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WESCO FINANCIAL CORP

10-K

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CALIFORNIA

1973

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Wesco Financial Corp. [Del.] Co: W342000000
 315 East Colorado Boulevard
 Pasadena, Calif. 91109
 SEC File No: 1-4720 Exch: NYSE/WSC
 IRS No: 95-2109453 CUSIP: 9508177
 Fiscal Year Ends: 12/31 SIC No: 671

8-K For: 1/31/73 Rec: 2/13/73

Chairman of Board deceased

- Class action; *Loan practices; Prepayment penalties; *Subsidiary defendant
- Litigation; Easements; *Registrant defendant; *American Savings & Loan Association
- Change in management; *Louis R. Vincenti (Chairman)
- Merger and acquisition agreements; *Financial Corporation of Santa Barbara

Exhibits:

- Ex: Reorganization agreements; *Merger; *Financial Corporation of Santa Barbara

ARS For: 12/31/72 Rec: 3/5/73

Auditor: Peat, Marwick, Mitchell & Co.

Revenues: \$28,116,000 Earnings: \$4,336,000/\$1.92

Assets: \$464,438,000 Net Worth: \$64,018,000

Extr. Items: None Shareholders: 4,845

Abstract: Net earnings increased 39%, gross revenues increased 7%.
 Discontinued residential construction except at one site where 126 units will be started in 1973. Will open four branch banks in 1973.
 Agreed merger with Financial Corporation of Santa Barbara terminated.

- Merger and acquisition cancellation; *Financial Corporation of Santa Barbara; Subsequent events

8-K For: 2/28/73 Rec: 3/12/73

Blue Chip Stamps tendered notice of intent to purchase excess of 25% registrant's shares.

- Merger and acquisition cancellation; *Financial Corporation of Santa Barbara

Exhibits:

- Ex: Agreement; *Merger and acquisition cancellation; *Financial Corporation of Santa Barbara

Proxy Dated: 3/15/73 Rec: 3/19/73

Meeting: Annual 4/17/73

Exceptional Subjects: None.

Exhibits: None.

10-K For: 12/31/72 Rec: 3/30/73

Description of Business: Lends money, principally secured by first liens against real estate to enable borrowers to purchase, construct, or refinance real property. Acts as insurance agents, principally for fire and extended coverage property insurance and mortgage life insurance. Acts as trustee under deeds of trust, and owns minor amount of property. A bank holding company.

- Bank holding companies
- Insurance agents

Auditor's Report:

- Unqualified opinions; Double-dated opinions; *Subsequent events; Cash dividends; Merger and acquisition cancellation

Financial Statements and Notes:

- Deferred revenue; Loan commitment fees
- Deferred revenue; Unrealized gains; Real estate sales
- Appropriated retained earnings; Statutory reserves; *Federal Savings and Loan Insurance Corp.; *California law

Exhibits: None

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Wesco Financial Corp. [Del.] Co: W342000000
315 East Colorado Boulevard
Pasadena, Calif. 91109

SEC File No: 1-4720 Exch: NYSE/WSC

IRS No: 95-2109453 CUSIP: 9508177

Fiscal Year Ends: 12/31 SIC No: 671

8-K For: 4/30/73 Rec: 5/7/73

Declared a 5% stock dividend and decided to discontinue future stock dividends.

Exhibits: None

10-Q For: 3/31/73 Rec: 5/7/73

10-Q For: 6/30/73 Rec: 8/16/73

10-Q For: 9/30/73 Rec: 11/13/73

ARS For: 12/31/73 Rec: 3/4/74

Auditor: Peat, Marwick, Mitchell & Co.

Revenues: \$31,325,000 Earnings: \$4,608,000/\$1.94

Assets: \$451,980,000 Net Worth: \$67,551,000

Extr. Items: None

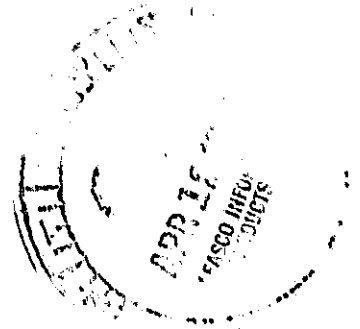
Abstract: Revenues and earnings increased. Opened three new branch offices. Purchased 271,000 shares of capital stock of Crocker National Corp. for \$6.78 million. Blue Chip Stamps increased ownership of Wesco to 44.58% of outstanding stock.

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W 342000

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549



REC'D S.E.C.
APR 1 1974
(Received)

FORM 10-K

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

For the fiscal year ended December 31, 1973 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.)

315 East Colorado Boulevard, Pasadena, California
(Address of principal executive offices)

91109
(Zip Code)

Registrant's telephone number, including area code

(213) 684-1500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<u>Capital (Common) Par Value \$1</u>	<u>New York Stock Exchange</u> <u>Pacific Stock Exchange</u>

Securities registered pursuant to Section 12(g) of the Act: NONE

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),

Yes No

and

(2) has been subject to such filing requirements for the past 90 days.

Yes No

Item 1. Business.

(a) Registrant, incorporated in Delaware on March 18, 1959, acts as trustee under deeds of trust, invests in marketable securities, owns and operates the Pasadena business block in which the head office of its subsidiary Mutual Savings and Loan Association ("Mutual") is located and a minor amount of other property, and owns all of the outstanding Guarantee Stock of Mutual which serves the Southern California area through ten offices, of which five are in Los Angeles County, three in Orange County, one in Ventura County, and one in San Diego County. Mutual has also received permission to open three additional branch offices in Upland, Oxnard and Cerritos, California. Mutual is engaged in the business of lending money, principally secured by first liens against real estate to enable borrowers to purchase, construct or refinance real property. Funds are provided largely from increase in savings deposits and principal payments on loans. The chief sources of income to Mutual are the excess of interest received on loans and investments over the interest paid on savings deposits, and loan fees and service charges received. Mutual has a wholly-owned subsidiary which acts as an insurance agent, principally for fire and extended coverage property insurance and mortgage life insurance. Mutual also owns an inactive service corporation.

(b) (1) Mutual's savings deposits decreased by \$15,742,000 in 1973 compared to an increase of \$31,490,000 in 1972. Its loan portfolio increased \$21,022,000 in 1973 compared to an increase of \$10,825,000 in 1972. Mutual's assets at December 31, 1973 ranked 80th among the nation's savings and loan associations.

(2) through (5) not applicable.

(6) Registrant and its subsidiaries employed approximately 165 persons at December 31, 1973.

(7) Compliance with environmental regulations has had no material effect as to registrant and its subsidiaries.

(c) Registrant and its subsidiaries are engaged in only one line of business within the definition of this item.

(d) through (f) not applicable.

Item 2. Summary of Operations
(a)

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STATEMENTS OF EARNINGS

WESCO FINANCIAL CORPORATION

Five Years Ended December 31, 1973

(Not covered by independent accountants' current report)

	Year ended December 31,				
	1969	1970	1971	1972	1973
Investment income:					
Earnings of subsidiaries before taxes on income	\$ 7,199,000	4,905,000	5,971,000	8,177,000	8,604,000
Interest on loans	11,000	11,000	10,000	10,000	9,000
Interest and dividends on investments	<u>214,000</u>	<u>256,000</u>	<u>279,000</u>	<u>346,000</u>	<u>849,000</u>
Total investment income	<u>7,424,000</u>	<u>5,172,000</u>	<u>6,260,000</u>	<u>8,533,000</u>	<u>9,462,000</u>
Cost of money:					
Interest on notes payable	<u>221,000</u>	<u>218,000</u>	<u>205,000</u>	<u>185,000</u>	<u>193,000</u>
Total cost of money	<u>221,000</u>	<u>218,000</u>	<u>205,000</u>	<u>185,000</u>	<u>193,000</u>
7,203,000	4,954,000	6,055,000	8,348,000	9,269,000	
Loan fees and service charges	54,000	35,000	59,000	73,000	47,000
Operation and net gains (losses) from sales of real property	(6,000)	-	-	-	-
Rental of office premises, net	283,000	312,000	238,000	261,000	303,000
Other income (expense), net	<u>10,000</u>	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>	<u>(48,000)</u>
7,544,000	5,312,000	6,363,000	8,693,000	9,571,000	
General and administrative expenses	<u>204,000</u>	<u>232,000</u>	<u>244,000</u>	<u>257,000</u>	<u>298,000</u>
Earnings before taxes on income	<u>7,340,000</u>	<u>5,080,000</u>	<u>6,119,000</u>	<u>8,436,000</u>	<u>9,273,000</u>
Taxes on income:					
Current	1,287,000	994,000	2,530,000	3,018,000	4,263,000
Deferred	<u>2,074,000</u>	<u>1,037,000</u>	<u>465,000</u>	<u>1,082,000</u>	<u>402,000</u>
3,361,000	2,031,000	2,995,000	4,100,000	4,665,000	
Net earnings	<u>\$ 3,979,000</u>	<u>3,049,000</u>	<u>3,124,000</u>	<u>4,336,000</u>	<u>4,608,000</u>

Item 2. Summary of Operations, Continued
(a) continued

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CONSOLIDATED STATEMENTS OF EARNINGS
WESCO FINANCIAL CORPORATION AND SUBSIDIARIES
Five Years Ended December 31, 1973
(Not covered by independent accountants' current report)

	Year ended December 31,				
	1969	1970	1971	1972	1973
Investment income:					
Interest on loans	\$ 25,503,000	25,866,000	25,117,000	25,318,000	27,450,000
Interest and dividends on investments	1,575,000	1,418,000	1,740,000	2,547,000	3,413,000
Interest and dividends on investments required by law	<u>374,000</u>	<u>469,000</u>	<u>388,000</u>	<u>251,000</u>	<u>462,000</u>
Total investment income	<u>27,452,000</u>	<u>27,753,000</u>	<u>27,245,000</u>	<u>28,116,000</u>	<u>31,325,000</u>
Cost of money:					
Interest on savings deposits	16,573,000	15,283,000	17,298,000	19,304,000	20,001,000
Interest on notes payable	<u>3,732,000</u>	<u>6,965,000</u>	<u>3,105,000</u>	<u>611,000</u>	<u>1,313,000</u>
Total cost of money	<u>20,305,000</u>	<u>22,248,000</u>	<u>20,403,000</u>	<u>19,915,000</u>	<u>21,314,000</u>
Margin on investments	7,147,000	5,505,000	6,842,000	8,201,000	10,011,000
Loan fees and service charges	1,767,000	1,169,000	1,684,000	2,662,000	1,786,000
Operation and net gains (losses) from sales of real property	1,059,000	1,166,000	320,000	622,000	831,000
Rental of office premises, net	283,000	312,000	238,000	261,000	303,000
Other income, net	<u>139,000</u>	<u>33,000</u>	<u>162,000</u>	<u>126,000</u>	<u>44,000</u>
General and administrative expenses	<u>10,395,000</u>	<u>8,185,000</u>	<u>9,246,000</u>	<u>11,872,000</u>	<u>12,975,000</u>
	<u>3,055,000</u>	<u>3,105,000</u>	<u>3,127,000</u>	<u>3,436,000</u>	<u>3,702,000</u>
Earnings before taxes on income	<u>7,340,000</u>	<u>5,080,000</u>	<u>6,119,000</u>	<u>8,436,000</u>	<u>9,273,000</u>
Taxes on income:					
Current	1,287,000	994,000	2,530,000	3,018,000	4,263,000
Deferred	<u>2,074,000</u>	<u>1,037,000</u>	<u>465,000</u>	<u>1,082,000</u>	<u>402,000</u>
Net earnings	<u>3,361,000</u>	<u>2,031,000</u>	<u>2,995,000</u>	<u>4,100,000</u>	<u>4,665,000</u>
Earnings per capital share based on 2,373,269 shares	\$ <u>1.68</u>	<u>1.28</u>	<u>1.32</u>	<u>1.83</u>	<u>1.94</u>

Item 2. Summary of Operations, Continued
(a) continued

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STATEMENTS OF STOCKHOLDERS' EQUITY
WESCO FINANCIAL CORPORATION
and
WESCO FINANCIAL CORPORATION AND SUBSIDIARIES, CONSOLIDATED
Five Years Ended December 31, 1973
(Not covered by independent accountants' current report)

	Year ended December 31,				
	1969	1970	1971	1972	1973
Common stock:					
Beginning of year	\$ 1,860,000	1,952,000	2,050,000	2,153,000	2,260,000
5% stock dividend	<u>92,000</u>	<u>98,000</u>	<u>103,000</u>	<u>107,000</u>	<u>113,000</u>
End of year	<u>1,952,000</u>	<u>2,050,000</u>	<u>2,153,000</u>	<u>2,260,000</u>	<u>2,373,000</u>
Capital surplus:					
Beginning of year	17,999,000	20,637,000	22,419,000	24,623,000	26,399,000
Excess of market value of stock dividend over par value of stock issued	<u>2,638,000</u>	<u>1,782,000</u>	<u>2,204,000</u>	<u>1,776,000</u>	<u>1,667,000</u>
End of year	<u>20,637,000</u>	<u>22,419,000</u>	<u>24,623,000</u>	<u>26,399,000</u>	<u>28,066,000</u>
Retained earnings:					
Appropriated:					
Beginning of year	41,900,000	40,200,000	40,890,000	41,220,000	41,587,000
Allocation of net earnings	<u>(1,700,000)</u>	<u>690,000</u>	<u>330,000</u>	<u>367,000</u>	<u>859,000</u>
End of year	<u>40,200,000</u>	<u>40,890,000</u>	<u>41,220,000</u>	<u>41,587,000</u>	<u>42,446,000</u>
Unappropriated:					
Beginning of year	6,430,000	12,109,000	14,468,000	17,262,000	21,231,000
Cash dividends declared and paid	-	-	-	-	(1,075,000)
Allocation of net earnings	<u>5,679,000</u>	<u>2,359,000</u>	<u>2,794,000</u>	<u>3,969,000</u>	<u>3,749,000</u>
End of year	<u>12,109,000</u>	<u>14,468,000</u>	<u>17,262,000</u>	<u>21,231,000</u>	<u>23,905,000</u>
Less stock dividends at market value:					
Beginning of year	(18,659,000)	(21,390,000)	(23,269,000)	(25,576,000)	(27,459,000)
Market value of stock dividend	<u>(2,731,000)</u>	<u>(1,879,000)</u>	<u>(2,307,000)</u>	<u>(1,883,000)</u>	<u>(1,780,000)</u>
End of year	<u>(21,390,000)</u>	<u>(23,269,000)</u>	<u>(25,576,000)</u>	<u>(27,459,000)</u>	<u>(29,239,000)</u>
Total retained earnings	<u>30,919,000</u>	<u>32,089,000</u>	<u>32,906,000</u>	<u>35,359,000</u>	<u>37,112,000</u>
Total stockholders' equity	\$ <u>53,508,000</u>	<u>56,558,000</u>	<u>59,682,000</u>	<u>64,018,000</u>	<u>67,551,000</u>

Item 2. Summary of Operations, continued.

(b) Not applicable.

Item 3. Properties.

For financial data on property, plant and equipment of registrant and its subsidiaries, reference is made to Schedules V and VI of the supplementary data filed with the financial statements as a part of this report.

The occupancy of the ten offices of Mutual, all serving Southern California, is as follows:

Head office located at 315 East Colorado Boulevard, Pasadena, California, leased by Mutual from registrant, which is its parent company, under ten-year lease which expires June 14, 1974. Registrant is purchasing the property from its subsidiary Mutual under Agreement for Sale of Real Estate dated May 31, 1964.

Canoga Park--Chatsworth office located at 8393 Topanga Canyon Boulevard, Canoga Park, California, leased by Mutual under a lease with a term of three years and two months to May 31, 1974, with two three-year renewal options. In January, 1974 Mutual exercised the option to extend the lease term to May 31, 1977.

Capistrano--San Clemente office located at 530 Camino de Estrella, San Clemente, California, leased by Mutual under a three-year lease to May 1, 1976, with two one-year renewal options.

Corona del Mar office located at 2867 East Coast Highway, Corona del Mar, California leased by Mutual for a ten-year period which expires July 14, 1974. In February, 1974 the lease term was extended to July 14, 1979.

Covina office located at 200 North Citrus Avenue, Covina, California, owned in fee simple by Mutual.

Glendale office located at 336 North Brand Boulevard, Glendale, California, owned in fee simple by Mutual.

Santa Ana office located at 631 North Main Street, Santa Ana, California, leased by Mutual under a two-year lease to November 9, 1975, with three one-year renewal options. This office opened January 3, 1974.

Thousand Oaks office located at 1330 Moorpark Road, Thousand Oaks, California, leased by Mutual under a twenty-year lease to March 31, 1993, with a five-year renewal option.

Vista office located at 1020 East Vista Way, Vista, California, leased by Mutual under a two-year lease to May 10, 1975, with four six-months renewal options.

West Arcadia office located at 660 West Duarte Road, Arcadia, California, leased by Mutual under a ten-year lease which contains two five-year renewal options. The original lease term expired June 30, 1971, and the first renewal option to June 30, 1976 has been exercised by Mutual.

In the opinion of management, all these properties are adequate and suitable for the needs of Mutual.

DISCLOSURE [®]

IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

Item 4. Parents and Subsidiaries.

There has been no change in the relationship of registrant to its subsidiaries from that previously reported at Item 3 of registrant's 1966 and 1967 annual reports on Form 10-K.

Item 5. Pending Legal Proceedings.

The current status of actions reported in registrant's Form 10-K for 1972, in which Mutual was named as a defendant, follows:

(a) Orange County Superior Court Case No. 181923 - Marjorie A. Petherbridge on behalf of herself and all others similarly situated with respect to certain policies and actions of defendants, vs. Altadena Federal Savings and Loan Association, et al.

This class action based on claims for payment of interest on amounts advanced by borrowers for payment of property taxes and insurance was filed March 22, 1971 against 39 savings and loan associations, including Mutual, making loans in Orange County. It is similar and in fact identical to actions filed elsewhere in California. The lower court has dismissed the case as to Mutual. This has been sustained by the District Court of Appeals, but an appeal from that decision is pending in the Superior Court. Mutual and its counsel do not believe there is material risk to Mutual.

(b) Los Angeles Superior Court Case No. C 15911 - Stephen Z. Meyers, et al. vs. Home Savings and Loan Association et al.

This class action based on claims that prepayment charges provided in the notes and deeds of trust of savings and loan associations are improper was filed November 8, 1971 against 29 savings and loan associations, including Mutual, doing business in Los Angeles County. The lower court has held that the prepayment charges made were legal and valid; an appeal is pending. There does not appear to be material risk to Mutual in this matter.

(c) U. S. District Court Central District of California, Case No. 72-2991-LTL - Jack Goldman et al. vs. USLIFE Savings and Loan Association, et al.

This action filed December 26, 1972 involves the prepayment charges on loans paid off before maturity and challenges the alleged practice of waiving the charge if the property is refinanced through the existing lender, claiming that such practice violates the Anti-Trust Laws. In addition to the alleged damages (tripled) and attorney's fees it seeks to enjoin the continuation of the practice. The case was dismissed as to Mutual on August 14, 1973.

(d) Los Angeles Superior Court Case No. C 5394 - Darvin Howell, et al. vs. California Federal Savings and Loan Association, et al.

This action challenges the practice of computing interest on a 360-day year rather than a 365-day year and alleges damages from all defendants in an aggregate of \$25 million. Mutual became involved in this action in 1972 when an amended complaint filed October 27, 1971 was served upon it. The case is pending.

DISCLOSURE

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Item 5. Pending Legal Proceedings, continued.

(e) Los Angeles Superior Court Case No. NWC 30507 - American Savings and Loan Association vs. Robert R. Stueber, Wesco Financial Corporation, Mutual Savings and Loan Association, et al.

Mutual financed a large tract development called Friendly Valley. After some of the units had been completed and sold the developer defaulted, Mutual acquired the property on foreclosure, and continued the development. American Savings and Loan Association in this action is claiming a 60-ft. easement over a part of the property on which Mutual allegedly constructed and sold residential units. This action filed November 3, 1972 by American against Mutual and those claiming interests in the property covered by the alleged easement seeks to establish easement rights, to eject those who are alleged to be on the easement and seeks alleged actual and punitive damages of approximately \$2.7 million. Wesco is named as a defendant only because it is a trustee on several deeds of trust on portions of the property. Most of the individual property owners are being defended by their title insurance carrier, Title Insurance and Trust Company, whom Mutual indemnified. The case is pending.

(f) Los Angeles County Superior Court Case No. C 42824 - American Savings and Loan Association vs. Title Insurance and Trust Company, Mutual Savings and Loan Association.

This action, filed November 8, 1972, arises out of substantially the same alleged factual situation as the previous one, plus the Title Insurance and Trust Company issued policies of title insurance to the individual home owners without referring to American's alleged easement and Mutual indemnified the Title Company in connection with the issuance of such policies. This action seeks alleged actual and punitive damages against the Title Company and Mutual of approximately \$8 million, on the theories of breach of contract, slander of title, illegal interference with a business relationship, inducement to breach of contract and unlawful conspiracy. The case is pending.

(g) Los Angeles County Superior Court Case No. C 66361 - Martin S. Stolzoff dba Westminster Investment Company et al. vs. Mutual Savings and Loan Association.

This action, filed September 5, 1973, challenges the assessment and collection by Mutual of late charges for tardy payment of real estate loan installments. It seeks to have the late charge declared invalid; to have all amounts collected by Mutual as late charges from plaintiff and all members of the class during the past four years, estimated to exceed \$1 million, refunded to plaintiff for distribution to all parties entitled; and to secure an accounting of such late charges collected. The case is pending.

(h) Kern County Superior Court Case No. 123271 - Gabriel W. Solomon et al. vs. United Savings and Loan Association et al.

Mutual was made a party to this action by amended complaint filed October 3, 1973, bringing the number of savings and loan defendants to all but two in the State of California. The action is based on allegations similar to those in the Westminster vs. Mutual case (listed as Item 5(g) above). The case is pending.

Mutual and its counsel believe that Mutual has meritorious defenses to the legal issues which have been raised in these actions.

Item 6. Increases and Decreases in Outstanding Equity Securities.

(a) The increase reported herein involves registrant's capital stock, par value \$1, which is its only class of stock.

Number of shares of capital stock outstanding at December 31, 1972 as shown on registrant's balance sheet for its previous fiscal year. 2,260,256

Number of shares of outstanding capital stock increased by 113,013 shares issued as a stock dividend at the rate of one share for each twenty shares of outstanding capital stock, paid April 3, 1973 to stockholders of record at the close of business on February 28, 1973. No fractional shares were issued to the stockholders, but the aggregate of all fractional interests was issued to Security Pacific National Bank, sold by it on the New York Stock Exchange as agent for the stockholders, and net proceeds disbursed pro rata to the stockholders entitled thereto 113,013

Number of shares of capital stock of registrant outstanding at December 31, 1973 2,373,269

(b) The 113,013 shares so issued were not registered under the Securities Act of 1933 because in the opinion of registrant's counsel the issuance of the full shares to the stockholders did not constitute "sales" within the meaning of Section 2(3) of the Act, and the issuance of the shares representing fractional interests to the stockholders' agent is exempt under Rule 236 of the General Rules and Regulations issued under the Act.

Item 7. Approximate Number of Equity Security Holders at December 31, 1973.

(1)	(2)
<u>Title of class</u>	<u>Number of record holders</u>
Capital (common) par value \$1	3,865

Item 8. Executive Officers of the Registrant.

Listing of registrant's executive officers follows. There is no family relationship between them.

1. Louis R. Vincenti, age 68, chairman of the board and president.
2. Marian H. Wiggins, age 63, secretary and treasurer.

Item 9. Indemnification of Directors and Officers.

Registrant previously reported in its Form 10-K for 1970 the provisions for indemnification of directors and officers contained in its Articles of Incorporation at Article 9, Paragraph 6.

Additionally, registrant has, effective November 3, 1972 for a three-year period, a Directors' and Officers' Liability Insurance Policy issued by MGIC Indemnity Corporation. Liability under this policy is limited to \$1,000,000 each loss and \$1,000,000 aggregate liability each policy year for each director and officer, subject to \$5,000 retention (each loss), and insures the directors and officers of registrant and its subsidiaries Mutual Savings and Loan Association, WSC Insurance Agency and Wes-Fin Service Corp.

Item 10. Exhibits, Financial Statements and Schedules.

Accountants' Report

Index to Financial Statements and Schedules

Financial Statements:

Consolidated Financial Statements of Wesco Financial Corporation and Subsidiaries, December 31, 1973 and 1972 (with accountants' report thereon). These consolidated financial statements and the accountants' report thereon are incorporated by reference in the annual report (Form 10-K) required to be filed by Wesco Financial Corporation under the Securities Exchange Act of 1934.

Wesco Financial Corporation:

Balance Sheets - December 31, 1973 and 1972

Statements of Earnings - Years ended December 31, 1973 and 1972.

Statements of Changes in Financial Position - Years ended December 31, 1973 and 1972

Supplemental Information to Notes to Consolidated Financial Statements

Schedules:

Schedule III - Investments in, Equity in Earnings of, and Dividends Received from Affiliates and other Persons

Schedule V - Property, Plant and Equipment

Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

Schedules not included have been omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

WESCO FINANCIAL CORPORATION

Date March 28, 1974By *Louis R. Vincenti*
Louis R. Vincenti President

WESCO FINANCIAL CORPORATION

Annual Report for Corporations - Form 10-K
Year ended December 31, 1973

Financial Statements, Supplementary Data,
and
Accountants' Report

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

The Board of Directors
Wesco Financial Corporation:

We have examined the financial statements, supplemental information to notes and related schedules of Wesco Financial Corporation and subsidiaries and Wesco Financial Corporation, as listed in the accompanying index. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Wesco Financial Corporation and subsidiaries at December 31, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, and the financial position of Wesco Financial Corporation at December 31, 1973 and 1972, and the results of its operations and the changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis; and the supplemental information to notes and the supporting schedules, in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 8, 1974

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Financial Statements and Schedules

Financial Statements:

Consolidated Financial Statements of Wesco Financial Corporation and Subsidiaries, December 31, 1973 and 1972 (with accountants' report thereon). These consolidated financial statements and the accountants' report thereon are incorporated by reference in the annual report (Form 10-K) required to be filed by Wesco Financial Corporation under the Securities Exchange Act of 1934.

Wesco Financial Corporation:

Balance Sheets - December 31, 1973 and 1972
Statements of Earnings - Years ended December 31, 1973 and 1972
Statements of Changes in Financial Position - Years ended December 31, 1973 and 1972

Supplemental Information to Notes to Consolidated Financial Statements

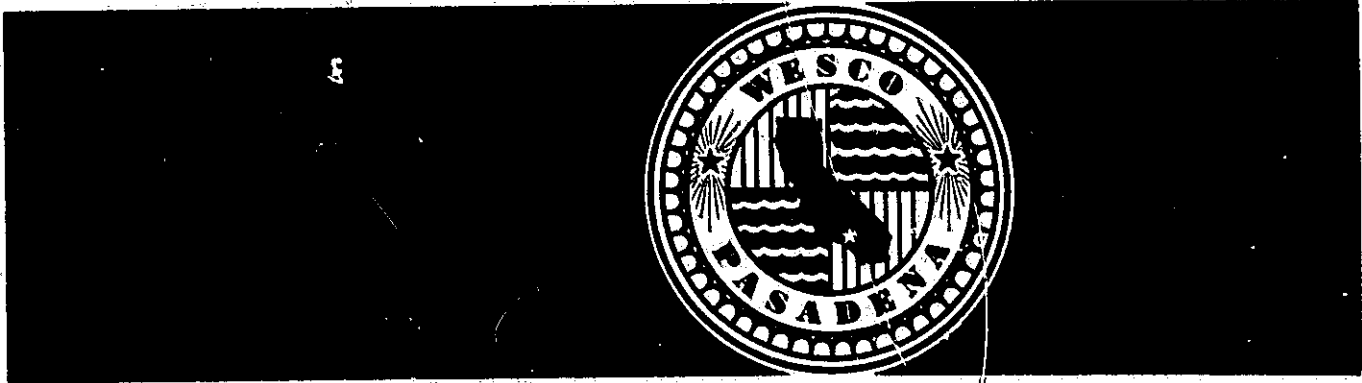
Schedules:

Schedule III - Investments in, Equity in Earnings of, and Dividends Received from Affiliates and other Persons
Schedule V - Property, Plant and Equipment
Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

Schedules not included have been omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

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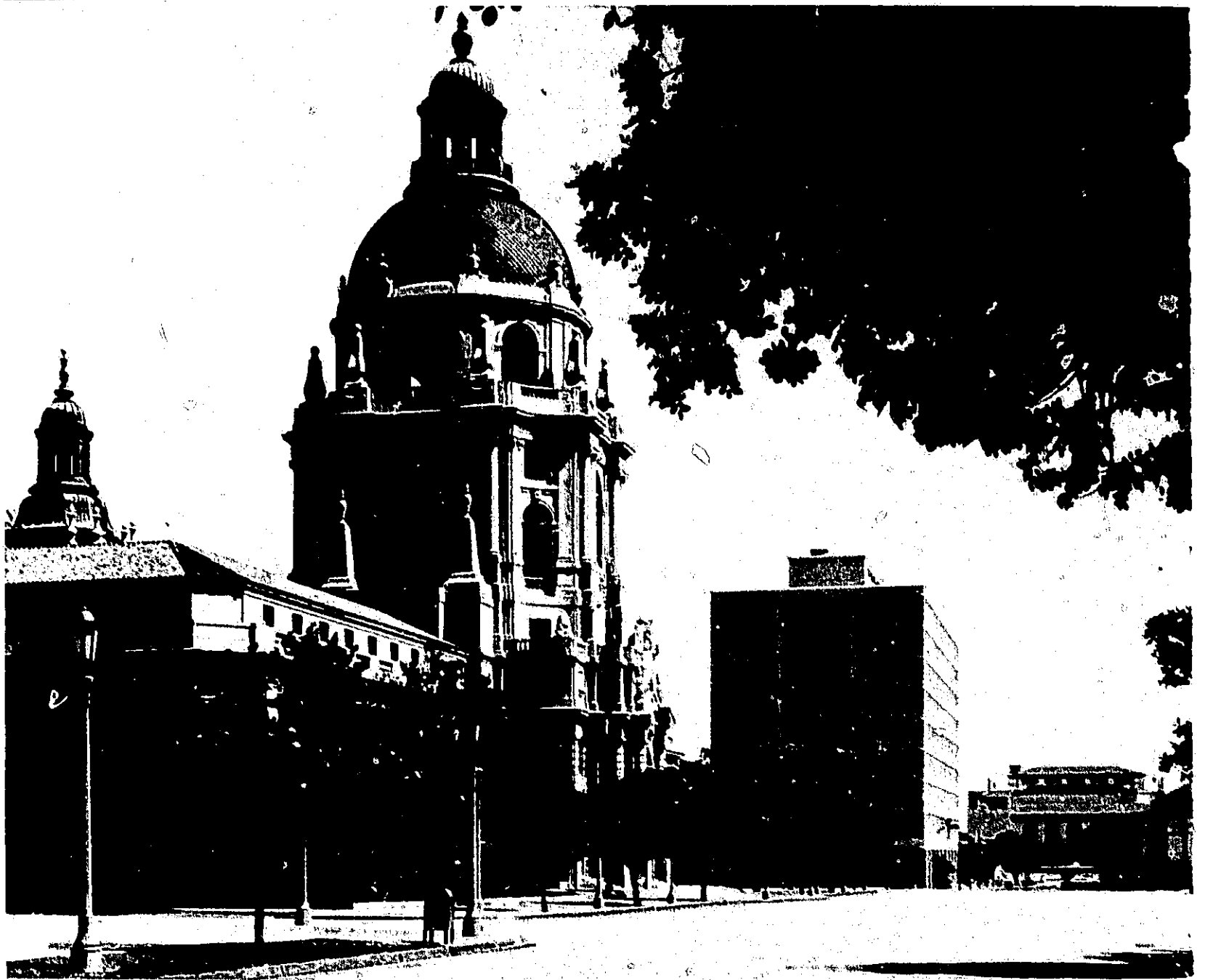
WESCO FINANCIAL CORPORATION

Annual report 1973

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Headquarters building of Wesco Financial Corporation and Mutual Savings — Pasadena's City Hall in foreground.



MUTUAL SAVINGS AND LOAN ASSOCIATION

Head Office: 315 EAST COLORADO BOULEVARD

Branches: Glendale, Covina, West Arcadia, Corona, Capistrano-San C

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TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net earnings after taxes of Wesco Financial Corporation, its subsidiary Mutual Savings and Loan Association and Mutual's subsidiaries WSC Insurance Agency and Wes-Fin Service Corporation for 1973 amounted to \$4,608,000 (\$1.94 per share) compared to \$4,336,000 (\$1.83 per share) in 1972, an increase of \$272,000 based on the 2,373,269 shares outstanding December 31, 1973.

Investment income less the cost of money was \$10,011,000 in 1973 compared with \$8,201,000 in 1972, an increase of \$1,810,000. This was reduced to a \$272,000 increase in net earnings principally by a reduction of \$876,000 in loan fees and an increase in expenses of \$565,000 for Federal and State income taxes and \$266,000 for general and administrative expenses.

General and administrative expenses held constant at 10.8% of gross income, being \$3,702,000 for 1973 compared with \$3,436,000 for 1972. Some increase can be expected for 1974 occasioned by the number of branch office openings and the conversion of our accounting to a new system.

Total savings in Mutual Savings decreased \$15,742,000 in 1973 compared with an increase of \$31,490,000 in 1972. Out-of-state savings accounted for 87% (\$13,694,000) of the 1973 decrease and totaled \$73,831,000 (21.4% of savings) at December 31, 1973 compared with \$87,525,000 (24.2% of savings) at December 31, 1972. Savings accounts increased during the first quarter of 1973 by \$6,219,000, but decreased in each of the three succeeding quarters. The recent decline in short-term interest rates should result in a resumption of savings growth.

The Federal Home Loan Bank, on July 5, 1973, authorized higher interest rates on savings accounts. The higher rates on passbooks and certificates will have a significant effect on the cost of savings which averaged 5.60% for 1973 as compared with 5.56% in 1972. Cost of money (savings and borrowings) was 5.69% in 1973 and 5.59% in 1972. We expect that the cost of money will increase more in 1974 than will the yield on the loan portfolio.

Savings accounts at December 31 by interest rates paid are summarized as follows:

	1973	1972
5 %	—%	38%
5¼ %	35	5
5½ %	3	3
5¾ %	6	4
6 %	42	48
6½ %	5	2
6¾ %	1	—
7 %	1	—
7¼ %	—	—
7½ %	7	—
	100%	100%

Interest rate on the loan portfolio at December 31, 1973 was 7.17% compared with 7.03% at the end of the preceding year. Total loans made in 1973 amounted to \$52,647,000 compared to \$63,107,000 in 1972. Construction loans, included in the above totals, amounted to \$2,894,000 in 1973 compared with \$24,196,000 in 1972.

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Following is a comparison of acquisitions, sales, income and expense of foreclosed properties and properties acquired for investment for 1973 and 1972:

	1973	1972
Properties on hand at beginning of year	\$ 6,994,000	9,962,000
Properties acquired during year	339,000	769,000
Improvements added	1,377,000	601,000
Properties sold during year	2,804,000	4,338,000
Properties on hand at end of year	5,906,000	6,994,000
Maintenance and sales expense	161,000	410,000
Income from rentals	140,000	136,000
Recognized profit on sales	852,000	896,000
Net increase in deferred profit on sales	81,000	(154,000)

Recognized profit on sales shown above includes gain from sales of residences built by Mutual Savings — 38 such sales in 1973 compared to 118 in 1972. Mutual Savings recently completed 47 units at its Friendly Valley Development and plans to complete a substantial number of additional units during the year. Also planned for 1974 is the construction of 82 units on property in Glendora, California.

Three new branch offices were opened during 1973, located in Thousand Oaks, Capistrano-San Clemente, and Vista. On January 3, 1974 an office was opened in the main business district of Santa Ana. Three branch sites have been approved and offices will be opened during 1974 at Oxnard, Upland and Cerritos. Applications for additional branches are in the course of preparation.

Wesco Financial Corporation on April 3, 1973, paid a 5% stock dividend. No further stock dividends are planned. A cash dividend of 3½¢ per share was paid March 30, 1973. Regular cash dividends of 10¢ per share were paid June 15, September 18, and December 18, 1973. An extra cash dividend of 12¢ per share was paid December 18, 1973. A regular cash dividend of 10¢ per share is payable March 13, 1974.

Wesco Financial Corporation, at the holding company level, during the period from April 27, 1973 to June 29, 1973 invested \$6,785,000 for the purchase of 271,000 shares of the capital stock of Crocker National Corporation at an average price of \$25 per share. Annual dividends of \$1.66 per share are being

paid — a yield of 6.64% on the cost. Approximately 15% of this dividend income is subject to income tax, resulting in net income after taxes in excess of 6%.

An amendment to Section 6702(g) of the California Financial Code became effective in 1974 and provides that a savings and loan association may, in addition to the specific investments previously authorized, invest in "such other securities as the Commissioner may authorize by rules and regulations". The Commissioner has issued proposed regulations which, if adopted, would give Mutual Savings authority to invest significant sums in commercial paper, non-convertible corporate debt securities, preferred stock of public utility corporations and other marketable and publicly-traded corporate securities. The amount which Mutual Savings may be permitted to invest cannot be determined until the rules and regulations have been issued in final form. It is possible that the use of such investment powers could materially improve net after-tax income.

Blue Chip Stamps owned 471,600 shares (20.86%) of Wesco's outstanding shares on February 28, 1973. Since that date it has purchased 586,442 shares by a tender offer made to all Wesco stockholders on September 28, 1973 and by open market purchases from time to time, and at February 6, 1974 was the owner of 1,058,042 shares (44.58%) of Wesco's outstanding stock.

Louis R. Vincenti
 LOUIS R. VINCENTI
 Chairman of the Board and President

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Earnings

Years ended December 31, 1973 and 1972

	1973	1972
Investment income:		
Interest on loans	\$ 27,450,000	25,318,000
Interest and dividends on marketable securities	3,413,000	2,547,000
Interest and dividends on investments required by law	462,000	251,000
Total investment income	<u>31,325,000</u>	<u>28,116,000</u>
Cost of money:		
Interest on savings deposits	20,001,000	19,304,000
Interest on notes payable	1,313,000	611,000
Total cost of money	<u>21,314,000</u>	<u>19,915,000</u>
Margin on investments	10,011,000	8,201,000
Loan fees and service charges	1,786,000	2,662,000
Operation and net gains from sales of real property	831,000	622,000
Rental of office premises, net	303,000	261,000
Other income, net	44,000	126,000
	<u>12,975,000</u>	<u>11,872,000</u>
General and administrative expenses	3,702,000	3,436,000
Earnings before taxes on income	<u>9,273,000</u>	<u>8,436,000</u>
Taxes on income (note 4):		
Current	4,263,000	3,018,000
Deferred	402,000	1,082,000
	<u>4,665,000</u>	<u>4,100,000</u>
Net earnings	<u>\$ 4,608,000</u>	<u>4,336,000</u>
Earnings per capital share based on 2,373,269 shares	<u>\$ 1.94</u>	<u>1.83</u>

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION

Consolidated Balance Sheets *December 31, 1973 and 1972*

ASSETS	1973	1972
Cash	\$ 1,151,000	1,581,000
Marketable securities (note 3):		
Certificates of deposit	21,998,000	37,511,000
United States Government and agency obligations and other marketable securities, at amortized identified cost (quoted market, \$10,036,000 in 1973 and \$13,245,000 in 1972)	10,178,000	13,279,000
Investment in common and preferred stocks (quoted market, \$5,996,000 in 1973 and \$4,095,000 in 1972)	6,785,000	4,102,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 2 and 3)	389,584,000	368,562,000
Accrued interest and dividends receivable	1,960,000	1,670,000
Properties purchased and held for investment, at cost	455,000	506,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost less allowance for losses, \$280,000 in 1973 and 1972 (note 3)	5,451,000	6,488,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 3)	3,691,000	3,691,000
Prepayments to FSLIC secondary reserve	4,644,000	4,462,000
Office properties and equipment, net (note 5)	5,297,000	5,238,000
Prepaid expenses and sundry assets, at cost	786,000	1,150,000
	\$451,980,000	448,240,000

See accompanying notes to consolidated financial statements.

AND SUBSIDIARIES

LIABILITIES AND STOCKHOLDERS' EQUITY	1973	1972
Savings deposits	\$345,530,000	361,272,000
Notes payable (note 3)	27,705,000	12,720,000
Advances by borrowers for taxes and insurance	1,261,000	912,000
Accounts payable and sundry accrued expenses	1,101,000	1,177,000
Taxes on income (note 4):		
Current	983,000	694,000
Deferred	7,849,000	7,447,000
Total liabilities	<u>384,429,000</u>	<u>384,222,000</u>
Stockholders' equity (notes 4, 7 and 8):		
Capital stock of \$1 par value per share:		
Authorized 2,500,000 shares; issued 2,373,269 shares (2,260,256 in 1972)	2,373,000	2,260,000
Capital surplus arising from stock dividends	28,066,000	26,399,000
Retained earnings:		
Appropriated	42,446,000	41,587,000
Unappropriated	23,905,000	21,231,000
Less stock dividends at market value	<u>(29,239,000)</u>	<u>(27,459,000)</u>
Total stockholders' equity	<u>37,112,000</u>	<u>35,359,000</u>
Total stockholders' equity	67,551,000	64,018,000
Commitments and contingent liabilities (notes 6 and 9).		
	<u>\$451,980,000</u>	<u>448,240,000</u>

WESCO FINANCIAL CORPORATION

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1973 and 1972

	1973	1972
Capital stock (note 7):		
Beginning of year	\$ 2,260,000	2,153,000
5% stock dividend	<u>113,000</u>	<u>107,000</u>
End of year	<u>2,373,000</u>	<u>2,260,000</u>
Capital surplus (note 7):		
Beginning of year	26,399,000	24,623,000
Excess of market value of stock dividend over par value of stock issued	<u>1,667,000</u>	<u>1,776,000</u>
End of year	<u>28,066,000</u>	<u>26,399,000</u>
Retained earnings:		
Appropriated (notes 4 and 8):		
Beginning of year	41,587,000	41,220,000
Allocation of net earnings	<u>859,000</u>	<u>367,000</u>
End of year	<u>42,446,000</u>	<u>41,587,000</u>
Unappropriated:		
Beginning of year	21,231,000	17,262,000
Cash dividends declared and paid (note 7)	<u>(1,075,000)</u>	—
Allocation of net earnings	<u>3,749,000</u>	<u>3,969,000</u>
End of year	<u>23,905,000</u>	<u>21,231,000</u>
Less stock dividends at market value (note 7):		
Beginning of year	<u>(27,459,000)</u>	<u>(25,576,000)</u>
Market value of stock dividend	<u>(1,780,000)</u>	<u>(1,883,000)</u>
End of year	<u>(29,239,000)</u>	<u>(27,459,000)</u>
Total retained earnings	<u>37,112,000</u>	<u>35,359,000</u>
Total stockholders' equity	<u>\$ 67,551,000</u>	<u>64,018,000</u>

See accompanying notes to consolidated financial statements.

AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1973 and 1972

	1973	1972
Cash and marketable securities provided:		
Net earnings	\$ 4,608,000	4,336,000
Charges (credits) to earnings not requiring (providing) cash and marketable securities:		
Depreciation and amortization	294,000	317,000
Interest on savings deposits credited to savings accounts	14,005,000	12,981,000
Deferred income taxes	402,000	1,082,000
FSLIC primary premium transferred from secondary reserve	91,000	294,000
Amortization of fees and discounts	(402,000)	(377,000)
Recognition of unrealized profit on real property	(259,000)	(656,000)
Interest income on FSLIC secondary reserve	(273,000)	(251,000)
Cash and marketable securities provided from operations	18,468,000	17,726,000
Increase in savings deposits	—	18,509,000
Principal payments on real estate loans	44,328,000	46,894,000
Additions to deferred loan fees	329,000	320,000
Sale of real property, net of gains	2,804,000	4,338,000
Increase in notes payable	14,985,000	—
Increase in advances by borrowers for taxes and insurance	349,000	21,000
Additions to unrealized profit on real property	340,000	502,000
Increase in loans in process	—	5,678,000
Total cash and marketable securities provided	<u>81,599,000</u>	<u>93,988,000</u>
Cash and marketable securities used:		
Cash dividends declared and paid	1,075,000	—
Decrease in savings deposits	29,747,000	—
Investment in real estate loans	52,647,000	63,107,000
Investment in building and other assets	228,000	74,000
Additions to real property	1,718,000	1,370,000
Decrease in notes payable	—	12,223,000
Decrease in loans in process	11,173,000	—
Other, net	1,374,000	1,100,000
Total cash and marketable securities used ..	<u>97,960,000</u>	<u>77,874,000</u>
Increase (decrease) in cash and marketable securities	<u>\$ (16,361,000)</u>	<u>16,114,000</u>

See accompanying notes to consolidated financial statements.

WESCO FINANCIAL CORPORATION

Notes to Consolidated Financial Statements December 31, 1973 and 1972

(1) Summary of Significant Accounting Policies

The following items comprise the significant accounting policies which the Company follows in preparing and presenting its financial statements:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Wesco Financial Corporation (the Company) and its wholly owned subsidiary, Mutual Savings and Loan Association and its wholly owned subsidiaries (Mutual Savings). All material intercompany transactions have been eliminated.

(b) Marketable Securities

U.S. Government and agency obligations are carried at identified cost, adjusted for amortization of premium and accretion of discount over the term of the security and are not carried at the lower of cost or market because it is management's intention to hold them to maturity.

(c) Loan Fees

Loan fees for originating loans are deferred for amounts in excess of 1% of the loan amount plus \$100 for non-construction loans and 2% of the loan amount plus \$100 for construction loans. Deferred fees are amortized into income by use of the straight-line method over seven years.

(d) Loan Valuation Allowances

Valuation allowances for estimated losses on specific loans are charged to earnings when any significant and permanent decline reduces the market value of the underlying security to less than the loan. Such losses are usually indicated during foreclosure proceedings.

(e) Real Property Valuation Allowances

Valuation allowances for estimated losses on real property are charged to earnings when any significant and permanent decline reduces the market value to less than the carrying value. When the Company intends to hold real estate held for sale for a period in excess of 18 months, future direct holding costs for maintenance, property taxes, insurance, direct selling expenses, costs of completion or improvement and a discount factor to give effect to the cost of money are considered in determining the amount of required valuation allowances.

(f) Office Properties and Equipment

Office properties and equipment are depreciated by use of the straight-line method over the estimated useful lives of

the various classes of assets from the respective dates of acquisition. The useful lives used for the principal classes of assets are:

Buildings and improvements	10 to 45 years
Furniture, fixtures and equipment	4 to 10 years
Leasehold improvements	3 to 20 years

Maintenance and repairs are charged to appropriate expense accounts in the year incurred; renewals and material betterments are charged to property accounts.

Cost and accumulated depreciation and amortization applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the profit or loss on disposition is credited or charged to earnings.

(g) Income Taxes

If certain conditions are met, savings and loan associations, in determining taxable income, are allowed special bad debt deductions based on specified experience formulas or on a percentage of taxable income before such deduction. The bad debt deduction must be within certain limitations based on outstanding loans and the ratio of reserves, undivided profits, and unallocated earnings to savings deposits. Mutual Savings has reached such limitations which preclude deductions from income in arriving at Federal taxes on income.

The investment tax credit, which is insignificant, is recorded by the flow-through method of accounting whereby, in the year available for utilization, it is applied as a reduction of income tax expense.

(h) Profit on the Sale of Real Property

Profit on the sale of real property is recognized when the buyer has made an irrevocable commitment to the sale and has met certain down payment and amortization requirements. In general, the down payment requirements range from 10% to 25% for improved property and from 15% to 30% for unimproved property based on the use of the property and cash flow projections. Amortization requirements include the payment on an annual level payment basis (principal and interest) over a period not to exceed from 15 to 30 years, depending on the type and use of the property, with payments commencing not later than one year from date of sale.

(i) Comparative Figures

Certain items in the 1972 financial statements have been reclassified to conform with 1973 classifications.

AND SUBSIDIARIES

(2) Loans Receivable

Loans receivable are summarized as follows:

	<u>1973</u>	<u>1972</u>
Real estate loans on residential property of:		
One to four units (home loans)	\$277,939,000	266,840,000
More than four units	99,864,000	102,787,000
Real estate loans on other properties	<u>14,395,000</u>	<u>14,250,000</u>
	392,198,000	383,877,000
Less:		
Unearned loan fees	(1,207,000)	(1,280,000)
Unrealized profit on sale of real property	(1,653,000)	(1,572,000)
Loans in process	<u>(2,173,000)</u>	<u>(13,346,000)</u>
	387,165,000	367,679,000
Loans on savings deposits ...	<u>2,419,000</u>	<u>883,000</u>
	<u>\$389,584,000</u>	<u>368,562,000</u>

(3) Notes Payable

The following is a summary of notes payable:

Federal Home Loan Bank advances, with interest to 8 1/4% and with various maturity dates in 1974, secured by Federal Home Loan Bank stock and certain real estate loans	\$ 20,700,000	4,500,000
Bank notes with interest principally at prime, due December 31, 1974, secured by certain marketable securities, real estate loans and real property	6,085,000	8,220,000
Bank note with interest at 9 3/4% due January 15, 1974, secured by certificate of deposit	<u>920,000</u>	—
	<u>\$ 27,705,000</u>	<u>12,720,000</u>

(4) Income Taxes

Appropriated retained earnings at December 31, 1973 and 1972 include approximately \$43,256,000 and \$42,397,000, respectively (before elimination of \$810,000 in consolidation) of tax reserves for which no provision for Federal income taxes has been made. If in the future these appropriations are used for any purpose other than to absorb bad debt losses, Federal income taxes will be imposed at the then applicable rates.

Federal income tax returns of the Company and Mutual Savings for 1973 and 1972 are subject to examination by the United States Treasury Department.

Income tax expense for 1973 includes the following components:

	Federal	State	Total
Current tax expense \$	3,251,000	1,012,000	4,263,000
Deferred tax expense	251,000	151,000	402,000
	<u>\$ 3,502,000</u>	<u>1,163,000</u>	<u>4,665,000</u>

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences in 1973 and the tax effect of each were as follows:

Loan fees recognized on the financial statements prior to recognition for tax purposes	\$ 577,000
California franchise tax recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	(125,000)
FSLIC secondary reserve interest income recognized on the financial statements, but deferred for tax purposes	75,000
Gain on sale of real property recognized in prior years for financial statement purposes	(225,000)
Other timing differences	100,000
	<u>\$ 402,000</u>

A reconciliation of total income tax expense and the amount computed by applying the U.S. Federal income tax rate of 48% to income before tax follows:

Computed "expected" Federal tax expense \$	4,451,000
Increases (reductions) in taxes resulting from:	
Net gain on sale of foreclosed real property	(386,000)
State franchise tax, net of Federal income tax benefit	606,000
Other permanent differences	(6,000)
	<u>\$ 4,665,000</u>

WESCO FINANCIAL CORPORATION

(5) Office Properties and Equipment, Net

Office properties and equipment at cost less accumulated depreciation and amortization consist of the following:

	<u>1973</u>	<u>1972</u>
Land	\$ 1,623,000	1,623,000
Office buildings and leasehold improvements	5,659,000	5,505,000
Furniture, fixtures and equipment	838,000	769,000
	8,120,000	7,897,000
Accumulated depreciation and amortization	2,823,000	2,659,000
	\$ 5,297,000	5,238,000

(6) Retirement Plan

A noncontributory retirement plan is in effect for all eligible employees of the Company and its subsidiaries. Employer contributions are computed utilizing the aggregate cost funding method. The contributions for 1973 and 1972 approximated \$79,000 and \$75,000, respectively. The actuarially computed value of vested benefits as of December 31, 1973 and 1972 did not exceed the market value of the assets of the retirement fund. The plan may be amended at any time to give effect to a reduction of contributions and provides that the employer "shall have no liability to any employee or participant to make any contributions whatsoever to the trust or to or for any participant."

(7) Dividends

On January 16, 1973, the Board of Directors declared a 5% stock dividend (113,013 shares) payable April 3, 1973 to stockholders of record on February 28, 1973. Upon payment of the dividend, the fair market value of the stock (\$1,780,000) as of January 16, 1973 was charged to market value of stock dividends, capital stock was credited with an amount equal to the par value of the shares issued (\$113,000), and capital surplus was credited with an amount representing the excess of the fair market value over par value (\$1,667,000).

Cash dividends declared and paid during 1973 are summarized as follows:

<u>Date declared</u>	<u>Date paid</u>	<u>Per Share</u>	<u>Amount</u>
Feb. 13, 1973	Mar. 30, 1973	\$ 0.035	\$ 79,000
Apr. 17, 1973	June 15, 1973	0.10	237,000
July 17, 1973	Sept. 18, 1973	0.10	237,000
Oct. 9, 1973	Dec. 18, 1973	0.10	237,000
Oct. 9, 1973	Dec. 18, 1973	0.12*	285,000
			\$ 1,075,000

* Extra dividend

(8) Reserve Requirements

The Federal Savings and Loan Insurance Corporation, in connection with the insurance of savings deposits, requires savings and loan associations to maintain certain reserves which may be used only for the purpose of absorbing losses. In addition, associations must maintain certain reserves under California law. Such reserve requirements were met by Mutual Savings as of December 31, 1973 and 1972.

(9) Contingent Liabilities

Mutual Savings has been named as a defendant in a number of class actions which attack the validity of certain savings and lending practices. In all but one of these actions, other savings and loan associations are also named as defendants. Among the practices challenged are prepayment privileges and late charges, the failure to pay interest on amounts advanced by borrowers for the payment of property taxes and insurance, and the computation of interest on the basis of a 360- rather than a 365-day year. Two of the actions have been dismissed by the lower courts but appeals are pending. The Association believes there are substantial defenses to these actions and that losses, if any, would not be material.

In addition, Mutual Savings is a defendant in two actions involving alleged easement rights. Mutual's counsel believes there are meritorious defenses to the actions. While there is some risk to Mutual, in management's opinion, any such risk would not be material.

AND SUBSIDIARIES

Accountants' Report

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
555 SOUTH FLOWER STREET
LOS ANGELES, CALIFORNIA 90071

The Board of Directors
Wesco Financial Corporation:

We have examined the consolidated balance sheets of Wesco Financial Corporation and subsidiaries as of December 31, 1973 and 1972 and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Wesco Financial Corporation and subsidiaries at December 31, 1973 and 1972 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.
Peat, Marwick, Mitchell & Co.

February 8, 1974

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Operating Highlights of 1973 and Comparison with 4 Prior Years

	1973	1972	1971	1970	1969
OPERATIONS FOR THE YEAR					
Gross Income	\$ 34,289,000	\$ 31,787,000	\$ 29,649,000	\$ 30,433,000	\$ 30,700,000
Expenses	\$ 25,016,000	\$ 23,351,000	\$ 23,530,000	\$ 25,353,000	\$ 23,360,000
Earnings before taxes on income	\$ 9,273,000	\$ 8,436,000	\$ 6,119,000	\$ 5,080,000	\$ 7,340,000
Taxes on income	\$ 4,665,000	\$ 4,100,000	\$ 2,995,000	\$ 2,031,000	\$ 3,361,000
Net earnings	\$ 4,608,000	\$ 4,336,000	\$ 3,124,000	\$ 3,049,000	\$ 3,979,000
Per share*	\$ 1.94	\$ 1.83	\$ 1.32	\$ 1.28	\$ 1.68
FINANCIAL DATA AT YEAR END					
Total assets	\$451,980,000	\$448,240,000	\$423,969,000	\$434,445,000	\$444,833,000
Real estate loans	\$392,198,000	\$363,877,000	\$367,664,000	\$380,660,000	\$393,611,000
Savings accounts	\$345,530,000	\$361,272,000	\$329,782,000	\$288,652,000	\$303,812,000
Shares outstanding	2,373,269	2,260,256	2,152,624	2,050,118	1,952,493
Stockholders' equity	\$ 67,551,000	\$ 64,018,000	\$ 59,682,000	\$ 56,558,000	\$ 53,509,000
Book value per share*	\$ 28.46	\$ 26.98	\$ 25.15	\$ 23.83	\$ 22.55

*Per share earnings and book value per share are based on 2,373,269 shares outstanding December 31, 1973.

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BOARD OF DIRECTORS

LOUIS R. VINCENTI
Chairman of the Board and President

WILLIAM T. CASPERS
Vice President

DAVID K. ROBINSON
Partner: Hahn & Hahn, Pasadena Attorneys at Law

JAMES N. GAMBLE
Pasadena Investment Counsel

ELIZABETH CASPERS PETERS
San Francisco

WARREN E. BUFFETT
Omaha, Personal Investments

CHARLES T. MUNGER
General Partner: Wheeler, Munger & Co., Los Angeles Investors

ANNUAL MEETING

Third Tuesday of April

TRANSFER AGENTS AND REGISTRARS

SECURITY PACIFIC NATIONAL BANK
P.O. Box 30376 Terminal Annex, Los Angeles, California 90030

MANUFACTURERS HANOVER TRUST COMPANY
4 New York Plaza, New York, New York 10004

DIVIDEND DISBURSEMENT AGENT

SECURITY PACIFIC NATIONAL BANK
P.O. Box 30376 Terminal Annex, Los Angeles, California 90030

LEGAL COUNSEL

Hahn & Hahn

AUDITORS

Peat, Marwick, Mitchell & Co.

LISTED ON

New York Stock Exchange
Pacific Stock Exchange

TRADING SYMBOL

WSC

315 East Colorado Boulevard, Pasadena, California 91109 • (213) 684-1500

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WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Parent Company Financial Statements

Following are the balance sheets of Wesco Financial Corporation (parent only) at December 31, 1973 and 1972 and the related statements of earnings and changes in financial position for the years then ended:

Balance Sheets

<u>Assets</u>	<u>1973</u>	<u>1972</u>
Cash	\$ 139,000	5,998,000
Marketable securities:		
Certificates of deposit	5,002,000	-
Investment in common and preferred stocks (quoted market, \$5,996,000 in 1973 and \$4,095,000 in 1972)	6,785,000	4,102,000
Loans receivable	111,000	130,000
Accrued interest and dividends receivable	203,000	-
Properties purchased and held for investment, at cost	89,000	89,000
Investments in subsidiaries, at equity	55,535,000	52,944,000
Office properties and equipment, net	4,624,000	4,809,000
Prepaid expenses and sundry assets, at cost	50,000	78,000
	<u>\$ 72,538,000</u>	<u>68,150,000</u>
<u>Liabilities and Stockholders' Equity</u>		
Bank note payable with interest at 9-3/4% due January 15, 1974, secured by certificate of deposit	\$ 920,000	-
Loan payable to Mutual Savings	2,971,000	3,220,000
Accounts payable and sundry accrued expenses	1,076,000	883,000
Taxes on income:		
Current	20,000	
Deferred	-	29,000
Total liabilities	<u>4,987,000</u>	<u>4,132,000</u>
Stockholders' equity:		
Capital stock of \$1 par value per share. Authorized 2,500,000 shares; issued 2,373,269 shares (2,260,256 in 1972)	2,373,000	2,260,000
Capital surplus arising from stock dividends	28,066,000	26,399,000
Retained earnings:		
Appropriated	42,446,000	41,587,000
Unappropriated	23,905,000	21,231,000
Less stock dividends at market value	<u>(29,239,000)</u>	<u>(27,459,000)</u>
Total stockholders' equity	<u>37,112,000</u>	<u>35,359,000</u>
Total stockholders' equity	67,551,000	64,018,000
Commitments and contingent liabilities.		
	<u>\$ 72,538,000</u>	<u>68,150,000</u>

See accompanying supplemental information and notes to consolidated financial statements of Wesco Financial Corporation and subsidiaries.

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES
Parent Company Financial Statements, Continued

Statements of Earnings

	<u>1973</u>	<u>1972</u>
Investment income:		
Equity in earnings of subsidiaries before taxes on income	\$ 8,604,000	8,177,000
Interest on loans	9,000	10,000
Interest and dividends on marketable securities, including interest on deposits in Mutual Savings, \$154,000 (\$161,000 in 1972)	<u>849,000</u>	<u>346,000</u>
Total investment income	<u>9,462,000</u>	<u>8,533,000</u>
Cost of money:		
Interest on notes payable, including interest on loan payable to Mutual Savings, \$171,000 (\$184,000 in 1972)	<u>193,000</u>	<u>185,000</u>
Total cost of money	<u>193,000</u>	<u>185,000</u>
	9,269,000	8,348,000
Loan fees and service charges	47,000	73,000
Rental of office premises, net	303,000	261,000
Other income (expense), net	<u>(48,000)</u>	<u>11,000</u>
	9,571,000	8,693,000
General and administrative expenses	<u>298,000</u>	<u>257,000</u>
Earnings before taxes on income	9,273,000	8,436,000
Taxes on income	<u>4,665,000</u>	<u>4,100,000</u>
Net earnings	<u>\$ 4,608,000</u>	<u>4,336,000</u>

See accompanying supplemental information and notes to consolidated financial statements of Wesco Financial Corporation and subsidiaries.

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES
Parent Company Financial Statements, Continued

Statements of Changes in Financial Position

	<u>1973</u>	<u>1972</u>
Cash and marketable securities provided:		
Net earnings	\$ 4,608,000	4,336,000
Charges (credits) to earnings not requiring (providing) cash and marketable securities:		
Depreciation and amortization	212,000	209,000
Deferred income taxes	(29,000)	(11,000)
Equity in net earnings of subsidiary	(4,091,000)	(4,135,000)
Cash and marketable securities provided from operations	700,000	399,000
Dividend from Mutual Savings	1,500,000	4,500,000
Principal payments on real estate loans	19,000	17,000
Increase in bank note payable	920,000	-
Other, net	<u>38,000</u>	<u>42,000</u>
Total cash and marketable securities provided	<u>3,177,000</u>	<u>4,958,000</u>
Cash and marketable securities used:		
Cash dividends declared and paid	1,075,000	-
Investment in building and other assets	27,000	29,000
Decrease in loan payable to Mutual Savings	<u>249,000</u>	<u>236,000</u>
Total cash and marketable securities used	<u>1,351,000</u>	<u>265,000</u>
Increase in cash and marketable securities	<u>\$ 1,826,000</u>	<u>4,693,000</u>

See accompanying supplemental information and notes to consolidated financial statements of Wesco Financial Corporation and subsidiaries.

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Supplemental Information to Notes to Consolidated Financial Statements

Income Taxes

Income taxes consist of the following:

	Years ended December 31,			
	1973		1972	
	Company	Consolidated	Company	Consolidated
Federal income tax expense:				
Current	\$ 153,000	3,251,000	60,000	2,359,000
Deferred	(25,000)	251,000	(9,000)	829,000
	<u>\$ 128,000</u>	<u>3,502,000</u>	<u>51,000</u>	<u>3,188,000</u>
California franchise tax expense:				
Current	\$ 28,000	1,012,000	9,000	659,000
Deferred	(4,000)	151,000	(2,000)	253,000
	<u>\$ 24,000</u>	<u>1,163,000</u>	<u>7,000</u>	<u>912,000</u>

Supplementary Profit and Loss Information

The following amounts have been charged to expenses in the statements of earnings:

	Years ended December 31,			
	1973		1972	
	Company	Consolidated	Company	Consolidated
Maintenance and repairs	\$ 277,000	313,000	270,000	307,000
Depreciation and amortization of office properties and equipment	212,000	294,000	209,000	317,000
Taxes other than taxes on income:				
Payroll taxes	6,000	96,000	5,000	73,000
Property taxes	202,000	341,000	201,000	420,000
Advertising	-	396,000	-	333,000

Loan Payable to Mutual Savings

The loan payable to Mutual Savings is a 5-1/2% loan, due in 1981 with monthly instalments of \$35,000, including principal and interest, secured by office properties and equipment.

Maturities over the next five years are summarized as follows:

Years ending December 31:	
1974	\$ 263,000
1975	278,000
1976	294,000
1977	310,000
1978	328,000
Thereafter	1,498,000
	<u>\$ 2,971,000</u>

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Supplemental Information to Notes to
Consolidated Financial Statements, Continued

Deferred Taxes on Income

Based upon currently anticipated operations, it is expected that the deferred income tax balance will not substantially decrease through 1976.

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WESCO FINANCIAL CORPORATION

Investments in, Equity in Earnings of, and
Dividends Received from Affiliates and Other Persons

Years ended December 31, 1973 and 1972

Name of issuer and description of investment	Balance at beginning of period		Additions		Deductions		Balance at close of period	
	Number of shares	Amount in dollars	Number of shares	Amount in dollars	Number of shares	Amount in dollars	Number of shares	Amount in dollars
Mutual Savings and Loan Association; guarantee stock of \$100 par value:								
1972	<u>600(1)</u>	<u>\$ 53,309,000</u>	<u>-</u>	<u>\$ 4,135,000(2)</u>	<u>-</u>	<u>\$ 4,500,000(3)</u>	<u>600(1)</u>	<u>\$ 52,944,000</u>
1973	<u>600(1)</u>	<u>\$ 52,944,000</u>	<u>-</u>	<u>\$ 4,091,000(2)</u>	<u>-</u>	<u>\$ 1,500,000(3)</u>	<u>600(1)</u>	<u>\$ 55,535,000</u>

(1) 100% of the outstanding shares.

(2) Net earnings of subsidiaries.

(3) Dividend received from Mutual Savings.

WESCO FINANCIAL CORPORATION
AND
WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Schedule V

Property, Plant and Equipment

Years ended December 31, 1973 and 1972

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements or sales</u>	<u>Other changes</u>	<u>Balance at close of period</u>
<u>1972</u>					
Company:					
Land	\$ 1,500,000	-	-	-	1,500,000
Buildings and leasehold improvements	4,970,000	29,000	-	-	4,999,000
Furniture, fixtures and equipment	6,000	-	-	-	6,000
	<u>\$ 6,476,000</u>	<u>29,000</u>	<u>-</u>	<u>-</u>	<u>6,505,000</u>
Consolidated:					
Land	\$ 1,623,000	-	-	-	1,623,000
Buildings and leasehold improvements	5,484,000	29,000	8,000	-	5,505,000
Furniture, fixtures and equipment	763,000	45,000	39,000	-	769,000
	<u>\$ 7,870,000</u>	<u>74,000</u>	<u>47,000</u>	<u>-</u>	<u>7,897,000</u>
<u>1973</u>					
Company:					
Land	\$ 1,500,000	-	-	-	1,500,000
Buildings and leasehold improvements	4,999,000	27,000	-	-	5,026,000
Furniture, fixtures and equipment	6,000	-	-	-	6,000
	<u>\$ 6,505,000</u>	<u>27,000</u>	<u>-</u>	<u>-</u>	<u>6,532,000</u>
Consolidated:					
Land	\$ 1,623,000	-	-	-	1,623,000
Buildings and leasehold improvements	5,505,000	154,000	-	-	5,659,000
Furniture, fixtures and equipment	769,000	74,000	5,000	-	838,000
	<u>\$ 7,897,000</u>	<u>228,000</u>	<u>5,000</u>	<u>-</u>	<u>8,120,000</u>

WESCO FINANCIAL CORPORATION
AND
WESCO FINANCIAL CORPORATION AND SUBSIDIARIES
Accumulated Depreciation, Depletion and Amortization
of Property, Plant and Equipment
Years ended December 31, 1973 and 1972

Schedule VI

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions</u>		<u>Deductions</u>		<u>Balance at close of period</u>
		<u>Charged to profit and loss</u>	<u>Other</u>	<u>Retirements, renewals, replacements</u>	<u>Other</u>	
<u>1972</u>						
Company:						
Buildings and leasehold improvements	\$ 1,483,000	208,000	-	-	-	1,691,000
Furniture, fixtures and equipment	<u>4,000</u>	<u>1,000</u>	-	-	-	<u>5,000</u>
	<u>\$ 1,487,000</u>	<u>209,000</u>	-	-	-	<u>1,696,000</u>
Consolidated:						
Buildings and leasehold improvements	\$ 1,708,000	242,000	-	8,000	-	1,942,000
Furniture, fixtures and equipment	<u>681,000</u>	<u>75,000</u>	-	<u>39,000</u>	-	<u>717,000</u>
	<u>\$ 2,389,000</u>	<u>317,000</u>	-	<u>47,000</u>	-	<u>2,659,000</u>
<u>1973</u>						
Company:						
Buildings and leasehold improvements	\$ 1,691,000	212,000	-	-	-	1,903,000
Furniture, fixtures and equipment	<u>5,000</u>	-	-	-	-	<u>5,000</u>
	<u>\$ 1,696,000</u>	<u>212,000</u>	-	-	-	<u>1,908,000</u>
Consolidated:						
Buildings and leasehold improvements	\$ 1,942,000	241,000	-	-	-	2,183,000
Furniture, fixtures and equipment	<u>717,000</u>	<u>53,000</u>	-	<u>2,000</u>	<u>128,000(1)</u>	<u>640,000</u>
	<u>\$ 2,659,000</u>	<u>294,000</u>	-	<u>2,000</u>	<u>128,000</u>	<u>2,823,000</u>

(1) Depreciation adjustment.

END