

WESCO FINANCIAL CORP

Form DEF 14A

March 30, 2006

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SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(AMENDMENT NO. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Definitive Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Additional Materials
 Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

WESCO FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- Fee not required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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0 Fee paid previously with preliminary materials.0 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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Registration
Statement No.:

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(4) Date Filed:

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WESCO FINANCIAL CORPORATION
301 EAST COLORADO BOULEVARD, SUITE 300, PASADENA, CALIFORNIA 91101-1901
(626) 585-6700

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 11, 2006**

The annual meeting of shareholders of Wesco Financial Corporation (Wesco) will be held at the Hilton Pasadena, 168 South Los Robles Avenue, Pasadena, California 91101, on Thursday, May 11, 2006 at 2:00 p.m. for the following purposes:

1. To elect six directors to hold office until the next annual meeting of shareholders or until their respective successors shall have been duly elected and qualified.

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed March 15, 2006, as of the close of business, as the record date for the determination of shareholders entitled to this notice and to vote at such annual meeting or any adjournment or adjournments thereof. A list of the shareholders as of such record date will be open to examination by any shareholder for any purpose germane to the meeting during ordinary business hours at Wesco s principal office at 301 East Colorado Boulevard, Suite 300, Pasadena, California for a period of at least ten days prior to May 11, 2006.

All shareholders are requested to complete, sign and date the enclosed form of proxy promptly and return it in the accompanying postage-prepaid, self-addressed envelope, whether or not they expect to attend the meeting, to assure that their shares will be represented. Any shareholder giving a proxy has the right to revoke it at any time before it is voted at the meeting.

By Order of the Board of Directors

Margery A. Patrick
Secretary

Pasadena, California
March 30, 2006

IMPORTANT

Whether or not you expect to attend the annual meeting, please complete, sign and date the enclosed form of proxy and return it promptly in the enclosed envelope.

Requests for additional copies of this combined Notice and Proxy Statement should be mailed to Margery A. Patrick, Secretary, Wesco Financial Corporation, at the above address, or faxed to her at (626) 449-1455.

As stated above, Wesco s annual shareholders meeting will be held at the Hilton Pasadena, 168 South Los Robles Avenue (corner of Cordova Street), in Pasadena, California, at 2:00 p.m., on Thursday, May 11, 2006. The Hilton s adjoining parking structure may be accessed from Cordova Street, which runs east-west to the south of the hotel.

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WESCO FINANCIAL CORPORATION
301 EAST COLORADO BOULEVARD, SUITE 300, PASADENA, CALIFORNIA 91101-1901
(626) 585-6700

**PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
MAY 11, 2006**

This proxy statement (Proxy Statement) is furnished in connection with the solicitation by the board of directors of Wesco Financial Corporation (Wesco) of proxies to be voted at the May 11, 2006 annual meeting of the shareholders of Wesco (Annual Meeting). This Proxy Statement is expected to be mailed to shareholders on or about March 22, 2006, together with Wesco s combined annual report to shareholders and annual report to the Securities and Exchange Commission (SEC) on Form 10-K for the calendar year ended December 31, 2005.

PROXIES AND REVOCATION

The shares represented by each properly executed, unrevoked form of proxy received in time for the meeting will be voted in accordance with the instructions contained therein. Any shareholder giving a proxy has the power to revoke it at any time before it is voted at the meeting by filing with the Secretary of Wesco at 301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901, a written revocation or a properly executed proxy bearing a later date, or by voting in person at the meeting.

Wesco intends to solicit proxies principally by the use of the mail. It will also request banks, brokerage firms and other custodians, nominees and fiduciaries to forward copies of the form of proxy and Proxy Statement to persons for whom they hold stock of Wesco and request authority for the execution of proxies. Wesco will reimburse such banks, brokerage firms and other custodians, nominees and fiduciaries for their actual expenditures incurred in connection therewith at not higher than usual and customary rates; facsimile transmissions are not considered necessary, and expenditures related thereto will not be reimbursed. Officers of Wesco may solicit proxies to a very limited extent by telephone, but without incremental cost to Wesco, except for actual out-of-pocket communication charges, which are expected to be insignificant. Thus, the cost of soliciting proxies will be paid by Wesco.

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ELECTION OF DIRECTORS

At the Annual Meeting, the six nominees for Director receiving the highest number of affirmative votes will be elected Wesco directors (Directors). Each elected Director shall serve until the election and qualification of his or her respective successor (expected to be at the annual meeting to be held in May 2007) or upon earlier resignation (not currently anticipated). Each nominee currently serves as a Director and has been nominated by Wesco's Board of Directors (the Board). Set forth below for each nominee is his or her principal occupation, business experience during at least the past five years, age, and certain other information.

CHARLES T. MUNGER, age 82, has been a Director since 1973, and Chairman of the Board and Chief Executive Officer of Wesco since 1984. He has also served Wesco as President since May 2005. He has been Chairman of the Board of Blue Chip Stamps (Blue Chip) since 1976, having joined its board in 1969; Blue Chip, the parent of Wesco, is engaged in the trading stamp business. Since 1978, Mr. Munger has been Vice Chairman of Berkshire Hathaway Inc. (Berkshire), the parent of Blue Chip; Berkshire is engaged in the property and casualty insurance business and many other diverse businesses. Mr. Munger is Chairman of the Board of Daily Journal Corporation, a publisher of specialty newspapers primarily in California. He is also a director and chairman of the audit committee of Costco Wholesale Corporation, which operates a large chain of membership warehouses.

CAROLYN H. CARLBURG, age 59, has been a Director since 1991. Since April 2005, she has been Chief Executive Officer of AIDS Research Alliance of America, Inc., a non-profit, national research organization which collaborates with scientists, universities and researchers worldwide. From July 2001, Ms. Carlburg was engaged in the practice of law under her own name and specialized in land use matters and business litigation. From 1997 through July 2001, she was Executive Director of the Center for Community & Family Services, Inc. Prior thereto, she practiced law under the name Carolyn H. Carlburg & Associates. She has been a director of MS Property Company, a wholly owned Wesco subsidiary, since 1999.

ROBERT E. DENHAM, age 60, has been a Director since 2000. He is a partner of Munger, Tolles & Olson LLP, a law firm which renders legal services for Wesco, Berkshire, and certain of their affiliates. In 1998, he rejoined that firm, with which he had been associated for twenty years, after serving Salomon Inc, a former investee of Berkshire, Wesco and several of their subsidiaries, in the following capacities: 1992 to 1997, Chairman and Chief Executive Officer of Salomon Inc; 1991 and 1992, general counsel of Salomon Inc and its investment banking subsidiary, Salomon Brothers. Mr. Denham is also a director of Chevron Corporation, an international energy company; Lucent Technologies, Inc., a telecommunications equipment manufacturer; and Fomento Economico Mexicano, S.A. de C.V., a Mexico-based beverage and convenience store company whose ADRs trade on the New York Stock Exchange. Since January 2004, he has been Chairman of the Financial Accounting Foundation, which has oversight, funding and appointment responsibilities for the Financial Accounting Standards Board, the Governmental Accounting Standards Board, and their advisory councils.

ROBERT T. FLAHERTY, age 68, has been a Director since May 2003. He is a Chartered Financial Analyst and is engaged in personal investments. From 1983 through 1996, he served as President of Flaherty & Crumrine Incorporated, a registered investment and commodities trading advisor. In addition, he served as a director of Flaherty & Crumrine Incorporated until 2002; he retired from that company in January 2003. During his affiliation with Flaherty & Crumrine Incorporated, Mr. Flaherty also served as Chairman, President and Chief Executive Officer of three publicly traded closed-end investment companies managed by that firm.

PETER D. KAUFMAN, age 51, has been a Director since May 2003. He is Chairman and Chief Executive Officer of Glenair, Inc., a privately held manufacturer of electrical and fiber optic components and assemblies for the aerospace industry. He has served in various capacities at that company since 1977.

ELIZABETH CASPERS PETERS, age 80, has been a Director since 1959 except for the period 1961 to 1967. She is engaged in personal investments. She has been a director of MS Property Company since 1993.

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EXECUTIVE OFFICERS

In addition to Mr. Munger, Wesco has three executive officers, who are listed below. All officers are elected by the newly elected Board to serve for the next twelve months or until their successors have been elected and qualified. Set forth below for each executive officer other than Mr. Munger is his principal occupation, business experience during at least the past five years, age, and certain other information.

JEFFREY L. JACOBSON, age 58, has served as Vice President and Chief Financial Officer of Wesco since 1984. He has served MS Property Company, a wholly owned Wesco subsidiary, as Vice President and Chief Financial Officer since 1993, and as a director since May 2005. He has served in various financial and other offices of Blue Chip since joining it in 1977 currently he is Vice President and Chief Financial Officer and has served as a Blue Chip director since 1987.

ROBERT E. SAHM, age 78, has, since 1971, served Wesco as Vice President in charge of building management and, ultimately, all real estate operations; prior thereto, he served as Building Manager from 1967. Since May 2005, he has served MS Property Company as President, and, prior thereto, as Senior Vice President in charge of property management, development and sales, and as a director, since 1993.

CHRISTOPHER M. GRECO, age 28, has served Wesco as Treasurer since January 2005. He has also served MS Property and Blue Chip as Treasurer since that time. Prior thereto, from November 2002, he was employed by PriceWaterhouseCoopers, and from January 2000 by Windes & McClaughry Accountancy Corporation, providing audit, tax-related and business consulting services to publicly traded and privately owned companies, and other clients of those accounting firms.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

On March 15, 2006, the record date for determination of shareholders entitled to notice of and to vote at the Annual Meeting, a total of 7,119,807 shares of capital stock were outstanding. Such shares are the only voting securities of Wesco. All information regarding stock ownership is given as of the close of business on March 15, 2006.

Shareholders have the right to elect Directors by cumulative voting in accordance with Wesco's bylaws: Each share has votes equal to the number of Directors to be elected (six), and the votes may be cast for one candidate or distributed among two or more candidates. On all other matters, each share has one vote. Votes withheld as to specific Directors on forms of proxy are treated as votes cast in determining if a quorum is present to transact business but are excluded from the votes cast in favor of such Directors. Any portion of the shares held by a broker or other party that is not voted on an omnibus proxy is neither counted in determining if a quorum is present nor treated as votes cast for any purpose. A majority of Wesco's outstanding capital shares as of March 15, 2006 must be represented in person or by proxy to constitute a quorum for the Annual Meeting.

The persons appointed by the Board as proxies on the accompanying form of proxy have informed the Board of their intent to distribute, in such proportion as they see fit, the authorized votes represented by proxies (i) in favor of the election of the six nominees named above, or (ii), in the event one or more of said nominees is or are unable to serve, for the remainder of the nominees named above supplemented by any substitute nominee or nominees selected by the Board.

Blue Chip, a wholly owned subsidiary of Berkshire, owns 5,703,087 shares (80.1%) of Wesco capital stock. Warren E. Buffett, Chairman of the Board and Chief Executive Officer of Berkshire, has sole voting power with respect to 39.5% of Berkshire's common stock. Mr. Buffett may be deemed to be in control of Berkshire; and Mr. Buffett, as well as Berkshire, may be deemed to be in control of Blue Chip and Wesco. Charles T. Munger, Chairman of the Board and President of Wesco, is also Vice Chairman of the Board of Berkshire; he has sole voting power with respect to 1.3% of Berkshire's common stock. Mr. Munger consults with Mr. Buffett with respect to Wesco's investment decisions and major capital allocations. No other Director or executive officer of Wesco owns more than one percent of any class of Berkshire common stock,

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and the amount of Berkshire common stock owned in the aggregate by all Wesco Directors and executive officers (other than Mr. Munger) is less than one percent of each class of Berkshire common stock.

Wesco-Financial Insurance Company (Wes-FIC), a wholly owned subsidiary of Wesco, is headquartered in Omaha, Nebraska, where its business is administered by employees of wholly owned insurance subsidiaries of Berkshire. From time to time, Berkshire has offered to Wes-FIC, and Wes-FIC (with Wesco's concurrence) has accepted, retrocessions of portions of reinsurance contracts under arrangements described on page 11 of Wesco's 2005 Annual Report on Form 10-K. Wesco's and Wes-FIC's boards believe all such retrocessions have been entered into at terms more favorable than Wes-FIC could have obtained elsewhere. Kansas Bankers Surety Company (KBS), wholly owned by Wes-FIC, is supervised by Berkshire subsidiaries. In 2005 KBS ceded 50% of a layer of loss exposure to an unaffiliated reinsurer and the other 50% to a Berkshire subsidiary, on identical terms. A layer of losses above such layer was 30%-retained by KBS; the other 70% was reinsured by another Berkshire insurance subsidiary. In 2005, premiums of \$2,147,000 were ceded to Berkshire subsidiaries; incurred reinsured losses aggregating \$125,000 were allocated to them. In addition, Berkshire subsidiaries in 2005 received \$92,000 in administrative fees and expense reimbursements relative to Wes-FIC and KBS.

Robert T. Flaherty, a Wesco Director, owns a significant portion of the stock of Flaherty & Crumrine Incorporated, which leases office space in the commercial office building owned by Wesco's MS Property Company subsidiary. Terms of the lease are believed by Wesco's management to be within the general market range for such third-party leases. Wesco's subsidiary received \$86,728 under the lease during 2005.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Wesco's capital stock is the only class of outstanding capital stock. Blue Chip is the only organization or individual known to Wesco's management to own beneficially 5% or more of its outstanding capital stock. Beneficial ownership of Wesco's capital stock by Blue Chip and by all Directors and executive officers who own shares is set forth below.

Name	Amount and Nature of Beneficial Ownership ⁽¹⁾	Percent of Class
Blue Chip Stamps	5,703,087 ⁽²⁾	80.1%
Robert E. Denham	1,270 ⁽³⁾	*
Peter D. Kaufman	1,000	*
Elizabeth Caspers Peters	73,503 ⁽⁴⁾	1.0
Robert E. Sahn	3,150	*
All directors and executive officers as a group	78,923 ^(3,4,5)	1.1

* Less than 1%.

(1) Beneficial owner has sole voting and investment power, and economic interest, except as indicated.

(2) Voting and investment power may be deemed to be controlled by Berkshire and Warren E. Buffett by virtue of the relationships described on page 3. Blue Chip's principal executive offices are located at 301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901. Berkshire's principal executive offices are located at 1440 Kiewit Plaza, Omaha, Nebraska 68131, which is also Mr. Buffett's principal address.

(3) Includes 270 shares held by Mr. Denham's spouse, as to which Mr. Denham disclaims beneficial ownership.

(4) Includes 16,843 shares held by a trust of which Mrs. Peters is co-trustee with her children and income beneficiary.

⁽⁵⁾ Does not include the 5,703,087 shares (80.1%) held by Blue Chip, of which Charles T. Munger and Jeffrey L. Jacobson are directors and executive officers and Christopher M. Greco is an executive officer.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires Wesco s executive officers and Directors, and persons who own more than ten percent of Wesco s outstanding capital stock, to file reports of ownership and changes in ownership with the SEC. Copies of all such Section 16(a) reports must be furnished to Wesco.

Based solely on its review of the copies of such Section 16(a) reports received by it, and representations from certain persons subject to Section 16(a) reporting that no such reports were required to be filed, Wesco believes that its executive officers, Directors, and beneficial owners of more than ten percent filed all such required reports on a timely basis during 2005.

BOARD OF DIRECTORS INTERLOCKS AND INSIDER PARTICIPATION

Charles T. Munger, Chairman of the Board, President and Chief Executive Officer of Wesco, is also Chairman of the Board of Blue Chip and Vice Chairman of the Board of Berkshire. Robert H. Bird, who was a Director and President of Wesco through the date of his retirement in May 2005, is also a director of and President of Blue Chip. Jeffrey L. Jacobson, Vice President and Chief Financial Officer of Wesco, is also a director of and Vice President and Chief Financial Officer of Blue Chip.

DIRECTOR INDEPENDENCE, COMMITTEES AND MEETINGS

Because 80.1% of Wesco s capital stock is owned by Blue Chip, the Board has determined that Wesco is a controlled company within the meaning of Section 801 of the listing standards of the American Stock Exchange (AMEX), on which Wesco s shares are traded. Controlled companies are exempted from a number of AMEX listing standards, including the requirement to have a majority of independent directors and the requirement to have director nominees selected by a nominating committee comprised entirely of independent directors or by a majority of the independent directors. Controlled companies are also exempt from the requirement to have the compensation of the issuer s officers determined by a compensation committee comprised solely of independent directors or by a majority of the board s independent directors.

Nonetheless, the Board has affirmatively determined that Carolyn H. Carlburg, Robert T. Flaherty, Peter D. Kaufman and Elizabeth Caspers Peters are independent as defined in Section 121(A) of the AMEX listing standards.

Wesco has a standing audit committee (Audit Committee) established in accordance with Section 3(a)(58)(A) of the Exchange Act that is responsible for assisting the Board in fulfilling its responsibilities as they relate to Wesco s accounting policies, internal controls and financial reporting practices. The members of the Audit Committee are Carolyn H. Carlburg (Chair), Robert T. Flaherty and Peter D. Kaufman. The Board has determined that each of these Directors is independent in accordance with AMEX listing standards, and with Rule 10A-3 promulgated under the Exchange Act. The Board has determined that Messrs. Flaherty and Kaufman are each audit committee financial experts as that term is used in Item 401 of Regulation S-K promulgated under the Exchange Act.

The Audit Committee is the only standing committee of the Board. Wesco does not have a nominating committee or a compensation committee. Wesco s nominating process is described below under Nominations, and its compensation program is described in the Board of Directors Report on Executive Compensation on page 8.

During 2005, the Directors held four regularly scheduled Board meetings and the Audit Committee held five meetings. No Director attended fewer than 75 percent of the combined total number of meetings of the Board and Audit Committee (if a member thereof) held during the year. Wesco does not require its Directors to attend annual meetings of shareholders, but all current Directors attended the 2005 annual meeting.

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NOMINATIONS

There is no standing nominating committee, and the entire Board is responsible for selecting nominees for election as Directors. Wesco believes that the Board is able to fully consider and select appropriate nominees for election to the Board without delegating that responsibility to a committee of independent Directors or adopting formal procedures. Candidates have traditionally been recommended to the Board by Mr. Munger or one of the other Directors, and there is not a formal process for identifying or evaluating new Director nominees. Candidates recommended by shareholders will be evaluated in the same manner as candidates recommended by others, although the Board may prefer candidates of good repute who are personally known to Directors. The Board will consider all relevant qualifications as well as the needs of Wesco in terms of compliance with AMEX listing standards and SEC rules.

A shareholder wishing to recommend a candidate for Director should send a letter to Wesco Financial Corporation, attention of the Secretary, at 301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Director Nominee Recommendation. The letter must identify the author as a shareholder and provide a brief summary of the candidate's qualifications, as well as contact information for both the candidate and the shareholder. At a minimum, candidates for election to the Board should meet the independence requirements of Section 121(A) of the AMEX listing standards and Rule 10A-3 under the Exchange Act. Candidates should also have relevant business and financial experience, and they must be able to read and understand fundamental financial statements.

SHAREHOLDER COMMUNICATION WITH THE BOARD

Shareholders who wish to communicate with the Board or with a particular Director may send a letter to the attention of the Secretary, Wesco Financial Corporation, at 301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901. The mailing envelope must contain a clear notation indicating that the enclosed letter is a Shareholder-Board Communication or Shareholder-Director Communication. All such letters must identify the author as a shareholder and clearly state whether the intended recipients are all of the members of the Board or just certain specified individual Directors. The Secretary will make copies of all such letters and forward them to the appropriate Director or Directors.

CODE OF BUSINESS CONDUCT AND ETHICS

Wesco has adopted a Code of Business Conduct and Ethics (the Code) applicable to its Directors, officers and employees and those of its subsidiaries. A copy of the Code may be accessed through Wesco's website, www.wescofinancial.com.

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Directors who are not officers currently receive fees totaling \$9,000 per year, plus \$750 for each special meeting which they attend. The Chair of the Audit Committee currently receives additional fees totaling \$9,000 per year, and other Audit Committee members receive \$750 for each committee meeting attended.

The following table shows compensation paid by Wesco and its subsidiaries to its executive officers for the three years ended December 31, 2005.

Name and Capacity in Which Served	Year	Annual Compensation	
		Salary ⁽¹⁾	Bonus ⁽²⁾
Charles T. Munger Chairman of the Board, President, and Chief Executive Officer of Wesco ⁽³⁾	2005	\$	\$
	2004		
	2003		
Jeffrey L. Jacobson Vice President and Chief Financial Officer of Wesco and MS Property Company	2005	210,000	
	2004	204,000	
	2003	186,000	
Robert E. Sahn Vice President of Wesco and President of MS Property Company	2005	207,900	17,750
	2004	198,000	16,900
	2003	188,400	16,100
Christopher M. Greco, Treasurer of Wesco and MS Property Company	2005	90,000	
Robert H. Bird President of Wesco and MS Property Company ⁽³⁾	2005	46,000	
	2004	132,000	
	2003	108,000	

(1) Messrs. Munger, Bird, Jacobson and Greco have been employees of, and compensated by, Blue Chip but have spent a portion of their time on the activities of Wesco and its subsidiaries. Figures shown for Messrs. Bird, Jacobson and Greco represent amounts paid to Blue Chip by Wesco or its subsidiaries for their services. Blue Chip has not been compensated by Wesco or its subsidiaries for Mr. Munger's services. Mr. Munger was paid a total of \$100,000 by Blue Chip for each of the three years. Mr. Sahn is compensated by MS Property Company.

(2) Mr. Sahn's bonus is based on a length-of-service formula applicable to all employees of MS Property Company and is equal to one month's salary.

(3) On May 5, 2005, the Board elected Mr. Munger President of Wesco, coincident with Mr. Bird's retirement as President of Wesco and MS Property Company.

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BOARD OF DIRECTORS REPORT ON EXECUTIVE COMPENSATION*

Wesco's program of executive compensation is believed different from most public corporations' programs. Messrs. Munger, Jacobson and Greco are not employees of Wesco or a Wesco subsidiary, nor was Mr. Bird; nor are they or have they been remunerated directly by Wesco or a Wesco subsidiary for their services. All four have been employed by Blue Chip. Messrs. Munger, Bird and Jacobson are directors, and Mr. Munger is chairman of the board, of Blue Chip. Wesco and its subsidiaries reimburse Blue Chip for the services of Messrs. Jacobson, Greco, and, prior to his retirement, Mr. Bird, based on Blue Chip's cost of their compensation, including related taxes and benefits, and an estimate of the relative time each individual has devoted to the business of each company. Wesco and its subsidiaries do not reimburse Blue Chip for Mr. Munger's services. Mr. Sahm, who does not work for Blue Chip, is compensated based on factors such as his individual performance, changes in responsibilities and inflation.

The Board, at least annually, reviews and approves the compensation of, or any reimbursement to Blue Chip for, Wesco's executive officers based on the recommendation of Mr. Munger. Factors considered by Mr. Munger are typically subjective and include individual performance, changes in responsibility and inflation. Neither the profitability of Wesco nor the market price of Wesco's stock is considered in setting executive compensation.

* Submitted by Wesco's Board of Directors: Charles T. Munger, Carolyn H. Carlburg, Robert E. Denham, Robert T. Flaherty, Peter D. Kaufman and Elizabeth Caspers Peters.

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STOCK PERFORMANCE GRAPH

The following graph compares the value at each subsequent yearend of \$100 invested in Wesco capital stock on December 31, 2000 with identical investments in the Standard and Poor's (S&P) 500 Stock Index and the S&P Property-Casualty Insurance Index, assuming reinvestment of dividends.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Wesco's consolidated financial statements are required to be included in the consolidated financial statements of its 80.1% parent, Berkshire. Accordingly, to facilitate the efficient examination of the statements of both companies, Wesco's Audit Committee, effective with the year 2004, delegated to Berkshire's audit committee authority to engage a public accounting firm to audit Wesco's consolidated financial statements, as well as the authority to pre-approve other audit and non-audit services for Wesco. Deloitte & Touche LLP (Deloitte) was selected by Berkshire's audit committee for 2005 and the appointment was ratified by Wesco's Audit Committee. Berkshire's audit committee has not yet selected Wesco's independent auditors for the year 2006. Representatives of Deloitte are expected to be present at the Annual Meeting. They will be given an opportunity to make a statement if they so desire and to respond to any appropriate questions.

Audit Fees. In 2005, Berkshire allocated to Wesco \$650,000 representing Wesco's share of billings by Deloitte for the audits of the 2005 consolidated financial statements of Berkshire and all of its subsidiaries including Wesco and its subsidiaries. Such services included testing required by the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) as well as reviews of the financial statements included in Wesco's Quarterly Reports to the SEC on Form 10-Q for 2005. In 2004, Berkshire allocated to Wesco \$565,000 for Deloitte's audit services.

Audit-Related Fees. In 2005, Deloitte was paid \$24,500 by Wesco in connection with its assistance with communications received by Wesco from the Securities and Exchange Commission in connection with its review of Wesco's 2004 Annual Report on Form 10-K. In 2004, a Wesco subsidiary retained Deloitte to assist with Sarbanes-Oxley readiness, for which Deloitte was paid \$250,000. There were no other audit-related fees billed by Deloitte or allocated by Berkshire in 2005 or 2004.

Tax Fees. There were no fees billed by Deloitte or allocated by Berkshire in either 2005 or 2004 for tax compliance, tax advice or tax planning for Wesco or its subsidiaries.

All Other Fees. There were no fees billed by Deloitte or allocated by Berkshire in either 2005 or 2004 other than those set forth above.

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Audit Fees Pre-approval Policy. Beginning in 2004, Wesco's Audit Committee delegated to Berkshire's audit committee authority to engage an independent registered public accounting firm to audit Wesco's consolidated financial statements, as well as the authority to pre-approve other audit and non-audit services for Wesco. Berkshire's audit committee adopted a pre-approval policy on May 5, 2003. The policy requires that Berkshire's audit committee pre-approve all services the independent registered public accounting firm provides, including audit services, audit-related services, tax and other services. Some services have a general pre-approval. The term of any general pre-approval is 12 months from the date of pre-approval, unless the audit committee considers a different period and states otherwise. Berkshire's audit committee will annually review and pre-approve the services that may be provided by the independent registered public accounting firm without obtaining specific pre-approval. Berkshire's audit committee will revise the list of general pre-approved services from time to time, based on subsequent determinations. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by Berkshire's audit committee. Wesco has been informed that all services performed by Deloitte in 2005 were pre-approved in accordance with the pre-approval policy adopted by Berkshire's audit committee.

AUDIT COMMITTEE REPORT*

Wesco's Audit Committee (the Committee) operates pursuant to a written charter (Charter) providing for the Committee to assist the Board in fulfilling its oversight responsibilities by performing, among other things, the following functions: monitoring the integrity of the financial reporting process and internal controls; monitoring the independence and performance of the independent registered public accounting firm; and facilitating communication between the Board, management and the independent registered public accounting firm. The Charter was attached as an appendix to the proxy statement for the 2004 annual meeting of Wesco shareholders, which can be accessed through Wesco's website (www.wescofinancial.com).

In performing its functions for the year ended December 31, 2005, the Committee completed a number of procedures, including those specified in the Charter. In particular, the Committee:

Reviewed and discussed Wesco's unaudited consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2005, and audited consolidated financial statements for the year ended December 31, 2005 with Wesco's management and Deloitte.

Discussed with Deloitte the matters required to be discussed by Statement on Auditing Standards No. 61, *Communications with Audit Committees*, as amended, promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA).

Received the written disclosures and letter from Deloitte required by Standard No. 1, *Independence Discussions with Audit Committees*, as supplemented, promulgated by the AICPA's Independence Standards Board, and discussed with Deloitte their independence, including whether the provision of their services is compatible with maintaining their independence.

Based upon the reviews and discussions referred to above, and the report of Deloitte, the Committee recommended to the Board that Wesco's audited consolidated financial statements for 2005 be included in its annual report to shareholders and its annual report to the SEC on Form 10-K, and the Board concurred.

* Submitted by Wesco's Audit Committee: Carolyn H. Carlburg (Chair), Robert T. Flaherty and Peter D. Kaufman.

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OTHER MATTERS

As far as Wesco is aware, there are no matters to be brought before the May 11, 2006 annual meeting other than the election of Directors. Should any other matters come before the meeting, action will be taken thereon by the persons appointed as proxies on the accompanying form of proxy, or their substitutes, according to their discretion.

PROPOSALS OF SHAREHOLDERS FOR 2007 ANNUAL MEETING

Any shareholder proposal intended to be considered for inclusion in the proxy statement for presentation at the annual meeting of shareholders expected to be held in May 2007 (the 2007 annual meeting) must be received by Wesco by December 4, 2006. The proposal must be in accordance with the provisions of Rule 14a-8 promulgated by the SEC under the Securities Exchange Act. It is suggested the proposal be submitted by certified mail, return receipt requested. Shareholders intending to present proposals at the 2007 annual meeting without having the proposals included in the proxy statement must notify Wesco of such intentions before February 13, 2007. After such date, Wesco's proxy in connection with the 2007 annual meeting of shareholders may confer discretionary authority on the Board to vote on any such proposals. In addition, Wesco reserves the right, through its directors, officers or proxies, to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with the applicable deadline and other requirements.

AVAILABLE INFORMATION

Wesco has mailed its combined printed annual report and Form 10-K for the year 2005 to shareholders of record as of March 15, 2006. The exhibits to that report will be provided upon request and payment of copying charges. Requests for the exhibits or additional copies of the combined report should be directed to Margery A. Patrick, Secretary, Wesco Financial Corporation, 301 East Colorado Boulevard, Suite 300, Pasadena, California 91101-1901. Wesco's combined printed annual report and Form 10-K may be accessed through Wesco's website, www.wescofinancial.com, and portions that have been electronically filed with the SEC are available through the SEC's website at www.sec.gov.

* * * * *

By Order of the Board of Directors

Margery A. Patrick
Secretary

Pasadena, California
March 30, 2006

Directions to Annual Meeting

Meeting The annual shareholders' meeting of Wesco Financial Corporation will be held at the Hilton Pasadena, 168 South Los Robles Avenue (corner of Cordova Street), in Pasadena, California, at 2:00 p.m., on Thursday, May 11, 2006.

Parking The Hilton's adjoining parking structure may be accessed from Cordova Street, which runs east-west to the south of the hotel.

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PROXY

WESCO FINANCIAL CORPORATION

Proxy for Annual Meeting of Shareholders

May 11, 2006

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints CHARLES T. MUNGER and MARGERY A. PATRICK, or either of them, as Proxies, each with the power to appoint his or her substitute, and hereby authorizes them to represent and to vote, as directed on the other side hereof, all shares of capital stock of WESCO FINANCIAL CORPORATION held of record by the undersigned on March 15, 2006 at the annual meeting of shareholders to be held at the Hilton Pasadena, 168 South Los Robles Avenue, Pasadena, California, on Thursday, May 11, 2006 at 2:00 p.m., or at any adjournment or adjournments thereof.

(Continued and to be signed on the other side)

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WESCO FINANCIAL CORPORATION

Directions to Annual Meeting

Meeting The annual shareholders meeting of Wesco Financial Corporation will be held at the Hilton Pasadena, 168 South Los Robles Avenue, Pasadena, California, at 2:00 p.m., on Thursday, May 11, 2006.

Parking The Hilton's adjoining parking structure may be accessed from Cordova Street, which runs east-west to the south of the hotel.

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WESCO FINANCIAL CORPORATION

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 REVERSE SIDE**

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- | | FOR | WITHHOLD
AUTHORITY | |
|---|-----------------------|-----------------------|---|
| 1. ELECTION OF DIRECTORS to serve until the next annual meeting of shareholders or until their respective successors shall have been duly elected and qualified. The Proxies are directed to vote for all nominees listed below (except as marked to the contrary):

01. Charles T. Munger, 02. Carolyn H. Carlburg,
03. Robert E. Denham, 04. Robert T. Flaherty,
05. Peter D. Kaufman, 06. Elizabeth Caspers Peters

INSTRUCTION: To withhold authority to vote for any individual nominee, draw a line through his or her name above. | <input type="radio"/> | <input type="radio"/> | 2. OTHER MATTERS. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting. |

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is made, this proxy will be voted for the election as directors of all nominees listed in Proposal 1 or, in the event one or more of such nominees is unable to serve, any substitute nominees selected by the present Board of Directors.**

Signature(s) _____

Date _____

Please sign exactly as name appears herein. If shares are held by joint tenants, both should sign. If signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If signing on behalf of a corporation, an authorized officer such as the president should sign in full corporate name together with signature and title. If signing on behalf of a partnership, an authorized person should sign in full partnership name together with signature and position.

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