes on unrealized gains, subtracted in determining its net worth. This interest-free "loan" from the government is at this moment working for Wesco shareholders and amounted to about \$27 per Wesco share at yearend 1994.

However, some day, perhaps soon, major parts of the interest-free "loan" must be paid as assets are sold. Therefore, Wesco's shareholders have no perpetual advantage creating value for them of \$27 per Wesco share. Instead, the present value of Wesco's shareholders' advantage must logically be much lower than \$27 per Wesco share. In the writer's judgment, the value of Wesco's advantage from its temporary, interest-free "loan" was probably about \$9 per Wesco share at yearend 1994.

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

Thus, if the value of the advantage from the interest-free tax-deferral "loan" present was \$9 per Wesco share at yearend 1994, and after-tax liquidating value was then about \$95 per share (figures that seem plenty high to the writer), Wesco's intrinsic value per share would become only about \$104 per share at yearend 1994, up 4% from intrinsic value as guessed in a similar calculation at the end of 1993.

And, finally, this reasonable-to-this-writer, \$104-per-share figure for intrinsic per share value of Wesco stock should be compared with the \$115.12 per share price at which Wesco stock was selling on December 31, 1994. This comparison indicates that Wesco stock was then selling about 11% above intrinsic value.

Business and human quality in place at Wesco continues to be not nearly as good, all factors considered, as that in place at Berkshire Hathaway. In this connection, it should be noted that the writer caused or helped cause not only Wesco's New America Electric loss but also (1) what will now plainly turn out to be a bad financial result, opportunity cost considered, from development of foreclosed mostly-seaside land in the Montecito district of Santa Barbara and (2) some recent losses from boom-time mortgage loans on residences. Wesco, under the writer's leadership, has managed to be clobbered in three different ways by the California real estate crash, albeit in categories employing a very small portion of Wesco's assets.

Wesco is not an equally-good-but-smaller version of Berkshire Hathaway, better because its small size makes growth easier. Instead, each dollar of book value at Wesco continues plainly to provide much less intrinsic value than a similar dollar of book value at Berkshire Hathaway.

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

On January 18, 1995 Wesco increased its regular dividend from 24½ cents per share to 25½ cents per share, payable March 8, 1995, to shareholders of record as of the close of business on February 8, 1995.

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

Charles T Munger

Charles T. Munger
Chairman of the Board

March 9, 1995